



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, 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 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 findings:

The Hopkins County Fiscal Court's schedule of expenditures of federal awards was misstated: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The Hopkins County Fiscal Court's original schedule of expenditures of federal awards (SEFA) was misstated by \$7,196,605, requiring adjustments to the county's federal awards schedule. The total adjustments are made up of the following errors made on the following programs:

- Assistance Listing Number 21.027 – \$31,035 was included on the schedule of expenditures of federal awards that were not expensed in Fiscal Year 2022.
- Assistance Listing Number 97.036 – \$7,165,570 was included on the schedule of expenditures of federal awards that were not expensed in Fiscal Year 2022.

According to the county treasurer, an estimated project to be completed from the Coronavirus State and Local Fiscal Recovery Fund was included in the federal expenditures for the fiscal year. Also, county personnel believe that all the expenditures that were under state contract for debris removal were included as federal expenditures under Assistance Listing Number 97.036. Lastly, the third-party grant administrator believed that total SEFA federal expenditures under Assistance Listing Number 97.036 included all estimated project totals that have not been completed and paid to the vendor. As a result of the errors made and lack of effective operating controls, the original schedule of federal expenditures was overstated. Furthermore, the fiscal court is not in compliance with 2 CFR 200.510(b).

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. 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 true federal expenditures during the year.

County Judge/Executive's Response: FEMA projects were estimated as they had not been completed yet. Once the projects were balanced they had different totals.

The fourth quarter financial statement did not include all amounts from the original budget: This is a repeat finding and was included in the prior year audit report as Finding 2021-003. The Hopkins County Fiscal Court's fourth quarter financial statement as of June 30, 2022, did not include all amounts from the original budget approved by the fiscal court. While performing audit procedures it was noted that the original budget for the sports plex fund showed \$8,000,000 and the local government economic development (LGED) fund showed \$1,000,000 that had not been included on the fourth quarter report.

According to the county treasurer, the county had planned to obtain a loan for the sports plex fund, which is reflected on the original budget, but did not actually acquire a loan. Also, the housing grant was originally budgeted in the LGED Fund, but the county did not receive these funds due to COVID. Due to this oversight the county's fourth quarter financial report did not include all amounts from the approved original budget for the 2022 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*, "[a]ll 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 amounts approved by fiscal court are accurately reported on the fourth quarter financial report.

County Judge/Executive's Response: It was projected that we would be making draws from our loan but we didn't so it wasn't reported on the 4th quarter financial.

Occupational/net profit tax receipts were not processed or deposited timely: This is a repeat finding and was included in the prior year audit report as Finding 2021-005. Occupational/net profit 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/net profit taxes were received and when they were processed and deposited. \$663,891 of the \$833,932 of occupational tax receipts tested were not processed or deposited timely. Additionally, two returns could not be located, and one business had failed to file their quarterly occupational tax returns for the December 31, 2021 and the March 31, 2022 quarters. Furthermore, two businesses failed to file their net profit return or an application for an extension.

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/net profit 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/net profit tax receipts were not always processed and deposited in a timely manner, leaving receipts vulnerable to misappropriation or loss, as well as the county not receiving all occupational/net profit tax receipts the fiscal court is entitled to receive.

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 be made intact daily into a federally insured banking institution. Additionally, good internal controls dictate that the occupational tax administrator should follow-up with businesses that are delinquent in filing their monthly or quarterly occupational tax returns, as well as their net profit returns.

We recommend the county treasurer and occupational tax administrator work together to develop a new system of handling occupational/net profit tax receipts that will help ensure such receipts are deposited in a timely manner and all business are filing their monthly or quarterly occupational tax returns, and if applicable, their net profit returns.

County Judge/Executive's Response: We were having staff change and understaffed. We are fully staffed now and making deposits in a timely fashion.

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

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