



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Lyon 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 Lyon 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 115 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 comment:

The Lyon County Fiscal Court does not have an adequate purchase order system: The Lyon County Fiscal Court does not have an adequate purchase order system in place. Purchase orders for 20 out of 33 disbursements were not issued until after the invoice was received. The total amount of purchase orders issued after invoice received was \$474,591. Due to the purchase order system not working adequately, the fiscal court did not accurately report encumbrances on the financial statement. According to the finance officer, they were not aware purchase orders had to be issued prior to receiving utility bills. In addition, individuals sometimes make purchases prior to requesting purchase orders. The issues noted above could result in line-items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and

misappropriation of assets. Furthermore, by not tracking encumbrances properly, the fiscal court could exceed cash balances available which could result in negative fund balances.

Strong internal controls require purchase orders be approved and issued prior to items being ordered and expenses being incurred. These controls help ensure that the county will be within budget constraints before any liability is incurred.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for counties' handling of public funds, including required purchasing procedures for counties.

According to a memorandum from DLG dated August 4, 2016, "[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*." Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

KRS 68.360(2) states, "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund[.]"

We recommend the Lyon County Fiscal Court strengthen their purchase order system and internal controls over disbursements by ensuring that purchase orders are issued prior to all purchases being made. We recommend the fiscal court report all unpaid purchase orders as encumbrances at the end of each quarter. We further recommend the fiscal court maintain a list of these encumbrances and not encumber more than the available cash balance in each fund.

County Judge/Executive's Response: Lyon County Fiscal Court implemented our Digital Purchase Order system in FY2020. We pride ourselves on the integrity of this system in that purchase orders (POs) are created in real time through applications available on supervisors' and department heads' phones and computers, and POs are approved based on available funds in the digital system. In fact, POs cannot be created if the system finds insufficient funds available in budget lines. The implementation of this new system necessitated a change for department heads in transitioning from paper POs to digital POs. Understandably, there is a learning curve as department heads are re-trained. POs our finance officer historically completed by hand are now being entered by our department heads. Realistically, from time to time, POs do not get completed in advance of an invoice.

Your audit of our financial records from FY21, one year after the implementation of our new system, indicates that a paving invoice did not have a PO entered in advance of our receiving an invoice. We disagree that this means we do "not have an adequate purchase order system." Our

digital system is far more accurate and real-time than the paper system we historically used. Nonetheless, we do recognize that this is a good opportunity to remind employees about their fiscal responsibility in entering POs and re-train them on the requirements for entering a PO prior to procuring goods or services. To that end, our Treasurer emailed all department heads on January 26, 2022, and she plans to send a follow-up message on the first day of every Fiscal Year. Specifically regarding the paving invoice that did not have a PO entered in FY21, our Finance Officer will now be responsible for entering POs for planned paving at the beginning of each Fiscal year.

Auditor's Reply: An adequate purchase order system would need to be effective and function properly. As there were 20 instances where the purchase order was created after the invoice date, the purchase order system is not functioning in a manner that updates the available budget to spend prior to committing county resources.

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

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