



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Livingston County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Livingston County Fiscal Court for the fiscal year ended June 30, 2021. 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 Livingston 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:

Cash transfers were not properly approved prior to transfer: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. Cash transfers totaling \$927,112 were approved after funds had been spent. Cash transfers were made each month by the treasurer and then approved at the following month's fiscal court meeting.

The treasurer maintains all budgeted funds in one checking account. The treasurer does not book the cash transfers until after the checking account is reconciled at the end of each month. Due to cash transfers occurring before being presented to fiscal court, the county's funds were at an increased risk of being misappropriated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, all transfers require a court order. Thus, court orders are to be obtained prior to cash transfers being made. Additionally, strong internal controls dictate that fiscal court oversee the movement of funds in order to decrease the risk of misappropriation. It is also the responsibility of the fiscal court to make financial decisions, such as transferring cash between funds.

We recommend all cash transfers be presented to, and approved by, the Livingston County Fiscal Court before the transactions occur.

County Judge/Executive's Response: This issue has already been corrected. The Treasurer will continue to utilize new software that will allow her to prepare for cash transfers.

The Livingston County Fiscal Court overspent line items in the general fund and occupational tax fund: This is a repeat finding and was included in the prior year report as Finding 2020-002. The Livingston County Fiscal Court overspent the general fund debt service line item in the amount of \$325,391 and the occupational tax fund debt service line item in the amount of \$31,017. In addition, the Livingston County Fiscal Court approved an original budget that did not include amounts for the federal grant fund expenditures. During the fiscal year, the fiscal court approved a budget amendment for the federal grant fund expenditures of \$892,914. The fourth quarter financial statement was not accurate due to the fiscal court reporting an original budget of \$892,914 and a budget amendment of \$932,914 for the federal grant fund expenditures.

According to the county judge/executive, this error in recording the inaccurate amount budgeted for the federal grant account likely occurred due to a clerical error in which the county treasurer was accounting for the second half of American Rescue Plan Act (ARPA) funds. Line items in the general fund and occupational fund were overspent due to the fiscal court not accounting for the payments on debt made by third party entities. This error could have resulted in the Livingston County Fiscal Court overspending its overall budget. In addition, by overspending certain line items the fiscal court is not in compliance with KRS 68.300.

Strong internal controls dictate that the total available budget reported on the fourth quarter financial statement agree with the original budget and any budget amendments approved by fiscal court to ensure that those monitoring the budget know exactly how much is available when making purchases.

Furthermore, 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 budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend the Livingston County Fiscal Court strengthen internal controls to ensure that the approved budgeted amounts agree with the fourth quarter financial statement. In addition, we recommend the fiscal court accurately budget for the debt service paid by third party entities.

County Judge/Executive's Response: The Treasurer and Fiscal Court will work together to ensure that no funds are overspent by looking over Treasurer's Reports and ensuring adequate amounts of money are transferred where needed before expenditures are made.

Livingston County's schedule of outstanding liabilities as of June 30, 2021 was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2020-003. The Livingston County fiscal court failed to implement internal controls over debt reporting. Livingston County reported outstanding principal of \$10,825,750 and outstanding interest of \$2,612,376 as of June 30, 2021. However, the confirmed outstanding principal was \$10,005,377 and interest was \$2,123,272 as of June 30, 2021. Therefore, the county's schedule of outstanding liabilities was overstated by \$820,373 for principal and \$489,105 for interest. It appears that the schedule may not have been updated from the prior year. According to the county treasurer, this is most likely due to an oversight. Since the county's schedule of outstanding liabilities was materially overstated, the fiscal court was not made aware of the county's future financial obligations in order to make good decisions for operating the county.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires counties to maintain and report accurate financial records including the schedule of outstanding liabilities. Good internal controls include policies and procedures to ensure outstanding debt obligations are complete and accurate.

We recommend the fiscal court implement policies and procedures to ensure the schedule of outstanding liabilities is complete and accurate, including confirming outstanding balances with lenders as of the end of the reporting period.

County Judge/Executive's Response: This issue has been corrected. This was an oversight on the Treasurer's part. It has been resolved by the Treasurer ensuring the Outstanding Liabilities are up to date.

Livingston County failed to account for debt obligations paid on behalf of the county: The Livingston County Fiscal Court failed to implement internal controls over debt reporting and budgeting. Livingston County has entered into several debt agreements to finance projects at other entities. These other entities make the debt payments directly to the lenders on behalf of the county. As such, the county does not budget for or record this activity. During Fiscal Year 2020-2021, debt payments on behalf of the county totaled \$356,408. According to the county judge/executive, this issue has been discussed before, but no actions were taken to address debt payments not being recorded on the county's budget or ledgers.

By not budgeting or recording these transactions the county's financial statement is not fairly stated. Material adjustments have been proposed to the county's financial statement to account for debt payments made on behalf of the county. Strong internal controls dictate that all borrowed money in the county's name should be budgeted and recorded in the county's financial records. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts for all counties and county officials. The *County Budget Preparation and State Local*

Finance Officer Policy Manual outlines minimum requirements for the handling of public funds, including debt service payments and accurate financial statements.

We recommend the fiscal court consider entering into a separate agreement with each entity identifying the terms for these entities to repaid debt obligations. We also recommend that this activity be budgeted and recorded on the county's financial records.

County Judge/Executive's Response: The Treasurer will require submission of proof of payment from the responsible third party the debt obligations are for on a monthly basis. The debt obligation will be factored in to the county budget.

