



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Floyd County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Floyd County Fiscal Court for the fiscal year ended June 30, 2015. 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 Floyd 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 115 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 the internal control over financial operations and reporting.

In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Floyd County's major federal programs: Emergency Watershed Protection Program (CFDA #10.923) and Disaster Grants - Public Assistance (Presidentially Declared Disasters (CFDA #97.036).

The audit contains the following comments:

The fiscal court did not follow the procurement policy for bid purchases as written in the county's administrative code. The fiscal court accepted multiple bids for pipe, gravel, and asphalt, rather than accepting only one bid for each type of material as required per the county's administrative code. We do not know why the fiscal court did not follow the procurement policy as written in the county's administrative code. Accepting multiple bids is a way to circumvent

the bid process and usually results in greater monetary costs to the county, because the lowest or best bid accepted is not always being used. When vendors do not have to compete for business, there is little or no incentive to provide the best price to customers.

The county's administrative code procurement policy section 8.2E. states "[t]he County Judge shall open all bids publicly at the time and place stated in the advertisements and shall select the lowest and/or best bid by qualified bidder to be recommended to the fiscal court for approval. If the lowest bid is not selected, the reasons for the selection shall be stated in writing." We recommend the fiscal court members familiarize themselves with the procurement policy as written in the county's administrative code and follow the requirements of the policy when bidding for purchases.

County Judge/Executive's response: It has been the practice of the fiscal court to accept all bids. The reason multiple bids are accepted is for emergency and disaster reasons. For example, during an emergency or disaster a pipe may be needed to open a roadway for emergency and essential personnel. If the vendor that was awarded the bid did not have the pipe then citizens or emergency personnel would not be able to get in or out until the vendor was able to obtain the pipe. The current administration has spent less than the \$20,000 threshold that is required for the bidding process to these vendors.

Auditor's Reply: KRS 424.260 outlines the requirements for bidding and also addresses how to handle emergency situations that might arise for a fiscal court throughout the year. Accepting all bids defeats a competitive bidding process.

The jailer lacks internal controls over receipts and disbursements for the jail inmate and commissary accounts. The jailer lacks internal controls over receipts and disbursements for the jail inmate and commissary accounts. There were no receipt or disbursement ledgers and bank records were not reconciled to a ledger cash balance. Had the jailer designed and implemented proper internal controls, recording errors would have been detected sooner and corrected. In addition, we found no evidence of effective oversight by the jailer over the financial reporting process.

The jailer has not structured his office to provide sufficient oversight of the financial reporting process. Without internal controls in place, there is no way to know that the financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected errors, misappropriation of assets, or fraud.

Internal controls and proper segregation of duties protect employees and the jailer in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports. Good internal controls are necessary in the

reconciliation process to ensure that all activity that takes place in the bank accounts is appropriately documented and lowers the risk of misappropriation of receipts and disbursements.

We recommend the jailer implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the jailer could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. Furthermore, the jailer could require dual signatures on all checks, with one signature being the jailer's.

Jailer's Response: The jailer did not provide a response.

The fiscal court did not prepare an accurate schedule of expenditures of federal awards.

Federal Program: CFDA #10.923 and CFDA #97.036

Name of Federal Agency: U.S. Department of Agriculture and U.S. Department of Homeland Security

Pass-Through Agency: Kentucky Department of Military Affairs

Compliance Requirements: Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions

Type of Finding: Material Weakness in Internal Control Over Compliance, Material Non-Compliance

Amount of Questioned Costs: None

The county did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA) for fiscal year ended June 30, 2015, in accordance with OMB Circular A-133. During testing, there were several instances noted where the state and local share of federal projects were included in the SEFA. Also, the auditor noted expenditures dated after fiscal year ended June 30, 2015, were included in the SEFA.

OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, Section 310(b) requires the auditee to "also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements." At a minimum, the schedule should include the following, if applicable.

- (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 shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the [Catalog of Federal Domestic Assistance] CFDA number or other identifying number when the CFDA information is not available.
- (4) Includes notes that describe the significant accounting policies used in preparing the schedule.

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

Due to a lack of adequate internal controls, auditors were not provided an accurate Schedule of Expenditures of Federal Awards. Non-compliance with this federal requirement increases the risk of possibly misstating the county's financial statements. We recommend the county ensure that a complete and accurate Schedule of Expenditures of Federal Awards is prepared.

