



Auditor of Public Accounts
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Harmon Releases Audit of Knox County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Knox County Fiscal Court for the fiscal year ended June 30, 2020. 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 Knox 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 Knox County Fiscal Court did not provide the same level of health insurance benefits to all county employees: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The Knox County Fiscal Court employees are not receiving the same level of health insurance benefits. Elected officials are receiving family health insurance coverage paid for by the county, while non-elected employees only receive single health insurance coverage paid for by the county. The discrepancy in monthly expense between family health insurance coverage and single health insurance coverage is \$1,481 per month, per employee.

The Knox County Fiscal Court believes they can separate elected officials and county employees. According to the County Administrative Code, “The County pays the premium for all individual

health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials.”

Due to differing levels of health insurance coverage being provided to county employees’ discrimination exists; which can affect employee morale and the overall control environment. Additionally, county funds are being spent for the personal benefit of select employees that could have been expended on other items to benefit the entire county.

OAG 94-15 states, “The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute.”

We recommend the Knox County Fiscal Court discuss the discrimination of health insurance coverage between elected and non-elected county employees with the Knox County Attorney, and follow the advice as expressed in OAG 94-15.

County Judge/Executive’s Response: We disagree. Elected officials are not classified as employees.

Auditor’s Reply: As noted OAG 94-15 states, “The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees.” Accordingly, we believe such differing coverage would not be lawful as not authorized by statute.”

The Knox County Fiscal Court did not follow proper bid laws and regulations: The Knox County Fiscal Court did not follow proper bid laws and regulations regarding the purchase of fuel, road equipment, and computer equipment during Fiscal Year 2020. The fiscal court made two purchases that were required to have been bid or purchased from the state authorized vendor since they exceed the \$20,000 limit however the items were not bid or purchased from the state vendor. The first purchase was for fuel with total expenses for the fiscal year exceeding \$97,000. The second purchase was for two dump trucks with expenses of \$289,844. The third purchase for computer equipment was bid, however the invoice received for the computer equipment that was bid did not agree to the bid proposal price nor was the item delivered actually the one proposed on the bid proposal.

The officials were unaware of the need to bid for fuel since purchases are made for individual vehicles and at various vendors. In addition, the county had made purchases from the same vendor for the dump trucks in prior year so the officials were unaware of the need to bid this item.

By limiting competition or not receiving bids at all, the fiscal court may not get the benefit of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available.

The Knox County Administrative Code, section 4.6 states, “Small Purchase Procedures: A. With prior approval in accordance with the purchase order system (Section 4.7) authorized persons may

purchase for their respective departments or office any supplies, services, ect at a cost of twenty thousand dollars (\$20,000) or less.”

We recommend the fiscal court ensure any purchases over \$20,000 or more are bid in compliance with the county administrative code. In addition, we recommend any invoice for items bid be compared to the actual proposal to ensure items delivered were the one actually bid and to ensure accurate billing.

County Judge/Executive’s Response: These issues have already been corrected.

The jail commissary does not have adequate segregation of duties over receipts and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The jail commissary does not have segregation of duties over receipts and disbursements. The bookkeeper prepares deposits and posts these deposits to the receipts ledger. The bookkeeper also prepares and signs checks, and posts these disbursements to the disbursements ledger. By allowing the same employee to perform all functions relating to receipts and disbursements, the risk increases that undetected errors or fraud could occur.

The jailer indicated that the jail commissary has a small staff size available to segregate duties in the financial processes. Without proper segregation of duties, inaccurate financial reporting or fraud can occur. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business.

We recommend the Knox County Jailer segregate duties over receipts, disbursements, and the bank reconciliation process. If segregation of duties is not feasible due to lack of staff, we recommend the jailer implementing and documenting compensating controls to offset this control deficiency.

Jailer’s Response: We will be looking at different ways to segregate duties. To correct we will assign an extra person to collect receipts and disbursements.

