



**Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Morgan 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 Morgan County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

We were engaged to audit the Statement of Receipts, Disbursements, and Changes in Fund Balances- Regulatory Basis of the Morgan County Fiscal Court, for the year ended June 30, 2022, and the related notes to the financial statement.

We do not express an opinion on the accompanying financial statements of the Morgan County Fiscal Court. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

We were not engaged as auditors of the Morgan County Real Properties I and II Corporation Funds and we were unable to obtain audited financial statements to support the Morgan County Real Properties I and II Corporation Funds at June 30, 2022. The Morgan County Real Properties I and II Corporation Funds are part of the Morgan County Fiscal Court's reporting entity. The omission of the Morgan County Real Properties I and II Corporation Funds are considered material omissions of the Morgan County Fiscal Court's financial statement. The significance of this issue prevents us from expressing an opinion on the financial statement of Morgan County, Kentucky.

Findings 2 and 6 of the audit report will be referred to the Department for Local Government (DLG) for further review.

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 Morgan County Fiscal Court failed to implement adequate controls regarding oversight and review of daily functions:** The fiscal court and management failed to establish adequate internal controls, oversight, and review procedures for material financial processes. The fiscal court has numerous internal control and noncompliance issues that are discussed in detail in the following findings that result in significant errors, misstatements, and violations of statutes.

- Annual financial statements were not prepared for the Real Properties I and Real Properties II corporations and the fiscal court failed to obtain an audit of these corporations (see Finding 2022-002).
- Fourth quarter report and the (SEFA) schedule of expenditures of federal awards were not submitted timely to the Department for Local Government (DLG) as required.
- Bank reconciliations were not completed monthly for all bank accounts (see Finding 2022-003).
- Interfund transfers were not approved in advance (see Finding 2022-004).
- No financial statements or reconciliations were prepared for the justice center corporation fund (see Finding 2022-005).
- Debt obligations were not properly reported on the fourth quarter report (see Finding 2022-006).
- Internal controls over disbursements were not adequate (see Finding 2022-007).
- Competitive bidding policies and procedures were not adequate (see Finding 2022-008).
- Internal controls over off-site receipts were not adequate (see Finding 2022-009).
- Payroll processing was not adequate, retirement and withholdings were not paid timely (see Finding 2022-010).
- Capital asset schedule has not been updated since 2018.

Management was aware of noncompliance issues reported in previous audit reports. Management failed to implement effective corrective action procedures to ensure these issues did not continue. The lack of corrective action resulted in repeat findings and numerous significant issues. Failure to establish adequate controls, oversight, and review procedures increases the risk that undetected fraud or other errors will occur. The lack of adequate management oversight provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

It is the fiscal court and management's responsibility to ensure adequate internal controls and procedures are in place to ensure complete and accurate financial reporting and to ensure taxpayers' resources are used efficiently, effectively, and for intended purposes. There are numerous statutes and requirements outlined in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* that govern county operations and are detailed in the current year findings.

We recommend the fiscal court and management review all current year findings and determine adequate corrective action to ensure the issues will be corrected timely. Further, we recommend the fiscal court strengthen controls over daily work by providing a strong oversight and review process to ensure all financial activity is complete and accurate and is properly recorded and classified. Procedures should also be implemented to ensure compliance with applicable statutes, regulations, and policies.

*Former County Judge/Executive's Response: Adequate controls regarding oversight and review of daily functions is an issue that has been ongoing. Due to limited staffing and the brief time between completed audits all deficiencies have not had appropriate time to complete/reflect all changes necessary to remedy the finding.*

**The Morgan County Fiscal Court does not have internal controls over the Real Properties I and Real Properties II Corporations:** This is a repeat finding and was included in the prior year audit report as Finding 2021-002. The county does not have internal controls over the Morgan County Real Properties I, Inc. and Morgan County Real Properties II, Inc. The Real Properties I Corporation was created for the sole purpose of constructing and equipping the health and wellness center and repairing the old Morgan County courthouse for the benefit of Morgan County after the tornado on March 2, 2012. The Real Properties II Corporation was created for the sole purpose of constructing the Morgan County Cooperative Extension Service building, the Morgan County transit station and parking garage, and repairing the Morgan County Community Center for the benefit of Morgan County after the tornado on March 2, 2012.

