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Harmon Releases Audit of Knott County Fiscal Court

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

Finding 6 of the audit report will be referred to the Department for Local Government (DLG) for further review.

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 Knott County Fiscal Court does not have adequate internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The Knott County Fiscal Court does not have adequate internal controls over disbursements. Of the 111 items tested, seven invoices were missing supporting documentation, 17 invoices were not paid within 30 days, and 30 invoices did not have a purchase order issued.

The lack of available funds caused invoices to be paid late, and lack of internal controls over the purchase orders system allowed invoices to be paid that had not gone through the purchase order system. Weak controls over disbursements increase the risk of misstatements of financial activity. Payments could be paid to vendors that may not be a true liability to the fiscal court. Funds could be misused or invoices could go unaccounted for, resulting in late fees being incurred.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, are presented to the fiscal court, include proper supporting documentation, and are paid within 30 days. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

KRS 68.300 states, in part, "[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 appropriation, shall be void." KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

County Judge/Executive's Response: Several invoices were paid outside the 30 day requirement. The Fiscal Court continues to pay all bills timely, unfortunately the Court lacks the excess funds to pay very large expenses all at once. Example the 200K property-liability insurance bill.

The Knott County Fiscal Court does not have adequate internal controls over credit card transactions: This is a repeat finding and was included in the prior year audit report at Finding 2020-003. The Knott County Fiscal Court does not have adequate internal controls over credit card transactions. Seven payments were late, there were \$3 in finance charges, and \$835 in sales taxes being charged when they should be tax-exempt.

The fiscal court has lax oversight over credit card use by not ensuring payments are made on time, and finance charges and sales tax are not being charged. The lack of oversight by the fiscal court over the use of credit cards could allow charges that do not meet a public purpose for the county. Strong internal controls dictate that there be procedures in place to make sure payments are being made on time, and finance charges and sales tax are not being charged.

We recommend the fiscal court have more control of credit card usage, ensure that payments are being made on time, and finance charges and sales tax are not being charged.

County Judge/Executive's Response: KCFC will continue to work on proper reconciliation of credit card receipts.

The Knott County Fiscal Court does not have adequate internal controls at the Knott County Sportsplex: This is a repeat finding and was included in the prior year audit report as Finding 2020-004. Our review of the receipts and disbursement process for the Knott County Sportsplex revealed weaknesses in internal controls that should be addressed. The Knott County Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. During basketball season, referees are paid out of the front door cash receipts. The Sportsplex director calculates the sales report and deposit, faxes the daily checkout sheet to the county treasurer, and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business. The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected.

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* states, "disbursements by check only." Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

KRS 68.275(1) states, "[c]laims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer." KRS 68.275(2) states, "[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid."

Due to the high volume of cash transactions and not accounting for significant amounts of revenue, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This accounts for front desk, concession stand, and the driving range.
- All checks should be copied and detailed on the deposit ticket with a name to identify collections.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected and deposited daily.
- All disbursements paid to referees should be made by check only.

County Judge/Executive's Response: The Fiscal Court has implemented various controls to help this situation for example a point of sales system. The Court is always trying to increase internal controls at the Sportsplex.

The Knott County Fiscal Court does not have adequate internal controls at the Mine Made Adventure Park and Campground: This is a repeat finding and was included in the prior year audit report as Finding 2020-005. A review of the receipts process for the Knott County Mine Made Adventure Park and Campground revealed weaknesses in internal controls that should be

addressed. The Knott County Mine Made Adventure Park and Campground collects money for campsite and cabin rentals, RV storage rentals, parking fees for ATV rides, and sells shirts, ice, and firewood. One employee is in charge of the operations which involves collecting, reconciling, and depositing money into the bank on a weekly basis instead of daily. The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, mistakes, and misrepresentations in the accounting process.

Due to the high volume of cash transaction, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This accounts for all rentals and sales.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected and deposited daily.

County Judge/Executive's Response: The Fiscal Court has implemented various controls to help this situation for example a point of sales system. The Court is always trying to increase internal controls at the Mine Made Park.

Disbursements exceeded approved budget appropriations: This is a repeat finding and was included in the prior year audit report as Finding 2020-006. The fiscal court's disbursements exceeded the approved budget. The debt service line items in the Local Government Economic Assistance (LGEA) fund and the debt service fund exceeded the appropriations by \$47,972 and \$4,354,380, respectively. Budget amendments or budget transfers were not made to ensure the budget was not overspent. This was due to an oversight of management. Also, due to the fiscal court not recording the \$47,972 and \$4,354,380 properly, they were unaware they had overspent the budget appropriations. The disbursements exceeded budget appropriations by \$47,972 and \$4,354,380 after recording the expenditure payments correctly.

