



## Auditor of Public Accounts Allison Ball

**FOR IMMEDIATE RELEASE**

**Contact: Joy Pidgorodetska Markland**  
[Joy.Markland@ky.gov](mailto:Joy.Markland@ky.gov)  
**502.352.5216**  
**502.209.2867**

### **Ball Releases Audit of Henry County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Allison Ball has released the audit of the financial statements of the Henry 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 statements present fairly the receipts, disbursements, and changes in fund balances of the Henry 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 Henry County Fiscal Court Failed To Provide Adequate Oversight And Proper Segregation Of Duties Over Accounting, Reporting, And Financial Management Practices:** The fiscal court failed to provide management oversight over an extensive number of accounting and reporting functions. Also, there was a lack of segregation of duties with no compensation controls in place. The county treasurer was responsible for collecting and recording receipts, preparing and making deposits, preparing bank reconciliations, signing checks, preparing payroll, and preparing quarterly reports on behalf of the fiscal court. This lack of adequate controls and proper segregation of duties resulted in numerous audit deficiencies.

We recommend the fiscal court implement strong management monitoring and oversight for accounting, financial, and reporting functions due to the overall failure of the internal control structure. The fiscal court should segregate the duties of employees involved in recording receipts and disbursements, preparing payroll, completing bank reconciliations, and preparing financial reports. If segregation of duties is not possible due to limited staff, strong oversight, and compensating controls should be implemented. The employee providing this oversight should document their review by initialing all source documentation.

*County Judge/Executive's Response: Provide better training of financial positions upon hire and continue training for the duration of employment; Establish a deadline for month end balancing (tentative balance date of the 10th of the month) and establish a year-end balance (tentative date by July 10); Make Bank Statements available to reviewer(s) for validation of balanced reporting; and Financial Review Committee to meet quarterly to review financials and discuss in depth existing financials, projections, concerns, etc. **NOTE:** Finding 2022-001 is a repeat finding from FY2019-FY2021 with an implementation date of December 1, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. Administration changes in January of 2023 implemented changes that should be reflected in the FY2023 audit.*

**The Henry County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll:** The Henry County Fiscal Court lacks adequate segregation of duties over payroll. During payroll testing, auditors noted that the February 2022 retirement payment was not posted to the ledger, and the March 2022 retirement payment was incorrectly posted to the health insurance line in the ledger. The same employee who posts payroll disbursements to the ledger also inputs data into the payroll system, reviews it and compares it against timesheets, prints checks, requests funds for payroll from the operating account, signs the payroll checks, and reconciles the revolving payroll account. All of these procedures are done without independent review.

We recommend the Henry County Fiscal Court implement adequate controls over payroll by segregating the duties over the handling payroll. If this is not feasible the county should implement compensating controls, such as an employee not involved in the payroll process should compare payroll data to payroll reports for accuracy. The independent person should then sign off on the payroll reports that this compensating control was completed.

*County Judge/Executive's Response: An updated Payroll Software, [software name redacted], was installed and utilized effective January 1, 2021. Each Payroll will be reviewed and approved separately from the preparer. This process will include timesheet review, gross wages requests and approval, liability withholdings, health insurance withholdings, retirement withholdings, federal and state taxes and include disbursements of appropriate with holdings. NOTE: Finding 2020-009 is a repeat finding from FY2019; 2019-013 with an implementation date of December 31, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. In addition, FY2023 brought an even newer software system; [software names redacted]. Implementation of these software brought additional segregation of funds disbursed for Payroll.*

**The Henry County Treasurer Failed To Properly Deposit, Code, And Record Receipts:** During receipts testing, we noted \$284,907 of receipts that were posted to incorrect receipt account codes and that deposits were routinely not made timely. In November and December 2022, there were only two deposits made for each month. In addition, the county treasurer did not include receipts for the Angels Envy Fund totaling \$18,320 on the quarterly reports.

We recommend the fiscal court strengthen internal controls to ensure receipts are deposited timely, posted, and accounted for appropriately. We also recommend management begin monitoring procedures to ensure internal controls over receipts are operating effectively.

*County Judge/Executive's Response: Require a more meticulous effort to ensure funds are deposited into the correct revenue account line item. Documentation of determination of deposit if in question. Request expense listing issued to Henry County Fiscal Court from state agencies for a receipt reference. NOTE: Finding 2022-014 is a repeat finding from FY2019; 2019-011 with an implementation date of December 1, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. Administration changes in January of 2023 implemented changes that will be reflected in the FY2023 audit.*

**The Henry County Fiscal Court Did Not Properly Reconcile The Revolving Payroll Account:** The payroll revolving account was not properly reconciled to zero monthly. As of June 30, 2022, the book balance in the payroll account was \$29,721, after accounting for all receivables and liabilities. The county treasurer prepared a monthly bank reconciliation, but the reconciliation did not include all liabilities to ensure the proper amounts were transferred from each fund.

