



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Lincoln County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Lincoln 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 Lincoln 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 comments:

The Lincoln County Fiscal Court lacks adequate segregation of duties over receipts and reconciliations: The Lincoln County Fiscal Court lacks adequate segregation of duties over cash, transfers, receipts, payroll, and monthly bank reconciliations. The county treasurer prepares deposit tickets and posts receipts to the receipt's ledger. She also prepares the monthly financial reports, monthly bank reconciliations, and quarterly financial reports. There are no initials to show documentation of review of the bank reconciliations. The quarterly financial reports are provided to the magistrates, but they are not recorded in the fiscal court minutes.

According to the county treasurer and county judge/executive, this condition is a result of a limited budget, which restricts the number of employees the county can hire or delegate duties. The lack

of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If segregation of duties is not feasible due to limited staff or budget, the implementation of compensating controls can reduce the risk that an undetected misstatement could occur.

We recommend the fiscal court and the county judge/executive implement segregation of duties over cash, receipts, bank reconciliations. If this is not possible due to a lack of staff, the fiscal court and county judge/executive can implement compensating controls such as reviewing and initialing daily receipts, deposits, and the monthly bank reconciliations. We also recommend the quarterly reports be included in the fiscal court minutes.

County Judge/Executive's Response: We understand and agree with this evaluation. The staff at the Fiscal Court is limited in number which makes segregation difficult. We will work to re-evaluate and improve controls over receipts and reconciliations.

The Lincoln County Fiscal Court does not have internal controls in place to ensure accurate financial reporting and submission of the schedule of expenditures of federal awards: The Lincoln County Fiscal Court did not have internal controls in place over the schedule of expenditures of federal awards (SEFA) process. The SEFA was not properly reviewed for accuracy and completeness by someone independent of the process of preparing it. In addition, the SEFA was not submitted to the state local finance officer as part of the reporting package as required by the Department for Local Government (DLG).

The county treasurer is solely responsible for the preparation of the SEFA. There is no review process in place. Although the SEFA was prepared for the fiscal year ending June 30, 2022, it was not properly submitted due to an oversight.

A lack of a proper review process could result in accurate reporting of the SEFA, which is used by auditors to determine federal compliance audit requirements.

Management is responsible for designing and implementing internal controls that provide a reasonable assurance regarding the reliability of financial reporting. An important element to the accuracy of the SEFA is having appropriate internal controls over its preparation, review, and submission.

According to the *County Budget Preparation and State Local Finance Officer Policy Manual* issued by DLG, the schedule of expenditures of federal awards is part of the fourth quarter cumulative financial report. This report is required to be submitted to the state local finance officer by the 20th of the month following the close of the quarter ending June 30.

We recommend the fiscal court develop and implement internal controls over the SEFA to ensure accurate financial reporting. We further recommend, the fiscal court submit a schedule of expenditures of federal awards along with the fourth quarter financial report as required.

County Judge/Executive's Response: We understand and agree with this evaluation. A procedure was not in place at the end of fiscal year 2022 for review of the Schedule of Expenditure of Federal Awards, but we will implement an appropriate review for the current year.

The Lincoln County Fiscal Court did not follow proper bidding procedures: The is a repeat finding and was included in the prior year audit report as Finding 2021-001. The Lincoln County Fiscal Court did not approve any road bids for the fiscal year ending June 30, 2022, from the annual open bid request. Bids were opened in a fiscal court meeting but tabled for a later decision. This matter was not reopened for decision by the fiscal court.

The fiscal court has the practice of accepting all bids in order to select a vendor based on their proximity to the work site. Thus, this instance of tabling these annual road bids was out of ordinary for the fiscal court.

By not formally accepting one of the competitive bids, the fiscal court was not in compliance with procurement laws or their administrative code. Furthermore, the county may not have received the best value for services or products provided.

KRS 178.140(1) states, “[a]ll bids for the construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisements and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced. KRS 178.140(2) states, in part, “[t]he contract shall be awarded to the lowest and best bidder[.]”

Per the counties administrative code, “[t]he judge/executive shall open all bids publicly at the time and place stated in the advertisement and shall select the lowest and best bid by a qualified bidder.”

We recommend the fiscal court comply with their administrative code and KRS 178.140 by advertising for bids, opening publicly, and by awarding the bid to the lowest and best bidder.

County Judge/Executive's Response: This issue was corrected in the current year.

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

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