



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, 2021. 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 116 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 findings:

**The Floyd County Jailer lacks segregation of duties over receipts, disbursements, and bank reconciliation processes of the jail commissary:** A lack of segregation of duties existed over jail commissary receipts, disbursements and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the monthly receipt ledger, recorded entries on inmate accounts, prepared checks for disbursements, prepared the monthly disbursement ledger, and performed the monthly bank reconciliations. Also, it should be noted that only one signature is present on check disbursements.

The official did not have controls in place to ensure that the same person did not perform all jail commissary accounting functions.

When one employee is responsible for the receipt, disbursement, and reconciliation processes, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases.

Effective internal controls require a proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Further, segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

Some controls that the jailer could implement are as follows:

- Triplicate receipts could be compared to the inmate account sheets and attached to deposit slips and reviewed by an independent person.
- Commissary sales amounts could be compared to inmate accounts in the system for agreement. Any differences should be reconciled.
- Any voided receipts should state the reason why and then reviewed, initialed, and dated by an independent person.
- Supporting documentation for disbursements and invoices should be reviewed by the Jailer prior to payment.
- The Jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliations for accuracy.

If these duties cannot be segregated due to limited number of staff or budget restraints, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date on applicable documentation.

*County Judge/Executive's Response: This finding has been rectified with the new Jailer starting January 1, 2023.*

*Jailer's Response: We will be proactive in regard to this finding to resolve this issue going forward. Duties have been segregated since my administration took office on December 29, 2022.*

**The Floyd County Jailer did not have adequate controls over jail commissary disbursements:**

This is a repeat finding and was included in the prior year audit report as Finding 2020-004. The Floyd County Detention Center did not have adequate controls over disbursements. The auditor selected 24 disbursements and noted the following:

- Twelve invoices did not have proper supporting documentation.
- Sales tax of \$25.50 was paid for one purchase.
- Numerous checks were signed by only one jail employee instead of two.

This deficiency was caused by a lack of adequate internal controls and a lack of oversight by management of disbursements procedures.

KRS 441.135 requires the jailer to maintain records of receipts and disbursements of the jail commissary fund. Failure to properly maintain original invoices as required by the Department for Local Government (DLG) could lead to fraudulent invoices being paid. The lack of internal controls increases the risk of material misstatement due to fraud or error. Having one signature on checks, especially a person that conducts all other accounting functions increases the risk of fraud or theft. Misappropriation of public funds results when paying sales tax on purchases that are otherwise exempt.

The jail commissary is a governmental entity that is exempt from paying sales taxes. Failing to require two signatures on disbursements increases the risk of fraud or misappropriation of assets.

We recommend the jailer ensure all original invoices are maintained. Original invoices should be effectively cancelled to prevent duplicate payments. Also, we recommend the jailer review all purchases and ensure that sales taxes are not being paid prior to disbursement. Furthermore, to reduce the risk of fraud or misappropriation of assets, we recommend that all checks require dual signatures.

*County Judge/Executive's Response: This finding has been rectified with the new Jailer starting January 1, 2023.*

*Jailer's Response: Since my administration took office on December 29, 2022 – we have been proactive in resolving this finding and will continue to do so in the future.*

**The Floyd County Jailer failed to properly reconcile and account for the inmate account and inmate balances:** Reconciliations for the inmate account were not prepared. This account is used to account for funds deposited by or on behalf of inmates. After funds are deposited, inmates' balances within the account are reduced for jail costs and fees as well as inmate purchases from the jail commissary. At the time of an inmate's release, if the inmate owes no additional amounts, the amount remaining in the inmate's account is refunded. No records were maintained that demonstrates the amount of funds held on behalf of the inmates as of June 30, 2021.

The jailer failed to properly provide adequate oversight in regard to inmate account reconciliations and inmate balances held.

Failure to properly reconcile the inmate account may result in misappropriation of inmate funds.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly cash reconciliations. In order to reflect an accurate book balance, this reconciliation should include a complete and accurate listing of all outstanding checks as well as all receivables and liabilities. Oversight is essential to providing adequate controls to reduce the risk of misappropriation of funds.

We recommend internal controls over the inmate account reconciliation process be strengthened to ensure that all outstanding checks, deposits-in-transit, receivables, and liabilities are accurately reflected on the monthly bank reconciliations. The jailer or another independent employee should

review the monthly bank reconciliations prepared by the bookkeeper to ensure they are accurate. In addition, records showing the amounts that inmates have on hand should be maintained and be available to support the inmate account balance as of June 30.