We recommend the fiscal court properly reconcile the payroll revolving account to a zero balance monthly. Additionally, we recommend payroll revolving account bank reconciliations be reviewed by an independent employee to verify accuracy.

*County Judge/Executive's Response: Complete a bank reconciliation of the revolving Payroll Account each month. Present reconciliation to an independent co-worker to verify reconciliation. NOTE: Implementation of software [name redacted] will assist in proper recording and documentation of the Payroll Account.*

**The Henry County Fiscal Court Did Not Prepare An Accurate And Complete Fourth Quarter Report:** The Henry County Fiscal Court did not prepare an accurate and complete fourth quarter report. The former treasurer did not properly record transactions for the ARPA Fund, Angels Envy Fund, or CBDG Fund. At the end of the fiscal year, the treasurer only recorded the ending bank balance at fiscal year end and failed to record the activity in these funds. The errors in reporting resulted in material adjustments for the ARPA Fund of \$1,406,016.

We recommend the fiscal court implement strong internal controls over the reporting process and segregate duties to ensure complete and accurate information is submitted to the Department for Local Government as required.

*County Judge/Executive's Response: Resubmission to Department for Local Government if applicable. Appropriate journal entries to correct errors revealed and identified. NOTE: Finding 2020-003 is a repeat finding from FY2019; 2019-003 with an implementation date of December 1, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action.*

**The Henry County Fiscal Court Had Inadequate Internal Controls Over Disbursements And Budget Transfers:** The General Fund had five line-item appropriations in excess of budgeted amounts, and one each for the Road, LGEA, and ABC Funds. This means that funds were spent from line-items that did not have the budget available per the appropriations ledger. Additionally, the Fair Fund had a deficit balance of \$709 and the Federal Grant Fund had a deficit balance of \$32,942.

We recommend fiscal court work to ensure they adhere to DLG's requirements and guidance by utilizing a purchase order system to ensure appropriations do not exceed budgeted amounts and that budget transfers are made when needed. Furthermore, we recommend the county strengthen controls over the disbursements process to ensure compliance with applicable statutes and to provide better oversight to ensure funds are available prior to expenditures being made.

*County Judge/Executive's Response: Establish procedure of requester and grantor for disbursements and budget transfers including but not limited to wireless transfers and bank transfers. Requests, approval of requests and detail of records should be filed in a timely manner. NOTE: Finding 2020-003 is a repeat finding from FY2019; 2019-003 with an implementation date of December 1, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. Administration changes in January of 2023 implemented changes that should be reflected in the FY2023 audit.*

**The Henry County Fiscal Court Lacks Proper Internal Controls Over Cash Transfers:** The county lacks proper internal controls over cash transfers. On June 21, 2022, the court approved a \$226,429 transfer from the Road Fund to the General Fund; however, the actual transfer made by the treasurer was \$124,831. The county treasurer also can make transfers from the general bank account to the payroll bank account without any prior authorization. There is no independent review of the cash transfers.

We recommend the fiscal court approve all transfers as required by DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. Approved transfers should agree with the actual amount per court order. In addition, the county should implement internal control procedures over cash transfers. Any controls pertaining to authorization and/or review of transfers should be done by someone not involved in the process of making the transfer between bank accounts, and transfers should be documented by initials of the reviewer on all documents reviewed.

*County Judge/Executive's Response: Procedure of request, confirmation and approval to be implemented and presented to Fiscal Court during existing monthly procedures. Process is to include date of request, amount, account information for withdraw, account information for deposit, detail information to validate the amount requested and date of completion. Each transfer should be submitted to Fiscal Court during the monthly Claims and Transfer procedure. Original requests including but not limited to deposits, withdraw notices and other bank identifiers must be filed and retained in an orderly and easily acceptable fashion. NOTE: Finding 2020-005 is a repeat finding from FY2019; 2019-005 with an implementation date of December 1, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. Administration changes in January of 2023 implemented changes that should be reflected in the FY2023 audit.*

**The Henry County Fiscal Court Did Not Report Liability Balances On The Fourth Quarter Financial Statement:** The fiscal court did not prepare a liabilities section for the fourth quarter financial statement. Underlying accounting records show the county had outstanding liabilities for two different debt obligations totaling \$19,020,676 including principal and interest, as of June 30, 2022. The fiscal court did not include the liabilities section on their fourth quarter financial report as required by the Department for Local Government.

We recommend the fiscal court implement internal controls to ensure the fourth quarter financial statement includes an accurate liabilities section and all other elements required by the Department for Local Government.

*County Judge/Executive's Response: Resubmission, if need to DLG and/or any other department. Appropriate journal entries to correct errors revealed and identified. Original and duplicate Liability Balances documentation requests must be filed and retained in an orderly and easily acceptable fashion. NOTE: Finding 2022-009 is a repeat finding from FY2019; 2019-006 with an implementation date of December 1, 2021, [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. Administration changes in January of 2023 implemented changes that should be reflected in the FY2023 audit.*

**The Henry County Fiscal Court Did Not Prepare Purchase Orders And Did Not Report Encumbrances On The Fourth Quarter Financial Statement:** There were no purchase orders issued for expenditures tested. In addition, encumbrances were not reported on the fourth quarter financial statement. The county did not issue a purchase order for any expenditure or account for encumbrances on the fourth quarter report. The fiscal court has a policy that allows department heads to order items they need without approval for purchases under \$300. The department heads reviewed and initialed invoices and submitted them to the finance officer. Invoices are entered into the fiscal court's computer system and a claims list is prepared and presented to the fiscal court for approval.

