



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

**Auditor Mike Harmon Releases First Audit of Area
Development District Conducted Under New Law**

Audit of Green River Area Development District Released by Harmon's Office

FRANKFORT, Ky. (December 8, 2021) – Today, Auditor Mike Harmon released the results of the first audit of one of Kentucky's area development districts under authority granted by a law that passed the General Assembly unanimously in 2017. Auditor Harmon and his audit staff presented the audit report of the Green River Area Development District (GRADD) to their leadership during a meeting in Owensboro.

"Today's audit report release is the culmination of cooperation by many to increase the level of transparency and accountability among Kentucky's 15 area development districts, allowing taxpayers and those who depend on services ADDs provide a clearer picture of how they are using public dollars," said Auditor Harmon. "My office worked with the Kentucky Council of Area Development Districts, the Kentucky Chamber of Commerce, and others on House Bill 189 which passed unanimously in the House and Senate during the 2017 session of the General Assembly. I also want to give a special thanks to former Representative Jim DeCesare, and Representative Susan Westrom for sponsoring House Bill 189 during that session."

The law created by House Bill 189 gives Auditor Harmon's office a right of first refusal to conduct each of the ADDs' annual financial statement audits, which is the same process his office uses for county fiscal court audits. Auditor Harmon's office also has the ability to review audits of the ADDs conducted by private accounting firms, both before and after the audit reports are released, to ensure all 15 districts are being audited consistently and appropriately.

Auditor Harmon's office had two findings from the Fiscal Year 2021 audit report of GRADD:

The Schedule of Expenditures of Federal Awards Was Materially Overstated: The Green River Area Development District's original schedule of expenditures of federal awards was materially

overstated by \$635,586. The total overstatement is made up of the following errors made on the following programs:

- Assistance Listing Number 11.307 – Correct calculations/formulas per RLF Form ED-209 instructions were not used to properly calculate revolving loan fund expenditures. Also, for coronavirus aid, relief, and economic security (CARES) revolving loan funds, three loans totaling \$353,325 were included in the amount expended. However, these loans were not closed and disbursed until fiscal year 2022. These errors resulted in the program being overstated by \$624,898.
- Assistance Listing Number 64.044 – The amount of federal awards received were reported, instead of actual expenditures, resulting in the program being overstated by \$10,473.
- Assistance Listing Number 90.202 – The amount reported as expenditures were \$215 more than actually expended per accounting and grant records.

In addition, information disclosed in the notes to the financial statements and schedule of expenditures of federal awards pertaining to the programs mentioned above were misstated.

According to the finance director, it was thought that the calculation/formula for revolving loan fund expenditures did not apply to the CARES funds received and used on the program. The additional errors were due to a lack of internal controls effectively in place to prevent or detect any errors made. As a result of the errors made, the original schedule of expenditures of federal awards, notes to the financial statements, and notes to the schedule of expenditures of federal awards were materially misstated.

Strong internal controls over financial reporting are vital in ensuring that federal awards expended are accounted for and reported properly. Strong internal controls are also important in safeguarding the area development district's assets and those given the responsibility of accounting for them, as well as helping make certain the area development district is in compliance with all requirements and guidance. Additionally, 2 CFR 200.510 (b) states "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."

We recommend GRADD implement or strengthen controls over reporting federal award expenditures to ensure amounts reported represent true federal expenditures during the year and follow all calculations and federal guidance.

Management's Response and Planned Corrective Action:

For Assistance Listing 11.307, CARES revolving loan funds were received in June 2021 and three loans were schedule to close in June. Due to unforeseen circumstances, these loans were not closed and disbursed until July of fiscal year 2022. These funds were included in the amount expended for fiscal year 2021 but should have been included in fiscal year 2022.

The Green River Area Development District's Revolving Loan Fund Financial Report Was Inaccurate:

Federal Program: 11.307 Economic Adjustment Assistance

Award Number and Year: 11.307 Economic Adjustment Assistance 2021

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

Compliance Requirements: Activities Allowed; Allowable Costs; Reporting; Special Tests and Provisions

Type of Finding: Material Weakness and Material Noncompliance

Opinion Modification: Qualified Opinion

COVID Related: Yes

Questioned Costs: None

The Green River Area Development District (GRADD) reported the incorrect amount of Coronavirus, Aid, Relief, and Economic Security (CARES) Revolving Loan Fund (RLF) income earned during the fiscal year on the RLF Financial Report (Form ED-209.) The amount reported as RLF income was \$1,551,135. This amount represents the total amount of funds received and expended during the fiscal year, instead of actual income earned, such as interest earned or fees charged during the year. The correct amount of CARES RLF income earned during the fiscal year was \$0.

According to the director of finance, her understanding of the CARES RLF income reported on the financial report was to be actual monies received from the Economic Development Administration (EDA) during the fiscal year for new loans and administration expenses. As a result, GRADD's CARES RLF Financial Report submitted for fiscal year end June 30, 2021 was not materially accurate.

13 CFR 307.8 defines the program income as: "RLF Income means interest earned on outstanding loan principal and RLF accounts holding RLF funds, all fees and charges received by the RLF, and other income generated from RLF operations."

13 CFR 307.14 (b) provides the requirements for the EDA RLF reports and states: "RLF Recipients must certify as part of the RLF report to EDA that the RLF is operating in accordance with the applicable RLF Plan and that the information provided is complete and accurate."

Additionally, strong internal controls over financial reporting are vital in ensuring that federal awards are accounted for properly. Strong internal controls are also important in safeguarding the area development district's assets and those given the responsibility of accounting for them, as well as helping make certain GRADD is in compliance with all requirements.

We recommend GRADD follow the guidance contained within 13 CFR Chapter 307 for completing the Form ED-209 RLF Report. GRADD should also properly report RLF income earned during the fiscal year as interest earned, fees earned, etc. We also recommend GRADD strengthen controls over federal awards by implementing review processes to ensure amounts reported on the financial report agree to amounts reported on financial statements.

Management's Response and Planned Corrective Action:

Due to a misinterpretation of instructions, the CARES RLF Financial Report submitted for June 30, 2021, had reported the \$1,551,135 received from EDA as income earned during the fiscal year. This amount should have been \$0 since no interest or fees were received. This has since been resolved with EDA and a new report was submitted.

The GRADD audit is one of two area development district audits conducted by Auditor Harmon's office in the current year. His office will release the audit of the Barren River Area Development District (BRADD) at a meeting in Bowling Green next week. You can review the GRADD audit [here](#).

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