The Knox County Fiscal Court did not present all debt activity in the financial statement: The jail construction fund was not included in the Knox County Fiscal Court’s fourth quarter financial report and also was not included in the fiscal court’s budget that was approved by the Department for Local Government (DLG). The financial activity of the account consisted of \$36,479 in revenues and \$4,798,885 in expenditures, which is material to the fiscal court’s financial statements.

The Knox County Fiscal Court had financing proceeds that went directly from the financial institution to the vendor and were not reported on the financial statement. Since these transactions did not run through the fiscal court’s bank accounts, they were not included in the fiscal court’s budget process or reflected on the fiscal court’s financial report. The fiscal court was not aware the proceeds needed to be reported.

Failure to include the jail construction fund in the financial report caused the financial statement receipts to be understated by \$36,479 and expenditures to be materially understated by \$4,798,885.

In addition, it resulted in a material amount of expenditures being paid by the county without budgeted appropriations.

The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget," page 72 of the manual states, "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not," and page 74 of the manual states, "[a]ny borrowed money that is not reflected in the original budget estimate must be **amended** into the budget and be properly reflected on the financial report as a receipt as well as an "expenditure" for repayment of borrowed funds."

We recommend the Knox County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting. In addition to complying with DLG's financial statement presentation requirements, this will also ensure all line items are properly budgeted or amended as needed.

County Judge/Executive's Response: We agree. We will correct this issue in further projects.

The Knox County Fiscal Court failed to implement internal controls to ensure costs submitted for reimbursement were for eligible expenses not already reimbursed by other entities:

Federal Program: CFDA 21.019 – CARES - Coronavirus Relief Fund For States

Award Number and Year: C187 2020

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

Pass-Through Agency: Commonwealth of Kentucky, Department for Local Government – Office of Grants

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs

Type of Finding: Material Weakness; Material Noncompliance of Major Program

Amount of Questioned Costs: \$55,286

Opinion: Adverse

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 the 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 2020 addendum for U.S. 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 2020, the Knox County Fiscal Court received reimbursements from the CRF for the payroll expenditures that had already been reimbursed by other state and federal grants or other governmental entities.

The Knox 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. Our total sample included 88 disbursements from a universe of 1,176 transactions included in the reimbursement request. The audit sample was selected using a non-statistical method. We then reviewed reimbursements received from other state and federal grants or other governmental entities for payroll expenditures that had also been reimbursed by CRF. The issue noted appears to be isolated to the CRF grant reimbursements.

The deputy county judge/executive stated he 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 other entities.

The fiscal court received reimbursement for payroll expenditures that had already been reimbursed by other entities. 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 § 200.53 states:

- (a) *Improper payment* means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- (b) *Improper payment* includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

Total known questioned costs are \$55,286. Questioned costs were computed by comparing reimbursements received from other state and federal grants or other governmental entities for payroll expenditures to payroll expenditures submitted for reimbursement to the Coronavirus Relief Fund (CRF). During testing, we found the following expenditures included that had already been reimbursed:

- \$3,337 gross wages were reimbursed for court security officers waiting on the court by the Kentucky Finance and Administration Cabinet, County Fee Systems.
- \$21,463 gross wages were reimbursed for law enforcement officers serving as school resource officers by the Knox County Board of Education.
- \$8,640 gross wages, \$2,079 employer's share retirement, and \$1,868 employer's share health insurance were reimbursed for one law enforcement officer who serves as the UNITE intelligence analyst from UNITE grant from the Unlawful Narcotics Investigation, Treatment, and Education, Inc.

- \$6,215 gross wages were reimbursed for overtime for law enforcement officers from High Intensity Drug Trafficking Area (HIDTA) grant from the United State Office of National Drug Control Policy (ONDCP)
- \$10,000 gross wages and \$1,684 employer's share retirement were reimbursed from Kentucky Law Enforcement Foundation Program Fund (KLEFPF).

Not a repeat finding.