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 appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim." Further, KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget."

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary.

County Judge/Executive's Response: The Cat finance amount was addressed in the last audit. The other disbursement was for the refinance of the Sportsplex bond payment. No additional funds were borrowed. KCFC strives to make sure all disbursements are budgeted.

The Knott County Fiscal Court has received reimbursement for \$245,877 in unallowed and questioned costs for the Coronavirus Relief Fund Federal Program:

Federal Program: COVID-19 Coronavirus Relief Fund ALN 21.019

Award Number and Year: Fiscal Year 2021

Name of Federal Agency and Pass-Thru Agency: U.S. Department of the Treasury, passed through the Kentucky Department for Local Government

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

Type of Finding: Material Noncompliance

Amount of Questioned Costs: \$245,877

Opinion Modification: Adverse

COVID Related: Yes

During Fiscal Year 2021, the Knott County Fiscal Court requested and received reimbursement from the Department for Local Government (DLG) for Coronavirus Relief Fund (CRF) expenses totaling \$386,622 related to coronavirus mitigation activities. Of this amount, \$245,877 was for payroll expenses incurred and paid by the Kentucky River Regional Jail, a legally separate entity and a joint venture between Knott and Perry counties as is disclosed in Note 1 in "Notes to Financial Statement."

The payroll expenses for the Kentucky River Regional Jail meet the requirements of permissible use of Fund payments according to the guidance in the Federal Register Volume 86 (86 FR 4182) published January 15, 2021 as correctional and detention officers are specifically noted as presumed to meet the requirements of employees who are substantially dedicated to coronavirus response activities. However, these payroll expenses were incurred and paid by the Kentucky River Regional Jail not the Knott County Fiscal Court. The Knott County Fiscal Court has retained the funds reimbursed for these eligible payroll expenses. In order for costs to be allowable under the CRF, the entity must have incurred an eligible expense during the period of performance.

The fiscal court did not have adequate internal controls in place to ensure material compliance with all federal programs. Management believed the payroll expenses incurred by the Kentucky River Regional Jail could be received and retained by the Knott County Fiscal Court because the fiscal court provides operating revenue to the jail via payments for housing inmates and other payments as established in the Interlocal Cooperation Agreement. However, these payments to the jail do not meet the requirements of Activities Allowed or Allowable Cost under the guidance provided in the Federal Register Volume 86 as these expenses were already an established part of the county's budget and the actual payroll expenses, submitted for reimbursement, were not expenses incurred by the county. The Knott County Fiscal Court requested and received reimbursement totaling \$245,877 from the CRF for expenses that were not incurred by the fiscal court. These costs will be reported as questioned costs and result in a material non-compliance and a modified opinion for the county's compliance with Activities Allowed or Unallowed, Allowable Cost/Cost Principles, and Period of Performance compliance requirements for the major program identified for fiscal year ended June 30, 2021.

Due to the unprecedented nature of coronavirus relief efforts and since CRF payments have been deemed high risk by guidance in 2 CFR Part 200 Appendix XI, we tested all items submitted for reimbursement for CRF. Known questioned costs total \$245,877 and were computed using supporting documentation the entity submitted with the reimbursement request for Coronavirus Relief Fund.

Guidance for compliance with CRF distributions is outlined in 2 CFR Part 200 Appendix XI, which further directs auditees to the Frequently Asked Questions section of the Federal Register in order to determine allowability of costs in accordance with the goals and intentions of the federal program. Section 601(a) of the Social Security Act, as added by section 5001(a) of Division A of the Coronavirus Aid, Relief, and Economic Security (CARES) Act established the Coronavirus Relief Fund. Under the CARES Act, the Fund is to be used to make payments for specified uses to States and certain local governments. The CARES Act provides that payments from the Fund may only be used to cover costs that:

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
2. were not accounted for in the budget most recently approved as of March 27, 2020; and
3. were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021.

We recommend the Knott County Fiscal Court consult with DLG to determine a satisfactory resolution to address these questioned costs. Further, we recommend the fiscal court establish adequate internal controls to ensure compliance with all requirements applicable to federal programs. We will refer this matter to the DLG.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The KY Department of Local Government was appointed to administer these funds. These reimbursements were SUGGESTED AND APPROVED by the Kentucky Department of Local Government. The KCFC followed all procedures, violated no

internal controls, and did as they were told by their regulatory agency (DLG). This absolutely should not be a finding on this audit.

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

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