



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Floyd County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Floyd County Fiscal Court for the fiscal year ended June 30, 2020. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Floyd County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

**The Floyd County Fiscal Court did not prepare a timely or accurate Schedule of Expenditures of Federal Awards:** This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The county did not prepare a Schedule of Expenditures of Federal Awards (SEFA) for Fiscal Year 2020 until requested by auditors. The provided schedule included \$739,578 in fiscal year 2021 federal expenditures and \$21,800 in Fiscal Year 2019 federal expenditures.

The fiscal court did not have adequate procedures in place to ensure the preparation of the SEFA in a timely manner or to ensure that all federal expenditures were accurately reported. The failure

to properly prepare the SEFA could cause the county to potentially miss obtaining a required single audit.

2 CFR 200.510(b) requires the auditee to “also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements.” At a minimum, the schedule should include the following, if applicable.

- (1) List individual Federal programs by Federal agency.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the ALN information is not available.
- (4) The total amount provided to sub-recipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule.

We recommend the fiscal court ensure that the SEFA is prepared timely and is reported accurately.

*County Judge/Executive’s Response: Similar to the findings in the 2019 audit report, this is a very simple report to prepare and if audits had been prepared sequentially and the fiscal court given an opportunity to address findings this would have never been a reportable finding.*

Auditor’s Reply: The fiscal court should have adequate controls in place to ensure the Schedule of Expenditures of Federal Awards (SEFA) is prepared timely. We, the Auditor of Public Accounts, are independent auditors, and cannot be part the county’s internal control system. As discussed with the county judge/executive, we have worked hard to get the county caught up on their audits, due to the CPA, which the county hired, not releasing the 2016, 2017, and 2018 audit reports until 2021. This delay in the 2016 through 2018 audits did not allow us to start our 2019 and 2020 audits as soon as we would have liked and therefore the audits had to be done back-to-back for the county to be caught up on its audits.

**The Floyd County Fiscal Court did not have effective internal controls, review procedures, and oversight for the budget process:** This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The budget approved in the fiscal court minutes and by the Department for Local Government (DLG) did not agree to the amount reported on the fourth quarter report. The approved budget for receipts was a total of \$17,500,000 and the amount reported on the fourth quarter was for \$20,100,000, for a difference of \$2,600,000.

The fiscal court did not have effective internal controls, review procedures, and oversight for the budget process to ensure that correct budget amounts were reported on the fourth quarter report.

Inadequate controls over the budget process resulted in the undetected errors noted above. The fiscal court relies on information presented in the quarterly financial reports and inaccurate information could lead to improper decision making.

KRS 68.210 states, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures. The fourth quarter financial report must agree to the original budget and budget amendments submitted to and approved by DLG.

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all budgeted amounts reflected on the fourth quarter financial report are complete and accurate and agree to the original budget.

*County Judge/Executive’s Response:* Similar to the finding in the 2019 audit report, the Treasurer’s books are correct and the correct information was presented to the fiscal court. The quarterly report that that the fiscal court prepares for the Department for Local Government had a typo on the report.

Auditor’s Reply: As stated in the finding above, the county is under the supervision of the state local finance officer, the county should have controls in place to ensure amounts reported on the fourth quarter report are accurate and complete. We, as the Auditor of Public Accounts, are independent auditors, and cannot be a part of the county’s internal control system. Since the report is relied upon by different agencies and the fiscal court it needs to be accurate.

**The Floyd County Fiscal Court did not properly disclose debt on the fourth quarter financial report:** This is a repeat finding and was included in the prior year audit report as Finding 2019-003. The Floyd County Fiscal Court did not report the correct amount of debt on the liabilities section of the fourth quarter financial report. Several debts were accounted for twice, old debts still disclosed, and all debts were not the correct amounts for principal and interest.

The fiscal court does not have internal controls in place to ensure that debt reported on the liabilities section of the fourth quarter is correct. By not correctly reporting outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. By not including the outstanding debt balances, the Floyd County Fiscal Court’s Fourth Quarter Financial Report was materially misstated. Furthermore, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement.

We recommend the Floyd County Fiscal Court properly and accurately disclose all debt on the quarterly financial reports.

*County Judge/Executive's Response: Similar to the finding in the 2019 audit report a quarterly report to the Department for Local Government did contain typos. Again if the audits were prepared sequentially and the Fiscal Court given proper opportunity to respond these minor deficiencies would never had occurred.*

Auditor's Reply: As started in the finding above, the county is under the supervision of the state local finance officer and the uniform system of accounts, set forth by the state local finance officer, requires all county debt be reflected properly on the quarterly financial statements. The county did not have proper controls in place to ensure the report was accurate. We, the Auditor of Public Accounts, are independent auditors and cannot be a part of the county's internal control system. As discussed with the county judge/executive, we have worked hard to get the county caught up on their audits, due to the CPA, which the county hired, not releasing the 2016, 2017, and 2018 audit reports until 2021. This delay in the 2016 through 2018 audits did not allow us to start our 2019 and 2020 audits as soon as we would have liked and therefore the audits had to be done back-to-back in order for the county to be caught up on their audits.

