



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Menifee County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Menifee County Fiscal Court for the fiscal year ended June 30, 2020. 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 Menifee 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 Menifee County Fiscal Court did not have effective internal controls, review procedures, and oversight for the budget process:** Several budgetary issues were noted for Fiscal Year 2020:

- It was noted that the federal grant fund was not properly accounted for and budgeted. This grant was received in June 2020 in the amount of \$7,680, but a budget amendment was not completed to include this fund.
- The CDBG fund was included on the original budget for receipts and disbursements totaling \$1,459,000, but this was not reflected on the fourth quarter financial report.

- Budget amendments for jail fund expenditures in the amount of \$11,137 were not included on the fourth quarter financial report.
- Budget amendments for parks fund expenditures in the amount of \$13,517 were not included on the fourth quarter financial report.
- Disbursements exceeded approved budget appropriations for the road fund in the amount of \$60,421 for the roads category.
- Disbursements exceeded approved budget appropriations for the nursing home sinking fund in the amount of \$201,375 for the debt service category and \$7,153 for the administration category.

The fiscal court did not have effective internal controls, review procedures, and oversight for the budget process. Additionally, failure to properly reflect lease proceeds and asset purchases contributed to actual appropriations exceeding budgeted appropriations as further discussed in Finding 2020-002.

Inadequate controls over the budget process resulted in the undetected errors noted above. Additionally, the fiscal court is not in compliance with statutes regarding budget preparation and budget amendments. Furthermore, the fiscal court relies on information presented in the quarterly financial reports and inaccurate information could lead to improper decision making.

KRS 68.210 states, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures. The fourth quarter financial report must agree to the original budget and budget amendments submitted to and approved by the Department for Local Government (DLG).

Regarding budget amendments, KRS 68.280 states, “[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget.” Budget amendments should be prepared when unanticipated revenues are received so that the funds can be expended without consequence.

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 within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim.”

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all budgeted amounts reflected on the fourth quarter financial report are complete and accurate and agree to the original budget and budget amendments and that all funds

be budgeted in accordance with KRS 68.210 and KRS 68.300. Further, we recommend timely budget amendments be submitted for unanticipated receipts.

*County Judge/Executive's Response: Help America to Vote money of \$7,680 was given by County Clerk to Fiscal Court on June 29, 2020; therefore, there was not adequate time to complete a budget amendment. This amount was amended into year ending 2021 budget as a prior year carryover amount.*

*No activity occurred in the CDBG fund with a budgeted amount of \$1,459,000; however, it was discovered that a software question was answered incorrectly for it to be left off the 4<sup>th</sup> Quarter Financial Report. This also occurred for Jail and Park Fund budget amendment items. I will make sure all questions are appropriately answered on software when amending budget.*

*Debt service categories for every fund will be reviewed and appropriately budgeted when feasible.*

**The Menifee County Fiscal Court did not properly account for lease proceeds and debt payments on the county's financial statement:** The Menifee County Fiscal Court entered into three lease agreements to purchase vehicles for the road department during the year ending June 30, 2020. The county entered into three leases for a Ford F-150 truck, Ford F-650 truck, and a Ford F-350 truck with the leases' proceeds totaling \$166,365. These lease payments were not paid from a debt service account code. The county did have the outstanding amount of debt on the liabilities section of their quarterly report but failed to post the amounts on the receipts and disbursements ledger for the lease proceeds and subsequent purchase of equipment.

While the county was aware that they needed to record the outstanding debt amount on the liabilities section of their quarterly report, the county was not aware that they needed to book the lease proceeds on their financial statement since the money went directly to the vendor and did not run directly through the county's bank accounts. Further, the county did not have adequate controls in place to ensure these transactions were reflected in the county's financial statements.

The three truck payments were posted to an equipment account code on the quarterly reports submitted to the Department for Local Government (DLG). The quarterly report receipts were understated by \$166,365 and the corresponding expenditures for the purchase were understated by the same amount. The county did not budget for these transactions and several categories of appropriations exceeded approved budgeted amounts due to these errors as noted in Finding 2020-001.

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 financial activity, including transactions through a third party, must be recorded on the county's financial statements.

We recommend that the county ensure all lease transactions are accurately posted on the county's quarterly report in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

*County Judge/Executive's Response: All future debts will be coded from the appropriate debt appropriation codes.*

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

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