The Morgan County Fiscal Court did not ensure annual financial statements were prepared for the Real Properties I and Real Properties II corporations. The Morgan County Fiscal Court also failed to obtain an audit of these corporations. We were not engaged as auditors of these corporations and were told that a private firm was conducting these audits. However, as of the date of this report, we have not been provided any documentation that an audit has been performed.

This is caused by a lack of knowledge by county personnel on the activity of these corporations. They have a complex structure and the personnel responsible for the financial statements did not have the knowledge necessary to prepare them. As a result, the Real Properties I and Real Properties II corporations have not been audited. These are significant components of the Morgan County Fiscal Court and therefore we have disclaimed an opinion on the financial statement for the year ending June 30, 2022. Good internal controls dictate that financial statements are timely prepared and audited.

We recommend management of the Morgan County Real Properties I, Inc. and Morgan County Real Properties II, Inc. ensure that financial statements are prepared timely and audited as required. This matter will be referred to the Department for Local Government.

*Former County Judge/Executive's Response: Real Properties I and II is currently in the closing process.*

**The Morgan County Fiscal Court does not have internal controls over bank reconciliations:** This is a repeat finding and was included in the prior year audit report as Finding 2021-003. Bank

reconciliations presented to the fiscal court were not accurate and treasurer did not complete monthly reconciliations for all bank accounts including consolidated, payroll, rebuild Morgan County, and Public Properties Corporation. Bank reconciliations that were completed did not appear to have any review by a second party for accuracy.

The county did not have controls in place to ensure that bank reconciliations were completed monthly for all accounts and those that were completed were reviewed by a second party for accuracy. Mistakes could occur and not be corrected in a timely manner. Good internal controls dictate bank reconciliations should be completed monthly for all bank accounts and should reconcile to supporting financial information. A person independent of the posting and reconciliation process should review the reconciliation and original bank statement.

KRS 68.360(1) states, in part, “[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made[.]” KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires reconciliations to be made monthly to ensure accuracy.

We recommend the fiscal court determine appropriate internal controls to ensure that reconciliations are performed and they are reviewed by a second party.

*Former County Judge/Executive’s Response: Due to limited staffing and the brief time between completed audits all deficiencies have not had appropriate time to complete/reflect all changes necessary to remedy the finding. Moving forward all bank reconciliations will be reviewed in a timely manner.*

**The Morgan County Fiscal Court did not approve interfund transfers in advance:** The Morgan County Fiscal Court did not have all fund transfers approved by the fiscal court before executing the transfer. On two separate dates, a total of five interfund transfers totaling \$1,353,337 were executed before receiving approval of the fiscal court.

The lack of oversight over interfund transfers resulted in unauthorized transfers. Without proper oversight and approval from the fiscal court, undetected misappropriation and fraud could occur. When cash transfers are made without approval of the fiscal court, money can be moved between funds to cover disbursements without the knowledge of fiscal court. The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, “[a]ll transfers require a court order.”

We recommend the fiscal court require all interfund transfers be approved by the fiscal court prior to the transfer being made.

*Former County Judge/Executive’s Response: Due to the brief time between completed audits all deficiencies have not had appropriate time to complete/reflect all changes necessary to remedy the finding. All budget transfers will be approved in advance moving forward.*

**The Morgan County Fiscal Court did not establish adequate controls over the Justice Center Corporation Fund:** This is a repeat finding and was included in the prior year audit report as Finding 2021-004. The fiscal court did not maintain adequate controls over the justice center corporation fund. No financial statements were prepared for this fund and no information regarding the activity in this fund was submitted to the fiscal court for review. Also, the county's debt schedule presented with the fourth quarter report (which serves as the year-end financial statement) did not report debt obligations of the Morgan County Justice Center Bonds, resulting in an understatement of debt of \$9,040,675.

The treasurer was unaware she had to prepare a financial statement for the justice center corporation fund. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds. This could result in undetected fraud, errors, and misstatements. Also, not presenting all debt that the county has outstanding does not give users of the county's financial information a true picture of the county's financial well-being. The fiscal court is financially accountable and legally obligated for the justice center corporation fund. The fiscal court should establish adequate controls over these funds so that proper records are maintained, and complete and accurate information is available for review.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts, set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all county debt be reflected properly on the quarterly financial statement.

We recommend the county treasurer reconcile these accounts and prepare a financial statement for the justice center corporation fund and include all debt of the county on the quarterly financial statement as required.

