



Auditor of Public Accounts Allison Ball

FOR IMMEDIATE RELEASE

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Ball Releases Audit of Breathitt County Fiscal Court

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Breathitt County Fiscal Court for the fiscal year ended June 30, 2023. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Breathitt 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.

The audit contains the following findings:

The Breathitt County Fiscal Court Failed To Implement And Maintain An Effective Internal Control Environment: Significant risks were identified, including failure to maintain sufficient documentation and records, lack of segregation of duties, and management override of controls. Due to the county’s failure to maintain adequate accounting records and other failures noted below, we were unable to perform sufficient audit procedures to overcome the significant risks. Therefore, we cannot issue an opinion on the Breathitt County Fiscal Court’s financial statement and on compliance for each major federal program or give reasonable assurance the financial statement and the schedule of expenditures of federal awards are free from material error or fraud. A disclaimer of opinion will be issued. The Breathitt County Fiscal Court did not provide sufficient oversight for management’s day-to-day financial activities.

We recommend the Breathitt County Fiscal Court provide sufficient management oversight of the day-to-day financial activities of the county. We further recommend the fiscal court improve its overall control environment to ensure sufficient accounting records are maintained. Only with a strong internal control system can the fiscal court prepare and ensure that complete and accurate financial reports are produced, and the county is in compliance with each major federal program’s guidelines. This finding will be referred to the Kentucky Department for Local Government.

County Judge/Executive’s Response: Changes in staffing have been made to provide effective internal control environment.

The Fiscal Court Did Not Maintain Supporting Documentation In The Amount Of \$723,195 Of Occupational Tax Receipts: Per the county’s ordinance, taxpayers are required to send in a tax return to the fiscal court which includes the amount of wages and percentage due to the fiscal court. However, the fiscal court did not maintain these returns. Without this documentation, the amount of taxes due to the fiscal court per the ordinance was unable to be determined correct.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for occupational tax collections and document the procedures performed that ensure recorded amounts are complete, accurate, and free of material misstatement.

County Judge/Executive’s Response: A new Occupational Tax Administrator has been hired.

The County Fiscal Court Failed To Implement Proper Internal Controls Over Disbursements: The fiscal court did not implement adequate procedures and oversight regarding the documentation, preparation, and authorization of disbursements. The follow deficiencies were noted during the testing of disbursements: twenty-eight transactions did not have detailed support for credit card transactions, purchase orders were not issued for disbursements, and an encumbrance list was not maintained.

We recommend the fiscal court implement policies and procedures to ensure disbursements comply with applicable statutes and regulations. Additionally, we recommend the fiscal court incorporate internal controls to monitor that these policies and procedures are operating effectively.

County Judge/Executive's Response: A new treasurer was appointed.

Internal Controls, Review Procedures, And Oversight For Payroll Processing Are Not Adequate: The fiscal court did not implement adequate procedures and oversight regarding the documentation, preparation, and authorization of payroll disbursements. The follow deficiencies were noted during the testing of payroll disbursements: 25 instances of a negative daily balance with the highest negative balance being \$16,290 were noted; the account was not properly reconciled; tax obligations were not paid timely; the county did not approve a current year annual pay rate list; and the county lacks controls over safeguarding assets.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for payroll processing to ensure the completeness and accuracy of all payroll information.

County Judge/Executive's Response: A new treasurer was appointed.

The Breathitt County Fiscal Court Did Not Establish And Maintain Effective Internal Controls Over Compliance With Federal Emergency Management Agency (FEMA) Requirements: The fiscal court uses a third party to handle the transactions, but there are no procedures or review processes in place to ensure compliance requirements are met. The fiscal court does not define, maintain, or periodically evaluate the skills and expertise needed among its members to enable them to ask probing questions of the company managing federal programs and to take commensurate action.

We recommend the fiscal court implement procedures to ensure federal programs are meeting all compliance requirements. Review procedures should be in place to ensure all federal expenditures are allowable and fall within the correct period of performance for each federal program. The fiscal court should have job descriptions for all employees and document significant processes that explain the flow of transactions, controls to address key risk areas, and related reporting responsibilities. The fiscal court should also ensure all employees receive sufficient training in relevant areas.

County Judge/Executive's Response: The county is no longer using a third party to handle FEMA transactions. Effective oversight is now being handled internally, following proper procedures with proper training of staff.

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

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