



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

**Contact: Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

**Harmon Releases Audit of Mason County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Mason 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 Mason 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 road fund had a negative reconciled fund balance of (\$33,568):** The road fund had a negative reconciled fund balance of (\$33,568) as of June 30, 2021. The negative balance was caused by not being able to get a transfer from the general fund prior to year-end and bills needing paid in the road fund. To offset the negative balance, the treasurer made an adjusting journal entry to record an interfund receivable. However, the interfund payable was not recorded in the general fund. As a result, the auditor had to make an adjustment to reverse the adjusting journal entry made by the treasurer. Without the auditor making an adjustment, the treasurer's quarterly report falsely reports the fund's balance as positive, rather than negative, which gives the impression the fund is solvent when it is not.

The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires purchase orders not be issued unless adequate funds are available to cover the expenditure. Also, under duties of county treasurer, the county treasurer should only countersign checks if there is sufficient fund balance and adequate cash in the bank to cover the check. Furthermore, good internal controls dictate monthly bank reconciliations are performed that provide an accurate and complete record of the county's fund balance. We recommend the fiscal court monitor fund balances to ensure sufficient funds are available prior to authorizing and approving payments. Furthermore, journal entries should only be used on documentable errors, not to balance an account. We further recommend the treasurer monitor cash balances more closely to ensure that cash is available to cover all bills to be paid and plan in advance in order to get transfers approved prior to writing the checks for the bills.

*County Treasurer's Response: I made the mistake of assuming a deposit to the Road fund from the General fund as a transfer was posted to the Road fund from the General fund as a transfer was posted to the Road fund account the day deposits were made. The deposit was made too late in the day and I failed to confirm the deposit was dated correctly. All deposits will now be made before 3 p.m. to ensure they post same day.*

**The fourth quarter liabilities journal was materially misstated:** This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The liabilities journal did not reconcile to the county's debt schedules, materially misstating debt obligations. The following misstatements over \$10,000 were noted:

- PPC Refunding Revenue Bonds, Series 2007, principal balance was understated by \$33,377.
- PPC Revenue Bonds (Courthouse Facility Project), Series 2017, principal and interest was not included on the fourth quarter report, resulting in an understatement of \$491,046.
- PPC Refunding Revenue Bonds, Series 2021, principal and interest was not included on the fourth quarter report, resulting in an understatement of \$1,789,912.
- Landfill Construction Phases IV & V principal and interest balance was overstated by \$135,203 in total.
- Articulated truck principal balance was understated by \$15,988.
- Sheriff's vehicles principal and interest was not included on the fourth quarter report, resulting in an understatement of \$23,319.
- Road loader principal and interest was not included on the fourth quarter report, resulting in an understatement of \$169,789.

The fourth quarter report liabilities journal is not being reconciled to the debt amortization schedules. As a result, liabilities information is not accurately presented to the fiscal court, Department for Local Government (DLG), and any other individuals interested in the county's financial condition. DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the debt section of the fourth quarter financial report to be utilized for reporting all current

long-term debt, including public corporation bonds, general obligation bonds, government leasing act issues and bond anticipation notes. The liabilities information reported needs to be accurate.

We recommend that fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities journal.

*County Treasurer's Response: The PPC revenue bonds were refunded and in transition between two different financial entities to get a better rate. During that transition I made the old bonds inactive while entering the new bond information. I should have entered payments and refunds differently into the system to show the refund process and did no. In the future this should no longer be an issue. It has been corrected. The other liabilities over/understated had been corrected by me, but the corrected 4<sup>th</sup> quarter financials were not resent to DLG. That was an oversight on my part and in the future, any corrections I make will be made before it is sent to DLG.*

**The Schedule of Expenditures of Federal Awards (SEFA) was materially misstated:** The fiscal court's Schedule of Expenditures of Federal Awards (SEFA) was materially misstated. While the following known misstatements were made on the fiscal court's SEFA, the fiscal court failed to adequately track expenditures by grant and to ensure the SEFA was prepared by someone knowledgeable of federal program requirements. The treasurer's original SEFA total was \$825,274. The Community Development Block Grant (CDBG) Funds were understated by \$207,643 which was the amount that passed through to a subrecipient. In addition, the CARES Act Help America Vote Act (HAVA) grant was overstated by \$12,683 which was not spent and returned to the grantor by the deadline. The CDBG grant was listed under Catalog of Federal Domestic Assistance (CFDA) number 19.034; however, the correct CFDA number should have been listed as 14.228. This is a weakness in internal controls over the SEFA's preparation and reporting.

The misstatement is the result of a lack of knowledge on the correct way to track and report federal expenditures. The county treasurer prepared the original SEFA based on grant awards received rather than grant funds expended and should have included all funding even subrecipient expenditures. The fiscal court failed to implement internal control procedures to ensure the SEFA was accurate and complete.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, which on page 54 states that a Schedule of Expenditures of Federal Awards is required to be maintained under the uniform system of accounts. Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). §200.502 Basis for determining Federal awards expended. (a) Determining Federal awards expended. The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the

use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force. (b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section: (1) Value of new loans made or received during the audit period; plus (2) Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus (3) Any interest subsidy, cash, or administrative cost allowance received. 2 CFR §200.510 Financial Statements (b) Schedule of expenditures of Federal awards. The 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 as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use.

For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must: (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the 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 must be included. (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster. (4) Include the total amount provided to subrecipients from each Federal program (5) For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule. (6) Include notes that describe that significant accounting policies used in preparing the schedule.

We recommend the fiscal court provide knowledgeable and independent oversight of SEFA preparation and ensure staff responsible for it do an effective job, perform a detailed reconciliation of the federal assistance reported by the treasurer, and establish reporting guidance and assistance to the treasurer to ensure timely, accurate and consistent information and periodically assess the effectiveness of the treasurer's records to ensure accurate reporting.

*County Treasurer's Response: I have been doing the SEFA report for the Fiscal Court for a number of years with no issues as to my reporting. Regarding the CARE's Act HAVA grant, I have always shown the full amount expended, even if it was partially a reimbursement to the grantor. In the future, I will not show those amounts. The CFDA number I have on my original grant paperwork was correctly stated as 19.034. I hadn't confirmed that number and, in the future, I will. I will include my Finance Officer in the preparation of the SEFA report for better internal*

*controls. Regarding the CDBG funds being understated by \$207,643, I included those numbers on my previous year SEFA report for FY 19-20. That is the year I received them and recorded on my SEFA for that year's auditors. I only recorded the balance left in my 20-21 report. In the future, I will report based on expenditures and not receipts per your comment.*

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

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