*Former County Judge/Executive's Response: Due to limited staffing and the brief time between completed audits all deficiencies have not had appropriate time to complete/reflect all changes necessary to remedy the finding. Adequate controls will be implemented moving forward.*

**The Morgan County Fiscal Court did not accurately report debt on the quarterly financial statement:** This is a repeat finding and was included in prior year audit report as Finding 2021-005. The debt schedule presented with the fourth quarter report (which serves as the year-end financial statement) inaccurately reported debt obligations. The quarterly report understated the total debt principal and interest balance for the Morgan County bonds by \$9,128,101 and \$806,036, respectively.

The fiscal court does not have controls in place to ensure that debt obligations are properly reported on the fourth quarter report. By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, the fiscal court does not have accurate information on which to base financial decisions. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement.

We recommend the county ensure that the correct amounts are shown on all financial statements presented to the public and the Department for Local Government (DLG). We further recommend the county review all aspects of the quarterly reports before signing and submitting. This matter will be referred to DLG.

*Former County Judge/Executive's Response: This has been corrected.*

**The Morgan County Fiscal Court did not have adequate internal controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2021-006. Internal controls over disbursements were not operating as intended. Proper procedures for disbursements were not followed to ensure payments were accurate and timely. Taxpayer monies were not properly spent due to late fees and state taxes being paid.

The deficiencies listed below were able to occur due to a lack of monitoring of controls and diminished effectiveness of the controls put in place over expenditures by the fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets. As a result, the following exceptions were noted:

- Ten invoices totaling \$1,647,413 were not paid within 30 days.
- One disbursement totaling \$165 did not have documentation of approval by the fiscal court.
- Two invoices included sales tax in the amount of \$23.
- Three instances occurred where a single purchase order was issued to make multiple purchases occurring over a period of time.
- Encumbrances were not reported on the fourth quarter report.
- One check for \$2,259 did not include dual signatures.
- Two invoices totaling \$14,894 were paid as a standing order under repairs and maintenance; however, these were not recurring charges.

KRS 65.140(2) states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires the fiscal court to submit a quarterly report to the state local finance officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all receipts to date, transfers, borrowed money as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. This report should also include encumbrances.

Strong internal controls dictate that there be procedures in place to make sure payments are being made on time, and finance charges and sales tax are not being charged. Pursuant to KRS 68.275(3), “[t]he fiscal court may adopt an order, called a standing order, to pre-approve the payment of recurrent monthly payroll and utility expenses. No other expenses shall be pre-approved pursuant to this subsection without the written consent of the state local finance officer[.]”

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

*Former County Judge/Executive’s Response: Due to limited staffing and the brief time between completed audits all deficiencies have not had appropriate time to complete/reflect all changes necessary to remedy the finding. Moving forward this has been corrected.*

**The Morgan County Fiscal Court did not follow competitive bidding requirements:** This is a repeat finding and was included in the prior year audit report as Finding 2021-007. The fiscal court did not follow competitive bidding requirements for asphalt in the amount of \$643,214 and rock in the amount of \$711,498. These purchases were from three different vendors instead of selecting the lowest and/or best by a qualified bidder.

The fiscal court and management failed to follow procedures outlined in the county’s administrative code that outline provisions for bidding. The fiscal court and management did not have adequate oversight and review procedures in place to ensure competitive bidding policies and procedures were followed. The fiscal court is in violation of its administrative code and statutes for competitive bidding.

Competitive bidding ensures that the fiscal court procures materials and services at the best price available. KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for: (a) Materials; (b) Supplies except for perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

In addition, page 125, section 4.02 B of the Morgan County Fiscal Court Administrative Code states, “The County Judge/Executive shall open all bids publicly at the time and place stated in the advertisement and shall select the lowest and/or best bid by a qualified bidder. If the lowest bid is not selected, the reasons for the selections shall be stated in writing.”

We recommend the fiscal court and management abide by the competitive bidding requirements outlined in the county’s administrative code and KRS 424.260(1). We recommend adequate oversight procedures be implemented to ensure this process is followed for any purchases of like type items that exceed \$30,000 during the fiscal year.

*Former County Judge/Executive's Response: The Fiscal Court did not follow competitive bidding requirements because two bids were accepted. This decision was made in the interest of Morgan County and was done this way to ensure services required to function could be performed. This was a bid for the procurement of rock.*

Auditor's Reply: Fiscal Court actions do not supersede KRS 424 and the county's own administrative code.