Livingston County did not maintain financial records for the Public Properties Corporation: Livingston County established a Public Properties Corporation (PPC) to account for the issuance of bonds related to the justice center. This organization is considered an unbudgeted fund of the county. However, the county did not maintain any financial records for this fund. During the fiscal year, receipts totaled \$650,526 and disbursements totaled \$650,526. The county was not aware that financial records needed to be maintain since the payments are being made by the Administrative Office of the Courts (AOC). Due to not reporting the activity related to the PPC, material audit adjustments have been proposed to include this activity on the county financial statement.

A financial statement is required to show the total amount collected and received from each individual source and total amount of funds distributed to each individual payee and the purpose for which it was expended. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including debt service payments and accurate financial records. We recommend the fiscal court maintain financial records related to the PPC Fund such as a receipts ledger, disbursements ledger and a financial statement.

County Judge/Executive's Response: This issue has already been corrected. The Treasurer maintains up to date financial records for the public properties corporation.

The Livingston County Fiscal Court failed to implement proper internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2020-004. The Livingston County Fiscal Court failed to implement proper internal controls which resulted in the following issues when testing disbursements:

- Nineteen transactions totaling \$1,152,663 had purchase orders that were issued after the purchase was already made.
- Invoices are not stamped when received therefore eight transactions were not paid within 30 working days of the invoice dates.
- Two instances where finance charges such as late fees were paid on a disbursement.
- One instance where a disbursement was not coded correctly.
- Encumbrances were found to exist at the end of the fiscal year that were not reported.

The fiscal court failed to establish appropriate internal controls over disbursements. The fiscal court's failure to establish effective internal controls over disbursements resulted in the noncompliance with KRS 68.210 and KRS 65.140. These control deficiencies resulted in the encumbrance list being inaccurate. These control deficiencies could also result in line items being over budget, claims being paid not related to the fiscal court, additional fees being charged due to not timely paying, inaccurate reporting, and misappropriation of assets.

Good internal controls dictate that the purchase order system be used correctly to ensure there is sufficient budget for all purchases made. Also, good internal controls dictate that invoices be stamped when received to ensure invoices are paid timely and all encumbrances be included on the encumbrance list. In addition, KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for the handling of public funds, including required purchasing procedures for counties. These requirements prescribe that (1) purchases shall not be made without approval by the Judge/Executive (or designee), and/or a department head, (2) purchase requests shall indicate the proper appropriation account number to which the claim will be posted, and (3) purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. Furthermore KRS 65.140(2) states, in part, "[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]"

We recommend the Livingston County Fiscal Court strengthen their internal controls over disbursements by marking invoices when received to ensure invoices are paid within 30 working days and ensuring that no finance charges are paid on credit card purchases. We also recommend that purchase orders be obtained prior to all disbursements, and that an accurate list of all encumbrances is maintained and reported on the fourth quarter as required by DLG. In addition, all disbursements should be coded accurately.

County Judge/Executive's Response: The Judge/Executive and Finance Officer will work together to ensure that administrative purchase orders are prepared before invoices are received.

The Livingston County Fiscal Court does not have internal controls over receipts: The Livingston County Fiscal Court lacks internal controls over receipts. All cash receipts are held in a safe and deposited approximately once a week, instead of being deposited daily. Also, receipts collected off-site at the convenience center are not turned over to the treasurer daily and detailed daily checkout sheets are not being prepared and maintained. We also noted that receipts are not being documented when they are received by the fiscal court. During testing, 20 occupational tax returns, two net profit returns, and 15 tourism tax returns were found to have not been documented when they were received. In addition, there were 15 instances where monthly tourism tax returns were not documented to have been submitted to the fiscal court, with no documented follow-up on the missing returns. There was also one instance noted in which a company's original tourism tax return was not able to be found.

According to the county treasurer, deposits are not made intact on a daily basis because the bank is located several miles away from the courthouse. Therefore, instead of going to the bank, remote

deposits are made each day but for checks only, while the cash is kept in a safe until someone is able to go to the bank. In addition, receipts collected at the convenience center are not turned over daily, nor are daily checkout sheets prepared, because it is not required by fiscal court. The county treasurer also stated that returns are typically stamped when received, and that these errors were due to an oversight. She also stated that the tourism tax is typically handled by the tourism commission, and that the fiscal court does not handle these funds outside of receiving and depositing the returns.

Because receipts are not deposited intact on a daily basis, the opportunity for the misappropriation or theft of receipts is increased. Furthermore, without returns being stamped when received, the county could be missing receipts, with no follow-up processes in place to determine if all receipts are accounted for. The implementation of proper internal controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Strong internal controls dictate that daily checkout sheets be prepared for receipts collected off-site and that the collections get turned over to the county treasurer and deposited daily. In addition, KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials, as codified as the *County Budget Preparation and State Local Finance Officer Policy Manual*. The county is not in compliance with the manual's requirements for counties' handling of public funds, including making daily deposits to a federally insured banking institution.

We recommend the fiscal court establish appropriate internal controls and oversight over receipts. This includes but is not limited to requiring daily checkout sheets to be prepared for all off-site collections, and for those receipts to be turned over to the county treasurer daily. We also recommend that the fiscal court comply with KRS 68.210 by requiring deposits to be made on a daily basis. Furthermore, we recommend the fiscal court document when all receipts are received, and to follow-up on all missing tourism tax returns.

County Judge/Executive's Response: The Treasurer will ensure that a deposit is taken daily to the bank and that all money is turned into the Judge/Executive's office daily.

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

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