**The Floyd County Jailer does not have internal controls over receipts and disbursements for the jail inmate and commissary accounts:** This is a repeat finding and was included in the prior year audit report as Finding 2019-005. The jailer does not have internal controls over receipts and disbursements for the jail inmate and commissary accounts. There were no receipt or disbursement ledgers, bank records were not reconciled to a ledger cash balance and three disbursements tested did not include itemized detailed invoices. Had the jailer designed and implemented proper internal controls recording errors would have been detected sooner and corrected. In addition, we found no evidence of effective oversight by the jailer over the financial reporting process.

The jailer has not structured his office to provide sufficient oversight of the financial reporting process. Without internal controls in place, there is no way to know that the financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of misappropriation of assets either by undetected errors or fraud occurring. By failing to maintain adequate internal controls, the jailer is increasing the risk of paying for goods and services not provided to the jail or for items that are not allowable to be paid.

Internal controls and proper segregation of duties protect employees and the jailer in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers and prepare bank reconciliations and monthly reports. Good internal controls are necessary in the reconciliation process to ensure that all activity that takes place in the bank accounts is appropriately documented and lowers the risk of misappropriation of receipts and disbursements.

We recommend the jailer implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the jailer could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. Further, the jailer could require dual signatures on all checks, with one signature being the jailer's. Also, the jailer should ensure proper documentation is kept for invoices that includes detailed itemized invoices.

*County Jailer's Response: These issues will be addressed more closely in the future but the errors being reported are less than \$1.00.*

Auditor's Reply: The jailer has one bookkeeper who collects receipts, posts to the inmate's ledger, and posts to the commissary receipts ledger, writes checks, opens the bank statements, reconciles the inmate account and the commissary account, and prepares the financial statement. The jailer does not oversee any of these functions. As stated in our finding, we recommend the jailer implement internal controls and segregate duties as much as possible. The audit finding did not address a \$1.00 error.

**The Floyd County Fiscal Court submitted ineligible expenses for reimbursement from the Coronavirus Relief Fund:**

*Federal Program: CFDA 21.109 COVID-19 - Coronavirus Relief Fund*

*Award Number and Year: C130 2020*

*Name of Federal Agency and Pass-Through Agency: U.S. Department of Treasury and passed-through Kentucky Department for Local Government*

*Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance*

*Type of Finding: Material Weakness*

*Amount of Questioned Costs: \$47,564*

*Opinion: Adverse*

The Floyd County Fiscal Court submitted payroll expenses and matching retirement incurred prior to March 1, 2020, for reimbursement from the Coronavirus Relief Fund (the Fund) administered by the Commonwealth of Kentucky's Department for Local Government (DLG). The ineligible expense was for the jail's payroll and matching retirement. The entire payroll for dates February 13-22, 2020, paid March 5, 2020 and the corresponding matching retirement paid March 6, 2020 for those dates along with payroll for February 27-29, 2020, paid March 19, 2020, and corresponding matching retirement paid April 7, 2020, was included in the reimbursement request. The payroll submission causing questioned costs ran from February 13, 2020 through February 29, 2020, which is a pay period outside the CRF's prescribed period of performance.

Questioned costs were computed based on the cost of the jail's payroll and matching retirement paid for the period of February 15, 2020 through February 29, 2020. The amount of the jail's payroll and matching retirement for the pay period in February being questioned is \$47,564.

The county thought reimbursement dates were based upon the day that the cost was expended instead of incurred. This caused the county to submit reimbursement requests for costs that were incurred before the period of performance of March 1.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the Fund and appropriated \$150 billion for payments by Treasury to States, tribal governments, and certain local governments. The CARES Act provides that payments from the Fund may only be used to cover costs that:

- Are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
- Were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020, per section 601(d) of the Social Security Act, as added by section 5001 of the CARES Act.

Additionally, 2 CFR 200.303 states: "The non-Federal entity must: (a) [e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the Floyd County Fiscal Court establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. We also recommend the Floyd County Fiscal Court contact DLG for guidance on how to resolve this issue.

*County Judge/Executive's Response: The Fiscal Court does not agree that this a reportable finding. The reimbursement requirements review payroll from March 1, 2020 to September 30, 2020. The Fiscal court submitted the payroll records for this time period showing reimbursable payroll of \$742,781. The Corona virus fund would only allow us a total reimbursement of \$547,088. The audit finding suggested that the payroll submitted for the first payroll that was reported in March 2020 fell outside of the reimbursement range because it was earned in February of 2020. After removing this particular pay period there was still more than adequate payroll for reimbursement from the Department for Local Government. Should not have been a reportable finding.*

Auditor's Reply: The audited Coronavirus Relief Fund reimbursement requests for fiscal year 2020 and the reimbursement approved by the Department for Local Government included incurred expense dates that were outside the period of performance of March 1, 2020 through June 30, 2020

for our audit period. The county would need to contact the Department for Local Government to remove or substitute any amounts that were included on the reimbursement for our audit period.

The audit report can be found on the [auditor's website](#).

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