



Auditor of Public Accounts
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Harmon Releases Audit of Hopkins County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Hopkins 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 Hopkins 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 comments:

The schedule of expenditures of federal awards was overstated: The Hopkins County Fiscal Court's original schedule of expenditures of federal awards was overstated by \$470,784. The total overstatement is made up of the following errors made on the following programs:

- Assistance Listing Number 21.019 - \$431,746 was included on the schedule of expenditures of federal awards that was expensed in fiscal year 2020. These expenses were not reported on the prior year schedule of expenditures of federal awards.

- Assistance Listing Number 97.042 - \$7,738 was removed from the schedule of expenditures of federal awards to agree the expenditures for this program to underlying records.
- Assistance Listing Number 14.228 - \$31,300 was removed from the schedule of expenditures of federal awards because there have been no expenditures for this program as of fiscal year ending June 30, 2021.

According to county personnel, all monies awarded by the coronavirus relief fund were received in Fiscal Year 2021 and were mistakenly documented as Fiscal Year 2021 federal expenditures. In addition, the schedule of expenditures of federal awards documented awarded amounts instead of federal expenditures for the Emergency Management Performance Grant and Community Development Block Grant. As a result of the errors made and lack of effective operating controls, the original schedule of expenditures of federal awards was misstated. In addition, by including some of the expenditures on the current year schedule of federal expenditures, a single audit was missed in the prior year.

Strong internal controls over financial reporting are vital in ensuring that federal awards expended are accounted for and reported properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with all requirements and guidance. The purpose of the schedule of expenditures of federal awards is to trace and document the amount of federal awards spent each fiscal year and to ensure a single audit is performed if total federal expenditures exceed \$750,000. Additionally, 2 CFR 200.510(b) states, "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended."

We recommend the Hopkins County Fiscal Court implement or strengthen controls over federal award expenditures reporting to ensure amounts reported represent federal expenditures during the year.

County Judge/Executive's Response: The CARES money was received in one FY and expended in previous FY. It was reported on the year received not expended.

Material weaknesses exist over the reporting of liabilities and debt: This is a repeat finding and was included in the prior year audit report as Finding 2020-004. Material weaknesses existed over the reporting of liabilities and debt of Hopkins County. The June 30, 2021 outstanding debt balances reported on the fourth quarter financial report were misstated when compared to the actual debt balances confirmed with lenders. In total, \$7,533,674 of outstanding debt was not properly reported on the county's fourth quarter financial report.

Due to a lack of oversight and understanding of the public properties corporation schedule, the amount of outstanding debt balances reported on the fourth quarter financial report was materially misstated.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the Hopkins County Fiscal Court strengthen internal controls over the reporting of outstanding debt 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 are in agreement with the county's schedule of leases and liabilities to ensure that the proper amounts are reported.

County Judge/Executive's Response: Treasurer now has documents from the Banks that have the bonds for the AOC. Reporting in the future should be correct. It has always been difficult to get assistance on this debt.

The fourth quarter financial statement did not include all approved budget amendments: The Hopkins County Fiscal Court's fourth quarter financial statement as of June 30, 2021, did not include all budget amendments approved by the fiscal court. While performing audit procedures it was noted that the Local Government Economic Development Fund's (LGEDF) \$4,339,866 amendment to include COVID Relief funds received had not been included on the fourth quarter report.

The budget amendment prepared and approved in late May 2021, was overlooked when preparing the quarterly report. Due to this oversight, the fourth quarter financial statement did not include all approved budget amendments for the 2021 fiscal year.

Strong internal controls dictate that all approved budget amendments should be reported on the fourth quarter financial statement. Also, per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "all reports should be tested for accuracy before electronic submission to the State Local Finance Officer."

We recommend the fiscal court strengthen internal controls over financial reporting to ensure that all approved budget amendments are accurately reported on the fourth quarter financial statement.

County Judge/Executive's Response: Treasurer will be including the budget amendments in the financial statement in the future. It was a clerical error that the treasurer didn't report them in this one.

The Hopkins County Fiscal Court did not maintain proper accounting records for the public properties corporation: The Hopkins County Fiscal Court has a public properties corporation (PPC) to manage debt associated with the judicial center. The county is financially and legally obligated for the debt of the PPC; however, the fiscal court did not maintain receipts or disbursements ledgers or a financial statement.

According to the county, they were unaware of this requirement which caused the county to be noncompliant with KRS 68.210.

The Hopkins County Fiscal Court is legally obligated and financially accountable for the debt of the public properties corporation; therefore, these funds should be handled in accordance with the requirements for county funds. KRS 68.210 gives the state local finance officer the authority to

prescribe a uniform system of accounts. The uniform system of accounts, which is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, includes but is not limited to, maintaining receipts and disbursement journals, performing monthly bank reconciliations, and preparing annual financial statements. In addition to the requirements of KRS 68.210, good internal controls should dictate that financial obligations of the county should be accounted for and reviewed on a regular basis. This would include the receipts and disbursements ledgers, monthly bank reconciliations, and the year-end financial statement.

We recommend the county provide proper oversight with regards to the accounting and the reporting for the Hopkins County Public Properties Corporation.

County Judge/Executive's Response: The Treasurer was unaware that this report had to be completed. The Treasurer will prepare this report in the future.

Occupational tax receipts were not processed or deposited timely: Occupational tax receipts were not always processed and deposited timely. There appeared to be delays of up to four or five weeks between the dates occupational taxes were received and when they were processed and deposited.

According to county personnel, there was turnover in the position of the occupational tax administrator. The incoming tax administrator didn't fully understand the accounting software, more specifically the dates that were entered into the program for processing occupational tax receipts. Also, given the magnitude of the occupational tax receipts of Hopkins County, the tax administrator has trouble keeping up with the number of individual receipts. Because of the reasons stated above, occupational tax receipts were not always processed and deposited in a timely manner, leaving receipts vulnerable to misappropriation or loss.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires deposits to be made intact daily into a federally insured banking institution.

We recommend the county treasurer and occupational tax administrator work together to develop a new system of handling occupational tax receipts that will help ensure such receipts are deposited timely.

County Judge/Executive's Response: HCFC will make deposits in a timely manner.

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

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