We recommend the fiscal court establish a well planned and executed purchase order system and monitor their budget to ensure expenditures do not exceed budgeted appropriations. In addition, the fiscal court should implement procedures to track and report encumbrances.

*County Judge/Executive's Response: [Software name redacted] software implements a Purchase Order process effective FY 2023. Include encumbrance reports on the 4th Quarter Financials to DLG. NOTE: Finding 2020-016 is a repeat finding from FY2019; 2019-010 with an implementation date of December 1, 2021. [Name redacted], County Treasurer, resigned from employment on July 21, 2022 which inhibits verification of completion and/or implementation of the corrective plan in its entirety and/or partial implementation of the plan of action. Administration changes in January of 2023 implemented changes that should be reflected in the FY2023 audit.*

**The Henry County Fiscal Court Did Not Comply With The County’s Administrative Code Related To Sealed Bidding Procedures:** The fiscal court purchased an ambulance from ARPA funds in the amount of \$160,127, however, they did not follow required bidding procedures as required by the county’s administrative code and state statutes. The fiscal court did not maintain appropriate documentation to substantiate that their procurement policies and procedures were followed. By not following the required documented bid procedures, the fiscal court was not in compliance with procurement policies and procedures. Implementing effective and well documented procedures for bidding ensures expenditures are compliant with local and state requirements and are properly accounted for.

We recommend the fiscal court follow the sealed bidding procedures as outlined in KRS 45A.365 and KRS 424.260. The fiscal court should maintain adequate documentation to support their compliance with bidding procedures.

*County Judge/Executive’s Response: Purchases need to follow the Henry County Administrative Code when purchasing. Update Administrative Code.*

**The Henry County Fiscal Court Is Not In Compliance With Relevant Statutes And Regulations Regarding Alcohol Regulatory Fees:** During testing of alcohol regulatory fees, we noted that the Henry County Fiscal Court did not retain a Calculation Form for Alcohol Regulatory Fees in First Year Following Prohibition pursuant to 804 KAR 10031. Also, it was noted that the rate of the alcohol regulatory fee was not annually set at a rate in compliance with KRS 243.075(4). The Henry County alcohol regulatory fee was set at 6% by local ordinance on February 16, 2016, and has remained the same since. Further, our testing of expenditures from the revenues generated by the imposition of the regulatory license fee found three out of four expenditures tested were not directly related to the sale of alcoholic beverages in the county. These include: (1) a payment of a monthly invoice for a lease on a copy machine that is used by all fiscal court administrative staff, (2) a payment of a monthly invoice for metered postage shared by all fiscal court administrative staff, and (3) a payment for debt service on the purchase of the sheriff’s office building.

We recommend the Henry County Fiscal Court: Consult with the Henry County Attorney to amend their *Ordinance Relating To The Control Of Alcoholic Beverages* to conform to the requirement set forth in KRS 243.075, review state laws related to alcoholic regulatory fees and ensure the license fee rate they are collecting and expenditures related to those receipts align with applicable state law requirements, establish and document an annual review of qualified prior year expenses as specified in 804 KRS 10:031, to set an appropriate alcohol regulatory rate annually, and strengthen internal controls over the expenditure of alcohol regulatory fee receipts to ensure compliance with 804 KAR 10:031.

*County Judge/Executive’s Response: Utilize the Calculation Form for Alcohol Regulatory Fee for Budget reference each year. The 6% Regulatory Fee was set prior to change of KRS 243.075 and allows the continuation of the 6%. Since the expenditures of the ABC Fund justify the 6% regulatory fee, each year since implementation of the Regulatory Fee there has not been a need to reduce the percentage. If there is not a need for the regulatory fee to be reduced or increased the rate would remain the same there is not a requirement to set the rate each year. If no action is taken, the rate would remain the same by default. This process is determined each year when the budget is set. Henry County Fiscal Court understands that if the expenditures are less than the influx of money from the Regulatory Fees that we would, at that time, need to lower the percentage. Our ABC Administrator has been properly educated and attended the training regarding the administration of ABC funds. The funds are being expended appropriately which has been reflected in previous audits. Henry County Fiscal court acknowledges that we could breakdown the expenditure in more details for the auditors; however, in doing so would cause on a hardship on the limited staff dedicated to administering the ABC account.*

Auditor’s Reply: Expenditures from the revenues generated by the imposition of the regulatory license fee should be directly related to the sale of alcoholic beverages in the county and in compliance with 804 KAR 10:031.

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

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