*County Judge/Executive's Response: This finding has been rectified with the new Jailer starting January 1, 2023.*

*Jailer's Response: It has been a priority to resolve this issue since my administration has taken office on December 29, 2022.*

**The Floyd County Fiscal Court failed to prepare the fourth quarter financial report and Schedule of Expenditures of Federal Awards in accordance with Kentucky Revised Statutes (KRS) and Department for Local Government requirements:** This was a repeat finding and was included in the prior year audit report as Finding 2020-001. The county did not submit a fourth quarter financial report within 30 days of the fiscal year ending June 30, 2021. In addition, the copy on file with the Department for Local Government (DLG) only contained three months of activity as opposed to the entire year. The copy of the fourth quarter financial report obtained for audit was dated June 20, 2022. Furthermore, the county failed to complete and send their Schedule of Expenditures of Federal Awards (SEFA) for the year ended June 30, 2021, until April 2023.

The fiscal court does not have adequate controls and procedures in place to ensure the timely preparation and submission of the fourth quarter financial report and SEFA as required.

The failure to properly prepare and submit the fourth quarter financial report may mislead those who review or use the information. Failing to file a SEFA in a timely manner may result in compliance requirements of federal monies not being met which could result in loss or forfeiture of federal funding.

KRS 424.230 and the *County Budget Preparation and State Local Finance Officer Policy Manual*, if monthly or quarterly statements are utilized instead of the annual statements required by KRS 424.220, the county's quarterly financial statement and the SEFA must be filed within thirty days following the end of the reporting period.

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 subrecipient, 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 Assistance Listings information is not available.
- (4) Total amount provided to subrecipients from each Federal program.

- (5) For loan or loan guarantee programs...identify in the notes to the schedule the balances outstanding at the end of the audit period. While not required, it is preferable to present this information in the schedule.
- (6) Notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate....

We recommend the county ensure that the reporting requirements as set forth by KRS, Code of Federal Regulations, and DLG are satisfied.

*County Judge/Executive's Response: This is a repeat finding and the current administration has not been given ample opportunity to address the previous audits and make necessary adjustments to address previous findings. The current Judge upon taking office in 2019 found the audits were four years behind and has struggled to get all audits current. Unfortunately, performing multiple years of audits simultaneously does not give the Treasurer the opportunity to correct these issues. The Schedule of Federal Expenditures is a very simple report that lists a total of all federal receipts and disbursements. Also, the late filing of the report to the Department for Local Government has been corrected.*

**The Floyd County Fiscal Court did not have effective 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 2020-002. The budget approved in the fiscal court minutes and the Department for Local Government (DLG) does not balance by individual fund. However, the budget balances when all funds are taken into consideration. The general fund, local government economic assistance fund, federal disaster fund, and revolving loan fund were out of balance by \$49,000, (\$49,000), \$1,000, and (\$1,000), respectively. In addition, the water and sewer fund and construction fund were comingled in the approved budget and treasurer's settlement.

The fiscal court did not have effective internal controls, review procedures, and oversight for the budget process to ensure that correct budget amounts were approved and balanced by fund. Inadequate controls over the budget process resulted in the undetected errors noted above. The inaccurate information resulted in unbalanced budgeted funds and 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.

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all budgeted amounts *are accurate and balanced by fund*.

*County Judge/Executive's Response: This is a typo and overall budget was correct and approved by the Department for Local Government. The Fiscal Court has contracted with a consultant approved by our software company to ensure future submissions are correct.*

**The Floyd County Fiscal Court did not have adequate controls in place to accurately report amounts for debt on the fourth quarter financial report:** This is a repeat finding and was included in the prior year audit report as Finding 2020-003. Internal control deficiencies exist over the reporting of liabilities and debt of Floyd County. Outstanding debt principal as of June 30, 2021, reported on the fourth quarter financial report was greater than outstanding debt principal per debt schedules by \$27,875. Outstanding interest reported was less than actual by \$18,660. The net total amount of excess reported was \$9,215.

The county failed to implement sufficient monitoring over the reporting process.

By not correctly reporting for 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.

We recommend the Floyd County Fiscal Court strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with lenders to verify outstanding debt balances agree with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that the proper amounts are reported.