**The Morgan County Fiscal Court lacks adequate internal controls over off-site receipts:** Our review of the receipts process for the off-site locations which includes the transfer station, wellness center, and bowling alley revealed weaknesses in internal controls that should be addressed. No cash receipts were included with daily checkout sheets and deposits were not always made daily. The same person collecting money at these locations takes the money to the bank then the deposit receipt is taken to the fiscal court's office to record to the receipt's ledgers. The transfer station only has a calculator tape to back up cash taken in for the day and the wellness center and bowling alley turn in daily checkouts to the treasurer to input into the system without receipts attached, so there is no documentation to determine if information on the sheets is correct to record.

The fiscal court and management failed to implement effective internal controls, review procedures, and oversight for offsite collections, especially as it relates to cash receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected.

Strong internal controls require three-part receipts be maintained for all revenues. All receipt numbers should be accounted for and compared to the total listing of receipts to ensure completeness. Deposits should agree to the batched receipts for cash and check totals. The amounts collected should be accurately reflected in the receipt's ledger. Cash collected should be recounted by at least two people, with each signing and agreeing to the amount collected.

Further guidance on issuance of receipts can be found in KRS 64.840, which states, in part "(1)...all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid: (a) In cash; (b) By a party appearing in person to pay; or (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt. (2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit."

We recommend the fiscal court establish effective internal control procedures to ensure all revenues are adequately documented, recorded, and deposited. We recommend the fiscal court comply with KRS 64.840 regarding receipts and ensure that these records are maintained for an appropriate time period.

*Former County Judge/Executive's Response: Due to the brief time between completed audits all deficiencies have not had appropriate time to complete/reflect all changes necessary to remedy the finding. This has been on ongoing issue.*



**Internal controls, review procedures, and oversight for payroll processing are not adequate:**

This is a repeat finding and was included in the prior year audit report as Finding 2021-008. The following issues were noted for payroll processing:

- Twenty-eight timesheets were not signed by a supervisor.
- The payroll revolving account was not reconciled to zero on a monthly basis. As of June 30, 2022, the reconciled balance was \$106,671.
- All payroll withholdings should be paid out of the payroll account instead of the general fund. The funds for the payroll withholdings are being transferred from the general fund to the payroll account. However, instead of the withholdings being paid out of the payroll account, they are paid out of the general fund instead. Also, withholdings are being paid late.
- A 1099 was not issued for compensation paid to the treasurer for monthly bookkeeping expenses from Rebuild Morgan County in the amount of \$6,000.
- Eight months for retirement reports were paid late resulting in fines of \$8,000.

The fiscal court failed to adequately assess the risk associated with payroll processing and failed to implement adequate internal controls regarding the documentation, preparation, and authorization of payroll.

Employee hours worked could not be substantiated because the county failed to maintain signed timesheets. Since the payroll account has not been reconciled to zero there could be monies in the payroll account which belong to other funds of the fiscal court and failure to pay accurate amounts to County Employees Retirement System (CERS) timely can result in penalties and interest charges, which are not an efficient use of taxpayer resources.

KRS 337.320(1) states, in part, “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee[.]” Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance.

KRS 78.625(2) states, “[t]he agency reporting official of the county shall file the following at the retirement office on or before the tenth day of the month following the period being reported: (a) The employee and employer contributions required under KRS 78.610 and 78.635; (b) The employer contributions and reimbursements for retiree health insurance premiums required under KRS 78.5540; and (c) A record of all contributions to the system on the forms prescribed by the systems.” KRS 78.625(3) states, “(a) If the agency reporting official fails to file at the retirement office all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars (\$1,000), may be added to the amount due the system. (b) Delinquent contributions, with interest at the rate adopted by the board compounded annually, or penalties may be recovered by action in the Franklin Circuit Court against the county liable or may, at the request of the board, be deducted from any other moneys payable to the county by any department or agency of the state.” KRS 78.625(4) states, “[i]f an agency is delinquent in the payment of contributions due in accordance with any of the provisions

of KRS 78.510 to 78.852, refunds and retirement allowance payments to members of this agency may be suspended until the delinquent contributions, with interest at the rate adopted by the board compounded annually, or penalties have been paid to the system.”

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for payroll processing to ensure the completeness and accuracy of all payroll information.

*Former County Judge/Executive’s Response: Changes have been made.*

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

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