



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Monroe County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Monroe 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 Monroe 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Monroe County Treasurer was not bonded from December 1, 2020 through December 31, 2021: On November 19, 2020, the Monroe County Fiscal Court hired a new county treasurer as of December 1, 2020. The new county treasurer took the oath of office on December 1, 2020; however, no bond was executed or approved by the fiscal court. The county treasurer stated that they thought the former interim county treasurer’s bond covered her as well. They just forgot to change the name on the bond. When a bond was not obtained on the county treasurer, the risk to the fiscal court’s funds was significantly increased since the county treasurer handles all deposits and disbursements of the fiscal court’s funds.

Proper internal controls over fiscal court's funds dictate the fiscal court ensure the county treasurer executes bonds before taking office. KRS 68.010(3) states, in part, "[t]he county treasurer shall take the constitutional oath of office before the fiscal court, and shall execute bond with at least two (2) reputable sureties, to be approved by the fiscal court."

We recommend a bond be executed on the county treasurer when appointed by the fiscal court as required by statute.

County Judge/Executive's Response: This has been corrected.

The Monroe County Fiscal Court did not accurately report financial information: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The following reporting errors were noted on the fourth quarter financial statement for June 30, 2021, for Monroe County Fiscal Court:

- The county treasurer did not include activity of bank account totaling \$27,545 held by the fiscal court in the general fund on the fourth quarter financial statement. The fiscal court was temporarily holding funds of \$27,545 for Monroe County Industrial Development Authority (IDA) in a separate bank account. These funds were received from the Monroe County/Tompkinsville Industrial Development when it dissolved during fiscal year 2019 and transferred to the IDA on September 11, 2020. This amount was added to the beginning fund balance line item of the general fund and the disbursements general government line item of the general fund.
- The county treasurer did not include activity of bank account totaling \$10,887 held in the fiscal court's name on the fourth quarter financial statement. The Kentucky Association of Counties (KACo) has a bank account in the fiscal court's name. These funds are unused loan proceeds of \$10,756 on money borrowed for road equipment during fiscal year 2019, interest earned on these funds in prior years of \$130 and interest earned in current year of \$1. KACo applied the funds to the amount owed on the road equipment financing obligation. These amounts were added to the beginning fund balance and interest earned line items of the road fund, \$10,886 and \$1, respectively. In addition, \$10,887 was added to the disbursements roads line item of the road fund.
- The fourth quarter liabilities page on the fourth quarter financial statement was materially inaccurate. The county treasurer did not record the ending balances for the financing obligations on the road equipment and property for the community park, the unrefunded portion of the first mortgage revenue bonds, series 2009, and first mortgage revenue refunding bonds, series 2016.

The county treasurer who was appointed December 1, 2020, did not realize she should include those bank accounts on her fourth quarter financial statement. She stated the deputy judge/executive recorded the ending balances for principal and interest on debt incorrectly.

This deficiency resulted in inaccurate financial reporting to the fiscal court and Department for Local Government (DLG). Misstatements of receipts and disbursements were noted due to errors requiring adjustments on the fourth quarter financial statement as noted above. Misstatements of the beginning fund balance were also noted due to errors requiring adjustments on the fourth

quarter financial statement as noted above. In addition, by not recording ending balances on debt correctly, the outstanding debt of the Monroe County Fiscal Court and Monroe County Public Properties Corporation on the fourth quarter financial statement liabilities page, principal was materially understated by \$1,102,140 and interest was overstated by \$46,161.

Strong internal controls over the reporting process are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. KRS 68.020(4) states, in part, the county treasurer "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer." 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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires all money received and paid to be reflected in the county budget and be properly reflected on the financial report as a receipt as well as an "expenditure."

Furthermore, all funds disbursed on the fiscal court's behalf by third parties should be recorded in receipts and appropriations ledgers. DLG's manual also requires the liabilities section of the quarter financial statement to be utilized for reporting current long-term debt.

We recommend the fiscal court implement stronger internal controls over the reporting process to ensure receipts, disbursements, and cash balances from all bank accounts along with all loan and lease activity is properly recorded to the fiscal court's ledgers and to the financial statements submitted to DLG.

County Judge/Executive's Response: The money requested in 2019 was to go to the bond payment. KACO failed to apply the money until 2021.

The Monroe County Fiscal Court failed to implement internal controls to ensure costs submitted for reimbursement were for eligible expenses not already reimbursed by other entities and properly documented: The Coronavirus Relief Fund (CRF) was established under section 601 of the Social Security Act to cover costs that are necessary expenditures incurred due to the public health emergency with respect to Coronavirus Disease 2019 (COVID-19). The \$150 billion fund is to be used to make payments for specified uses to states, tribal governments, and certain local governments for the program period March 1, 2020 through December 31, 2021. The Compliance Supplement 2021 for Department of the Treasury for CRF for States, Tribal Governments, and Certain Eligible Local Governments states "recipients may not use payments from the Fund to cover expenditures for which they will receive reimbursement from other sources." During fiscal year 2021, the Monroe County Fiscal Court paid the Monroe County Sheriff reimbursement received from the CRF of \$34,785 gross wages for court security officers waiting on the court. These payroll expenditures had already been reimbursed to the sheriff's office by the Kentucky Finance and Administration Cabinet for the court security officers, under KRS 64.092. In addition, the fiscal court received reimbursement of \$21,829 from the CRF but had no supporting documentation of what disbursements were being reimbursed.

The Monroe County Fiscal Court failed to establish effective internal controls over compliance requirements to ensure expenditures submitted for reimbursement from the CRF were not already reimbursed from other sources and disbursements had supporting documentation. The deputy county judge/executive stated the former finance officer was unaware that some of the payroll expenditures submitted by the sheriff's office for reimbursement under CRF reimbursement contract had already been reimbursed to the sheriff's office by the state. In addition, the former finance officer contacted the state by email regarding the overpayment of \$21,829 but never received an answer as to why there was a difference between the amount request by the fiscal court and the amount paid by the state.

The fiscal court received reimbursement for payroll expenditures that had already been reimbursed by other entities and disbursements without supporting documentation. The fiscal court may be required to repay the questioned costs back to the granting agency.

2 CFR § 200.303 requires a non-federal entity to “[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.” In addition, 2 CFR § 200.1 states:

Improper payment means:

- (1) Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.
 - (i) Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law).

We recommend the fiscal court strengthen internal controls over federal awards to ensure expenditures have not been reimbursed by other entities and are eligible expenditures with appropriate documentation. We also recommend the fiscal court contact the Department for Local Government (DLG) to determine if questioned costs should be repaid or if they can resubmit request with eligible expenditures.

County Judge/Executive's Response: In addition, the former finance officer contacted the state by email regarding the overpayment of \$21,829 but never received an answer as to why there was a difference between the amount request by the fiscal court and the amount paid by the state.

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

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