*County Judge/Executive's Response: This is a repeat finding. The debt information that is listed came directly from the debt schedules provided by our lenders.*

**The Floyd County Fiscal Court's fourth quarter financial statement was materially misstated:** The county failed to reconcile the fourth quarter financial statement to the treasurer's settlement, the original budget, the budget amendment, and account for all financial activity of the county that resulted in numerous errors and material adjustments to the financial statements. The tables below demonstrate the differences between the fourth quarter financial report and the presented audited financial statements.

Budgetary Comparison Schedules Supplementary Information - Regulatory Basis	Budget Per Fourth Quarter Financial Report	Audited Budget Per Audit Report	Difference
General Fund Receipts	\$ 11,870,000	\$ 7,026,300	\$ 4,843,700
General Fund Disbursements	(6,697,300)	(6,477,300)	(220,000)
Road Fund Receipts	2,140,900	3,500,000	(1,359,100)
Road Fund Disbursements	(4,560,000)	(4,500,000)	(60,000)
Jail Fund Receipts	2,100,000	2,500,000	(400,000)
Jail Fund Disbursements	(2,440,000)	(2,500,000)	60,000
LGEA Fund Receipts	1,400,000	2,735,000	(1,335,000)
LGEA Fund Disbursements	(734,000)	(1,934,000)	1,200,000
State Grant Fund Receipts	24,700	24,700	
State Grant Fund Disbursements	(24,700)	(24,700)	
Federal Grant Fund Receipts		10,000	(10,000)
Federal Grant Fund Disbursements	(10,000)	(10,000)	
Federal Disaster Fund Receipts	386,200	1,201,000	(814,800)
Federal Disaster Fund Disbursements	(1,440,000)	(1,550,000)	110,000
Revolving Fund Receipts	200	15,000	(14,800)
Revolving Fund Disbursements	(16,000)	(16,000)	
E-911 Receipts	360,000	348,000	12,000
E-911 Disbursements	(348,000)	(348,000)	
Water and Sewer Fund Receipts		300,000	(300,000)
Water and Sewer Fund Disbursements		(300,000)	300,000
Construction Fund Receipts	1,371,300	1,540,000	(168,700)
Construction Fund Disbursements	(1,640,000)	(1,540,000)	(100,000)
Budget Variances	\$ 1,743,300	\$ 0	\$ 1,743,300

Bugetary Comparison Schedules Supplementary Information - Regulatory Basis	Amount Per Fourth Quarter Financial Report	Audited Amount Per Audit Report	Difference
General Fund Receipts	\$ 6,623,926	\$ 8,115,770	\$ (1,491,844)
General Fund Disbursements	5,663,478	7,199,900	(1,536,422)
General Fund - Fund Balance	960,488	915,870	44,618
Road Fund Receipts	4,010,153	4,006,209	3,944
Road Fund Disbursements	3,719,388	3,719,508	(120)
Road Fund - Fund Balance	290,765	286,701	4,064
Jail Fund Receipts	2,259,363	2,259,363	
Jail Fund Disbursements	2,127,918	2,127,918	
Jail Fund - Fund Balance	131,445	131,445	
LGEA Fund Receipts	1,626,986	1,627,841	(855)
LGEA Fund Disbursements	1,482,081	1,481,960	121
LGEA Fund - Fund Balance	144,905	145,881	(976)
State Grant Fund Receipts	13,534	13,534	
State Grant Fund Disbursements			
State Grant Fund - Fund Balance	13,534	13,534	
Federal Grant Fund Receipts		91	(91)
Federal Grant Fund Disbursements			
Federal Grant Fund - Fund Balance		91	(91)
Federal Disaster Fund Receipts	638	638	
Federal Disaster Fund Disbursments	1,367,236	1,367,236	
Federal Disaster Fund - Fund Balance	316,014	316,014	
Revolving Fund Receipts	16,078	16,058	20
Revolving Fund Disbursements			
Revolving Fund - Fund Balance	16,078	16,058	20
E-911 Receipts	423,907	423,907	
E-911 Disbursements	226,261	226,261	
E-911 Fund - Fund Balance	197,646	197,646	
Water and Sewer Fund Receipts		27,322	(27,322)
Water and Sewer Fund Disbursements		27,322	(27,322)
Water and Sewer Fund - Fund Balance		3	(3)
Construction Fund Receipts	1,563,236	2,681	1,560,555
Construction Fund Disbursements	27,322		27,322
Construction Fund - Fund Balance	<u>1,538,593</u>	<u>1,538,595</u>	<u>(2)</u>
Financial Statement Misstatements			<u>\$ (1,444,384)</u>

There is a lack of internal controls over the reporting process to ensure the financial statements are presented accurately and not misstated.

