



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Boyle County Fiscal Court for the fiscal year ended June 30, 2022. 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 Boyle 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 findings:

The Boyle County Fiscal Court's fourth quarter report was materially misstated and disbursements exceeded budgeted appropriations: The Boyle County Fiscal Court does not have adequate controls over the reporting and budgeting process. The county's fourth quarter report was materially misstated, and disbursements exceeded approved budget appropriations due to the following:

- The fourth quarter report did not agree to the county's receipts and disbursements ledgers. These errors resulted in numerous and material adjustments to the fund financial statements. There were 14 adjustments to total receipts in the amount of \$14,617,311 and

to total disbursements in the amount of \$9,581,886. These total adjustments are net amounts, and include the specific adjustments detailed in the subsequent bullet points.

- The fiscal court collects occupational tax and net profit tax on behalf of the city of Danville, as their agent, per ordinance. The funds were deposited to and disbursed from the county's occupational tax bank account; however, they were not recorded on the county's receipts and disbursements ledger or fourth quarter report. This resulted in material adjustments to receipts of \$11,746,960 and disbursements in the amount of \$13,517,331.
- The occupational and net profit tax collected for the county is not posted to the county's ledgers when received. It is placed in a separate occupational tax bank account and only posted to the county's ledgers when the funds are transferred to the county's general fund. This resulted in a material adjustment to reduce county occupational tax receipts in the general fund by \$1,770,331.

The county did not have procedures in place to review and ensure receipts and disbursements ledger amounts were accurately reported on the fourth quarter report and that occupational and net profit tax collections and payments to the city of Danville are included in the county's ledgers and fourth quarter report. Occupational and net profit tax should have been posted when received. However, they were not posted to the general fund until they were transferred from the occupational tax bank account. The county's fourth quarter report had significant errors in reporting ledger amounts which resulted in incorrect information being relied upon by those using that report, specifically Department for Local Government (DLG) staff and fiscal court members for fiscal decision making. As a result of not budgeting for the payments to the city of Danville, the general government line item in the general fund financial statement budget to actual schedules was over budget by \$13,176,874. In addition, disbursements of \$200,000 to a fire department were not properly accounted for resulting in line item for protection to persons and property being over budget by \$180,308.

Proper internal controls over the county's reporting and budgeting process are important to ensure accurate financial reporting and disbursement decision making. 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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. DLG procedures per the manual require all receipts collected and disbursed to be reported on the fourth quarter report. Further, KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim."

KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts, and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget."

We recommend the Boyle County Fiscal Court implement procedures to review and ensure that future quarterly reports are accurate and agree to supporting accounting ledger amounts. We also recommend the Boyle County Fiscal Court accurately account for all occupational and net profit tax receipts and disbursements, including the collections for the city of Danville, by posting all receipts when received and disbursements when paid. In addition, it is recommended that all budgeted line items have sufficient funds available prior to posting expenses that exceed available budgeted funds.

County Judge/Executive's Response: Through many years, BCFC has not used disbursement codes for the Tax Administration bank account. After less than two years in this position, [treasurer] followed suit and did not include the numbers, but [treasurer] was told during the FY22 audit that these should be included. These numbers have been taken care of and corrected for the new software. These numbers will appear going forward and will also be added to the FY23 4th Quarter report.

The Boyle County Fiscal Court did not have adequate internal controls over cash transfers:

This is a repeat finding and was included in the prior year audit report as Finding 2021-002. The Boyle County Fiscal Court did not have adequate internal controls over cash transfers. During the review of cash transfers, two transfers totaling \$148,035 were made from the general fund to the joint jail fund in order to cover overdrafts in that fund. Those transfers were not properly approved by the fiscal court. Also, on the fourth quarter report, transfers in and out did not net to zero across funds, and transfers on the disbursements section of the fourth quarter report did not net to zero. The county did not have adequate controls over transfers related to fiscal court approval and reporting them on the fourth quarter report.

The amount recorded on the quarterly financial statement for transfers in and transfers out was inaccurate and the county was not in compliance with requirements set forth by the Department for Local Government (DLG). These reporting errors resulted in significant adjustments to transfers in and out for the general fund, jail fund, E911 fund, and the EMS fund. These adjustments are listed in detail in Finding 2022-001. 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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual states, "All transfers require a court order." Also, strong internal controls dictate that transfers should be reported accurately on the ledgers and fourth quarter report.

We recommend the Boyle County Fiscal Court improve internal controls over monitoring cash transfers made between funds during the fiscal year. This should include procedures such as an employee independent of the financial reporting process review the cash transfer ledgers periodically throughout the year to make sure no unauthorized transfers are being made, ensure all transfers are approved by fiscal court and ensure that all transfers in and out are reported accurately on the ledgers and fourth quarter report.

County Judge/Executive's Response: This office wishes it to be known that the minutes of January 11, 2022 fiscal court meeting indicates a transfer of \$100,000 lowering the total of unaccounted

transfers to \$48,035. As a new Treasurer in office, a transfer to cover a low bank account was mistakenly left off the fiscal court requests. Cash transfers are now written out on a form that includes the amount of transfer and the fund of withdrawal and deposit. These forms are included in the fiscal court packet for Judge and Magistrates to see before court and then signed by Judge Executive after approval. This process has already been in place for over a year and used on a regular basis for tracking.

The Boyle County Fiscal Court did not prepare a capital asset listing for the fiscal year: The county did not prepare a capital asset list for the fiscal year. The capital asset list was not updated in the previous year and the finance officer who worked on the capital asset updates in prior years left during fiscal year ending June 30, 2022. No employee took over maintaining and updating the capital assets list during Fiscal Year 2022. Capital assets for each department were not inventoried and/or verified with department heads for Fiscal Year 2022. When capital asset balances are not maintained and updated the risk that capital assets balances are not reported accurately significantly increases due to potential for additions and deletions to not be accounted for properly. According to the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "An annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented." The Budget and Policy Manual requires the counties to maintain a schedule of additions and retirements or disposals of capital assets in accordance with the county's capitalization policy.

We recommend the fiscal court implement internal controls over capital assets and ensure a complete capital asset schedule is completed per DLG policy.

County Judge/Executive's Response: The last capital asset list was completed for FY20. A thorough inventory of the county property was completed in June 2023 and an updated capital asset listing is in process of being completed along with an inventory list which is in process of being entered into the new software for tracking. The new finance officer is now in charge of monitoring this on a regular basis (as the person who sees purchases and makes payments). The Treasurer also keeps up with the actual capital asset listing and is notified of any changes as they occur. The updated listing is currently being updated at this point.

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

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