



Auditor of Public Accounts  
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### **Harmon Releases Audit of Barren County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Barren County Fiscal Court for the fiscal year ended June 30, 2020. State law requires annual audits of county fiscal courts. This audit report is a reissue of the original report released on July 27, 2021.

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 Barren 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 Barren County Fiscal Court did not approve all cash transfers:** Six of the transfers made by the county treasurer did not agree to the cash transfers approved by the fiscal court and documented in the minutes. These six transfers totaled \$784,416.

This was caused by an oversight by management. They did not realize that cash transfers, including those for debt service payments, required fiscal court approval. By not having cash transfers approved, fiscal court may not be aware of actual fund balances which could create cash flow issues.

KRS 68.210 states, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe...a system of uniform accounts[.]” As part of that ability, the Department for Local Government (DLG) requires all fiscal courts to follow the *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires all cash transfers be approved by the fiscal court. Good internal controls also dictate that all transfers be approved by the fiscal court members to ensure that they are aware of money being transferred between funds to allow for future budgeting and planning. Additionally, good internal controls over cash dictate fiscal court approval before the treasurer moves money from one fund to another.

We recommend all cash transfers are approved by the fiscal court before they are made and that the cash transfer amounts approved should agree to the actual transfers made.

*County Judge/Executive’s Response: The previous Treasurer was in the position to make transfers. The current Treasurer was not aware of such unapproved transfers. Debt payments are on the preapproval list in the budget and paid when due.*

**The Barren County Fiscal Court does not have adequate controls over disbursements:** The Barren County Fiscal Court does not have adequate controls over disbursements. The following were noted during the disbursement testing:

- One payment was not recorded properly.
- Five invoices were not paid within 30 days.
- Eleven purchase orders were not issued.

According to the deputy county judge/executive, the above findings are due to an oversight over recording, lack of control over external departments such as the jail and sheriff, and not knowing that the purchase orders should be issued for payroll and utility claims.

By not paying bills within 30 days the fiscal court could be charged with late fees or finance charges. Additionally, by not requiring a purchase order to be completed for each purchase, there are no controls in place to ensure there are adequate budgeted funds available before completing a transaction.

KRS 65.140(2), states, in part, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” Good internal controls dictate the fiscal court record all disbursements properly. KRS 68.210 states, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe... a system of uniform accounts[.]” As part of these guidelines, a purchase order journal is required. Purchase orders must include a unique purchase order number, an issue approved appropriation code where the payment will be posted, the vendor name, the date the invoice is received, the amount of the purchase, the date in which the claim is reviewed by fiscal court after completion, the date paid, and the amount paid. A sound purchase order system is also an important element

of effective internal controls. Purchase orders allow a supervisor to review all purchases before they are made to ensure that budgeting requirements are met.

We recommend the Barren County Fiscal Court record all disbursements properly, pay invoices within 30 days, and issue a purchase order for all expenditures in order to comply with the standards set forth in the Department for Local Government's (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual*.

*County Judge/Executive's Response: The bills get paid when they are turned in to this office. Some departments do not turn bills in until after they are due. We have never put PO numbers on our utility bills.*

**The Barren County Fiscal Court failed to implement adequate internal controls over maintenance of the capital asset schedule:** The fiscal court failed to add to their capital asset schedule \$314,483 for infrastructure, \$55,340 for land and buildings, \$672,684 for vehicles, and \$540,439 for other inventory. Additionally, the fiscal court didn't delete from their capital asset schedule \$142,008 for vehicles, and \$ 31,750 for other inventory. According to the county personnel, they were not aware that the capital asset schedule should be updated.

Without adequate controls the risk of asset misappropriation increases or results in assets not being covered by insurance in the event of an accident or loss. Additionally, the fiscal court's capital asset schedule did not accurately reflect the assets held by the county.