Failure to provide adequate oversight over reporting functions resulted in misstated financial statements being presented to the public and users.



The quarterly report is a cumulative report and is prepared on a regulatory basis by the county judge/executive and the county treasurer pursuant to KRS 68.210. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Kentucky Department for Local Government's (DLG) *Budget and Policy Manual*, requires the fourth quarter financial report to be utilized for reporting. KRS 68.360 states that the county judge/executive is responsible for the county's quarterly financial statement while DLG requires the county treasurer to prepare a quarterly financial statement for the state local finance officer. KRS 424.220 requires the county treasurer to prepare an annual financial statement.

We recommend that the county implement internal controls and oversight to ensure that the financial statements are prepared accurately and in compliance with DLG and KRS requirements.

*County Judge/Executive's Response: We agree that there is an error on the fourth quarter financial statement that was submitted to the Department for Local Government. In regard to the treasurer's report – the financial statements submitted to the Floyd County Fiscal Court and the financial statements presented publicly are correct. This error has been an on-going issue for several years due to staffing and software issues. The Fiscal Court has contracted with a consultant provided through the software company to ensure that all future reports submitted to the Department for Local Government are timely filed and accurate.*

**The Floyd County Fiscal Court failed to implement adequate controls over debt related transactions that resulted in disbursements exceeding the approved budget:** During the year the county entered into a debt agreement to refinance existing debt in the amount of \$1,535,000. These funds did not flow through the county's financial reporting system and therefore that activity was not recorded in the county's receipts and disbursements as required. As a result, the fiscal court failed to properly budget for the debt-related receipts and disbursements in the general fund. In addition, payments of \$30,939 were posted to the incorrect appropriation code in the road fund. Failing to account for these activities resulted in appropriations in excess of budget in the general fund debt service and road fund debt service categories of \$1,534,622 and \$30,939, respectively.

Management was unaware that financing obligation proceeds and activity must be shown on the financial statement and budgeted, even when the county does not receive the proceeds, or the funds do not flow through the county. A lack of oversight of disbursements resulted in debt misclassifications.

The occurrence described above resulted in adjustments to include this activity on the fourth quarter financial report which resulted in county appropriations exceeding the approved budget.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriations, shall be void." KRS 68.280 gives fiscal courts the ability to amend the budget when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded.

We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all fiscal court disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements. We further recommend that the county implement internal controls to ensure all receipts and disbursements are properly recorded and included in the financial statements.

*County Judge/Executive's Response: We agree that a budget amendment was not prepared upon refinancing the county's bond to lower the interest rate to save taxpayer dollars. The dollar amount did not change and we assumed that a budget amendment was not necessary because the principal amount remained the same. In the future, if we refinance any debt we will prepare a budget amendment.*

**The Floyd County Fiscal Court lacks adequate segregation of duties over cash, receipts, and reporting processes:** The Floyd County Fiscal Court lacks adequate segregation of duties over cash, receipts, and reporting processes. The county treasurer prepares deposit tickets and posts receipts to the receipts ledger for all receipts for all funds without any documented review from an independent party. Solid waste personnel receive and deposit receipts for all collections without any documented review from an independent party. The county's financial statements also do not appear to be properly reviewed prior to submission.

According to the county treasurer and county judge/executive, this condition is a result of a limited budget, which restricts the number of employees the fiscal court can hire or delegate duties to. A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If segregation of duties is not feasible due to limited staff or budget, the implementation of compensating controls can reduce the risk that a misstatement could occur and go undetected.

We recommend the fiscal court implement segregation of duties over cash, receipts, and the reporting processes. If this is not possible due to a lack of staff, then the fiscal court can continue to implement compensating controls.

*County Judge/Executive's Response: We agree that the segregation of duties is paramount for strong internal controls. We have limited resources and limited space to work within and this creates a set of unique challenges for all involved. The segregation of duties in the Solid Waste Department have been addressed and a verification process has been implemented to reconcile deposits and receipts.*

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

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