



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, 2022. 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: This is a repeat finding and was included in the prior year audit as Finding 2021-001. 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, 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 process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases.

Effective internal controls require that a proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. 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 is a repeat finding. This finding has been rectified with the new Jailer starting January 1, 2023.

Jailer's Response: We will be proactive regarding 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 2021-002. The Floyd County Detention Center did not have adequate controls over disbursements. The auditor selected 24 disbursements and noted the following:

- Four invoices did not have proper supporting documentation.
- Six invoices had sales taxes paid totaling \$525.
- Three generic invoices were produced by the jail instead of originating from the payee.
- 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.

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. KRS 441.135 requires the jailer to maintain records of receipts and disbursements of the jail commissary fund. 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 check require dual signatures.

County Judge/Executive's Response: This is a repeat finding. 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: This is a repeat finding and was included in the prior year audit report as Finding 2021-003. 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 demonstrate the amount of funds held on behalf of the inmates as of June 30, 2022.

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 is a repeat finding. 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 of Local Government requirements: This was a repeat finding and was included in the prior year audit report as Finding 2021-004. The county did not submit a fourth quarter financial report within 30 days of the year ending June 30, 2022. In addition, the county failed to complete and send their Schedule of Expenditures of Federal Awards (SEFA) and GASB 87 Lease Schedule for the year ended June 30, 2022, until April 2023 and June 2023, respectively. Furthermore, the county's receipt ledger posted numerous miscellaneous adjustments that were unsupported, however, the treasurer's settlement did have the details required.

The fiscal court does not have adequate procedures in place to ensure the timely preparation and submission of the fourth quarter financial report, GASB 87 Lease Schedule and the SEFA as required. Also, the county lacks oversight over the fourth quarter financial report supporting records.

The failure to properly prepare the fourth quarter financial report, supporting receipts and disbursement ledgers, and GASB 87 Lease Schedule 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. KRS 91A.040(6) states that the financial statements received by the Department for Local Government (DLG) are subject to 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 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 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 implement internal controls to 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, in performing multiple audits simultaneously it 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 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 2021-006. Internal control deficiencies exist over the reporting of liabilities and debt of Floyd County. Outstanding debt interest as of June 30, 2022, reported on the fourth quarter financial report was greater than outstanding debt interest per debt schedules by \$32,082.

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 failed to implement adequate controls over debt related transactions that resulted in exceeding the approved budget: This is a repeat finding and was included in the prior year audit report as Finding 2021-008. During the year the county entered into a debt agreement to refinance existing debt in the amount of \$290,844. 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 \$16,935 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 road fund, roads line-item, and the road fund, debt service line-item, of \$255,274 and \$16,104, 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. 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 made 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: This is a repeat finding. We agree that a budget amendment was not prepared upon receipt and disbursement of debt proceeds. We will prepare budget amendments for all newly acquired debts going forward. In the future, we will prepare budget amendments and properly account for the debt transactions as required.

The Floyd County Fiscal Court lacks adequate segregation of duties over cash, receipts, and reporting processes: This is a repeat finding and was included in the prior year audit report as Finding 2021-009. The Floyd County Fiscal Court lacks adequate segregation of duties over cash, receipts and reporting processes. The county treasurer prepares deposits 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 should implement compensating controls.

County Judge/Executive's Response: This is a repeat finding. We agree that the segregation of duties is paramount for strong internal controls. We have limited resources and limited space to work within the budget 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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