Good internal controls dictate that assets be properly tracked and maintained to prevent theft or loss. These controls should also ensure compliance with applicable laws and regulations related to capital assets. Furthermore, per the fiscal court's capital asset capitalization policy all land and land improvements over \$12,500, buildings and building improvements over \$25,000, and infrastructure over \$20,000 should be capitalized and added to the fiscal court's capital asset schedule. In addition, all vehicles and equipment over \$2,500 should also be capitalized and added to the fiscal court's capital asset schedule. When items on the capital asset schedule are sold or disposed, they should be deleted from the fiscal court's capital asset schedule.

Under the authority of KRS 68.210, the Department for Local Government (DLG) issued the *County Budget Preparation and State Local Finance Officer Policy Manual* which states that "[f]or purposes of internal control, a fixed asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year."

We recommend the Barren County Fiscal Court implement internal controls to ensure all assets are being appropriately added and deleted from the capital asset schedule. We also recommend the fiscal court adhere to their capital asset policy.

*County Judge/Executive's Response: The previous Treasurer was in the position to update the Capital Asset Schedule for the 2019 Fiscal Year. The current Treasurer was not aware of the Capital Asset Schedule or that it was not updated.*

**The Schedule of Expenditures of Federal Awards was materially misstated:** The Barren County Fiscal Court's Schedule of Expenditures of Federal Awards (SEFA) did not accurately report federal grant disbursements for the fiscal year ended June 30, 2020. The following items were noted on the SEFA:

- The SEFA originally submitted to the Department for Local Government (DLG) was understated by \$410,268. The original SEFA omitted \$410,268 of Coronavirus Relief Funds (CRF) expenditures that should have been included on the SEFA for fiscal year ended June 30, 2020.
- Two grants totaling \$151,769 were listed under incorrect Catalog of Federal Domestic Assistance (CFDA) numbers.
- All expenditures listed on the SEFA had the full amounts listed as being provided to a subrecipient. No funds for the fiscal year were provided to a subrecipient; therefore, materially overstating the amount provided to subrecipient by \$1,112,122.

According to county personnel, the funds recorded for the CRF that were received in Fiscal Year 2021, were mistakenly documented as Fiscal Year 2021 federal expenditures instead of when the items were expended. In addition, the county treasurer mistakenly included the amounts in both columns on the SEFA and pulled the wrong codes for two of the grants.

Because the county treasurer's SEFA was inaccurate, the county is not in compliance with Uniform Guidance section 508. Additionally, the SEFA is the determination factor for whether an entity is required to undergo a single audit, in accordance with Uniform Guidance if the entity expends \$750,000 or more in federal funds during its fiscal year. Therefore, it is possible if the SEFA is inaccurately prepared the fiscal court could fail to have a single audit when necessary. Incorrect subrecipient information could lead to incorrect compliance requirements being applied to the funds.

*OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements For Federal Awards* 2 CFR 200.508(b) requires the auditee to “[p]repare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with 200.510 Financial statements.” 2 CFR 200.510(b) states, in part, “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 [CFR] § 200.502 Basis for determining Federal awards expended... At a minimum, the schedule must:

- (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 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 ... 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 ....”

Additionally, good internal controls dictate the SEFA be complete and accurate.

We recommend the Barren County Fiscal Court implement or strengthen controls over the schedule of expenditures of federal awards reporting to ensure amounts reported represent true federal expenditures expended during each fiscal year and ensuring correct CFDA numbers for funds.

*County Judge/Executive’s Response: The Fiscal Year 2019/2020 SEFA was prepared by the previous treasurer before she retired in July 2020.*

*After that time, in the next Fiscal Year, we were informed that we could go back and claim deputy jailer’s salary to be reimbursed with CARES Money. The current treasurer was unaware that she had to or could even go back and change the previously submitted SEFA, so the \$410,268 was reported on the Fiscal Year 2020/2021 SEFA. It was during the single audit of Fiscal Year 2020/2021 that the auditor found the issue, causing us to go back and have a single audit for the Fiscal Year 2019/2020.*

*In reference to the findings reflecting incorrect CFDA numbers and incorrect figures in the subrecipient column of the SEFA, my response is:*

*Since we have been made aware of this issue, we will immediately correct the upcoming SEFA to reflect the correct CFDA numbers as well as correcting the figures in the subrecipient column of the report.*

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

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