



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

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, 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 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 findings:

The fourth quarter financial report was materially misstated: The fourth quarter financial report, which serves as the county's year-end financial statement, was materially misstated. Adjustments and reclassifications were necessary to record and classify transactions properly.

- In order for the financial statement to accurately reflect receipts, the following adjustments and reclassifications were necessary:
 - General Fund – (1) Reclassify a transfer from transfers out that was not a true transfer in the amount of \$335,689, (2) Post financing obligation proceeds for the Kentucky Council of Area Development Districts (KADD) lease refinance in the amount of \$409,568, (3) Reclassify the interlocal agreement proceeds of \$113,259 to prior year

- carryover and interest, (4) Post inter-local agreement proceeds of \$17,500 not on financial statement and, (5) Remove transfers that were repaid to the road fund from transfers in and out in the amount of \$350,000.
- Road Fund – (1) Post financing obligation proceeds for a truck purchased in the amount of \$47,772, (2) Reclassify a transfer from transfers in that was not a true transfer in the amount of \$335,689, and (3) Remove transfers that were repaid to the general fund from transfers in and out in the amount of \$350,000.
- Likewise, adjustments and reclassifications were necessary for disbursements to be recorded and classified correctly on the financial statement as follows:
 - General Fund – (1) Post the KADD refinance to debt service and applicable fees to administration totaling \$409,568.
 - Road Fund – Post the purchase of 2021 F-350 Truck in the amount of \$47,772 and reclass lease payment in the amount of \$18,750.

The county did not have adequate internal control, oversight, and review procedures in place to ensure financial activity was accurately recorded and reported in accordance with the uniform system of accounts as required.

Consequently, errors and misstatements occurred and were undetected resulting in the financial statement being materially misstated. Inaccurate financial reporting is problematic because the commissioners and county judge/executive rely on financial data presented to them to be complete and accurate in order to make prudent financial decisions on behalf of the county and taxpayers. Furthermore, external organizations may use and rely on financial information reported by the county so accurate financial reporting should be a priority.

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 officials to submit quarterly reports to the Department for Local Government (DLG) by the 20th day following the close of each quarter. The uniform system of accounts has specific requirements on how to record various types of transactions for different funds and fund types. The most basic requirement of the uniform system of accounts is that all transactions are recorded and classified correctly.

We recommend the county treasurer thoroughly examine each account line item on the quarterly report to ensure items were posted properly. Each adjustment made by auditors has been presented to and reviewed with the county treasurer. We recommend the county treasurer use these adjustments as guidance when preparing future financial statements. In addition, we recommend the fiscal court establish adequate internal controls, oversight, and review procedures to ensure that all financial data is completely and accurately recorded and reported.

County Judge/Executive's Response: We will make sure all debts are properly recorded.

The fiscal court did not properly budget for and record all debt-related disbursements: The fiscal court did not comply with reporting requirements for debt bearing the fiscal court's name, which caused the budget appropriated for a line item in both the general and road funds to be in excess of the amount appropriated. These transactions did not run through the fiscal court's bank

account, and were not included in the budget process, or reflected on the fiscal court's 4th quarter financial report.

As a result, the fiscal court failed to properly budget for and record the debt-related disbursement in the general fund of \$409,568 that resulted in appropriations in excess of budget in the debt service category by \$399,542. In addition, the fiscal court failed to properly budget for and record the debt-related disbursement in the road fund for a truck in the amount of \$47,772 that resulted in appropriations in excess of budget in the roads category by \$26,918. These occurrences resulted in the liabilities information not accurately being presented to management, regulatory agencies, and other users of the information. Also, adjustments to include this activity on the 4th quarter financial report resulted in county appropriations exceeding the approved budget.

KRS 68.300 states, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.280 gives fiscal courts through the state local finance officer, the ability to amend the budget when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded.

We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements.

County Judge/Executive's Response: We will make sure all debts are properly recorded.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