County Judge/Executive's response: The prior year administration did not keep a log of federal expenditures. The accounting system used by the prior year administration wasn't able to note whether the expenditure was a federal expenditure or not. The current administration has implemented a new accounting system which is able to note whether the expenditures is a federal expenditures and a total for the fiscal year.

The fiscal court failed to implement adequate internal controls over federal awards.

Federal Program: CFDA #10.923 and CFDA #97.036

Name of Federal Agency: U.S. Department of Agriculture and U.S. Department of Homeland Security

Pass-Through Agency: Kentucky Department of Military Affairs

Compliance Requirements: Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Amount of Questioned Costs: None

Floyd County qualified for disaster relief and had expenditures that fell under FEMA regulations (Disaster #4196, 4216, 4217, and 4218) in addition to grants received through the Natural Resource Conservation Service (NRCS) and U.S. Department of Justice. In total, the county expended approximately \$1,489,540 in federal assistance during fiscal year ended June 30, 2015.

Adequate internal controls over federal awards were not in place to ensure accurate reporting of federal expenditures, resulting in material non-compliance with federal grants in the areas of Matching, Level of Effort, Earmarking; Procurement and Suspension and Debarment; Reporting; and Special Tests & Provisions.

In order to comply with OMB Circular A-133 regarding federal grants, the entity must establish adequate internal controls to ensure compliance with each major program's applicable compliance requirements. Numerous deficiencies were noted in the design and implementation of internal controls over federal awards:

- Failure to maintain complete and accurate supporting documentation for federal awards
- Failure to adequately track and monitor federal awards
- Inadequate interaction between staff and management

Inadequate internal controls resulted in the following noncompliance issues:

- Adequate supporting documentation was not available for all federal expenditures
- American Recovery and Reinvestment Act (ARRA) provisions were not followed

We recommend the fiscal court review their internal controls over federal awards and design and implement controls that will ensure material compliance with applicable requirements for all federal awards. We also recommend the fiscal court seek guidance from grantor agencies to determine if repayment is necessary or required.

County Judge/Executive's response: The prior year administration did not keep a log of federal expenditures. The accounting system used by the prior year administration wasn't able to note whether the expenditure was a federal expenditure or not. The current administration has implemented a new accounting system which is able to note whether the expenditures is a federal expenditures and a total for the fiscal year. Additional procedures have been implemented to ensure federal expenditures have supporting documentation and are tracked and monitored.

The fiscal court failed to comply with regulations Regarding American Recovery and Reinvestment Act (ARRA) funds.

Federal Program: CFDA #10.923

Name of Federal Agency: U.S. Department of Agriculture

Compliance Requirements: Special Tests & Provisions – ARRA Funding

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Amount of Questioned Costs: None

The fiscal court received funding from the USDA Natural Resources Conservation Service (NRCS) as part of the county's disaster recovery activities. NRCS is funded through the American Recovery and Reinvestment Act (ARRA). Special regulations apply to all entities that receive ARRA funding in order to maximize transparency and accountability to mitigate the risk of waste, fraud, abuse, and improper payments for grants awarded as part of ARRA. Adequate internal controls were not in place to fully comply with ARRA requirements.

Personnel in charge of NRCS documentation were unaware of special regulations connected to ARRA funding. Adequate documentation was not maintained, leaving some NRCS projects without complete documentation of costs incurred. This increases the risk of waste, fraud, abuse, and improper payments. Per OMB Circular A-133, entities that receive ARRA funding are expected to implement adequate internal controls to ensure grants are properly accounted for and properly expended. The county did not implement adequate controls over NRCS projects, which resulted in material non-compliance issues addressed in Comment 2015-004. Furthermore, entities are expected to identify and track all ARRA funding on the Schedule of Expenditures of Federal Awards (SEFA). The county failed to identify NRCS funds as ARRA related.

We recommend the fiscal court closely monitor all federal awards to determine if grants are fully or partially funded by ARRA. We further recommend the fiscal court identify and track all ARRA funds in accordance with federal guidelines. Finally, we recommend the fiscal court

implement adequate internal controls to ensure that all federal awards are accounted for and expended properly and that any special provisions related to ARRA are met.

County Judge/Executive's response: The prior administration received and expended these American Reinvestment & Recovery Act (ARRA) funds. If awarded any additional funds in the future, the Fiscal Court will comply with regulations regarding American Reinvestment & Recovery Act Funds.

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

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