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

County Judge/Executive's Response: We agree. This has already been corrected with the Department for Local Government.

The Knox County Fiscal Court failed to implement internal controls to ensure costs submitted for reimbursement occurred after February 29, 2020:

Federal Program: CFDA 21.019 – CARES - Coronavirus Relief Fund For States

Award Number and Year: C187 2020 and C2-091 2020

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

Pass-Through Agency: Commonwealth of Kentucky, Department for Local Government – Office of Grants

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs; Period of Performance

Type of Finding: Material Weakness; Material Noncompliance of Major Program

Amount of Questioned Costs: \$16,866

Opinion: Adverse

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 the 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. During Fiscal Year 2020, the Knox County Fiscal Court received reimbursements from the Coronavirus Relief Fund (CRF) for the expenditures incurred before March 1, 2020.

The Knox County Fiscal Court failed to establish effective internal controls over compliance requirements to ensure expenditures submitted for reimbursement from the CRF were not for work performed prior to March 1, 2020. Our total sample included 88 disbursements from a universe of 1,176 transactions included in the reimbursement request. The audit sample was selected using a non-statistical method. The issue noted appears to be isolated to the CRF grant reimbursements.

The deputy county judge/executive stated he was unaware that some of the payroll expenditures submitted for reimbursement under CRF reimbursement contract were for work performed before March 1, 2020. The fiscal court, sheriff's office, and ambulance service submitted payroll summaries for qualifying employees for March 2020. No one remembered that payroll for March 2020 would include payments for the work performed at the end of February 2020.

The fiscal court received reimbursement for disbursements that occurred prior to March 1, 2020. The fiscal court may be required to repay the questioned costs back to the granting agency.

2 CFR § 200.30 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 § 200.53 states:

- (a) *Improper payment* means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- (b) *Improper payment* includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

42 U.S.C. 601(d)(3)) states that local government shall use the payments from the Coronavirus Relief Fund to cover costs that “were incurred during the period that begins March 1, 2020, and ends on December 31, 2020.”

Total known questioned costs are \$16,866; however, the first pay period included in the reimbursement was for pay period February 23, 2020 through March 7, 2020 which included work performed February 23, 2020 through February 29, 2020. As noted below, we only tested nine of 75 checks written for this pay period; therefore, we are unable to estimate the total amount of reimbursement received for work performed before March 1, 2020. The payroll systems will only run reports by pay period so we were unable to run reports to determine the amount included for work performed before March 1, 2020. During testing, we found the following expenditures incurred before March 1, 2020:

- \$8,759 employer's share retirement was reimbursed for February 2020 for employees of the Knox County Sheriff's office.
- \$841 gross wages and \$202 employer's share retirement were reimbursed for employees of the Knox County Sheriff's office for work performed February 23, 2020 through February 29, 2020. We only tested one of ten checks written for this pay period.
- \$2,589 net wages, \$922 employer's share retirement, and \$293 employer's share FICA were reimbursed for employees of the Knox County Ambulance Service for work performed February 23, 2020 through February 29, 2020. We only tested four of 24 checks written for this pay period

- \$732 net wages, \$176 employer's share retirement, and \$56 employer's share FICA were reimbursed for accumulated leave vacation buyout paid to employee of the Knox County Ambulance Service.
- \$1,428 gross wages, \$119 employer's share retirement, and \$109 employer's share FICA were reimbursed for employees of the Knox County Jail for work performed February 23, 2020 through February 29, 2020. We only tested four of 41 checks written for this pay period
- \$640 cleaning supplies for the jail with invoice dated January 9, 2020. We tested three of 35 invoices for cleaning supplies for the jail and reviewed the dates on 32 invoices not tested. This invoice appears to be an isolated incident.

Not a repeat finding.

We recommend fiscal court strengthen internal controls over federal awards to ensure disbursements have not been reimbursed that were incurred outside the period of the award We also recommend that 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: We agree. This has already been corrected with the Department for Local Government.

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

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