

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2022**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Mack McGehee, Muhlenberg County Judge/Executive

The Honorable Curtis McGehee, Former Muhlenberg County Judge/Executive

Members of the Muhlenberg County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis of the Muhlenberg County Fiscal Court, for the year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the Muhlenberg County Fiscal Court's financial statement as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompany financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and changes in fund balances – regulatory basis of the Muhlenberg County Fiscal Court, for the year ended June 30, 2022, in accordance with accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Muhlenberg County Fiscal Court, for the year ended June 30, 2022, or the changes in financial position and cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Fiscal Court Audit Guide* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Muhlenberg County Fiscal Court and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Muhlenberg County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statement

Muhlenberg County Fiscal Court's management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Muhlenberg County Fiscal Court's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Muhlenberg County Fiscal Court's ability to continue as a going concern for a reasonable period of time.

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Members of the Muhlenberg County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Muhlenberg County Fiscal Court. The Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

Other Information

Management is responsible for the other information included in this report. The other information is comprised of the schedule of capital assets but does not include the financial statement and our auditor's report thereon. Our opinions on the financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2023, on our consideration of the Muhlenberg County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Muhlenberg County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the Schedule of Findings and Questioned Costs included herein, which discusses the following report findings:

- 2022-001 The Muhlenberg County Fiscal Court Failed to Implement Internal Controls Over The Schedule Of Expenditures Of Federal Awards
- 2022-002 The Muhlenberg County Fiscal Court Does Not Have Adequate Controls Over Disbursements And Procurement Processes
- 2022-003 The Muhlenberg County Jailer Does Not Have Internal Controls Over Commissary Reporting
- 2022-004 The Muhlenberg County Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Functions And Financial Reporting
- 2022-005 The Muhlenberg County Treasurer Failed To Properly Reconcile The Payroll Revolving Account
- 2022-006 The Muhlenberg County Fiscal Court Did Not Establish And Maintain Effective Internal Controls Over Compliance With Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Requirements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

June 9, 2023

MUHLENBERG COUNTY OFFICIALS**For The Year Ended June 30, 2022****Fiscal Court Members:**

Curtis McGehee	County Judge/Executive
Malcolm West	Magistrate
Darrin Benton	Magistrate
Ross Jones	Magistrate
Keith Phillips	Magistrate
Andrew Bullock	Magistrate

Other Elected Officials:

Ryan Rice	County Attorney
Terry Nunley	Jailer
Crystal Smith	County Clerk
Camron Laycock	Circuit Court Clerk
William Ward	Sheriff
Belinda McKinney	Property Valuation Administrator
Larry Vincent	Coroner

Appointed Personnel:

Charles Lewis	County Treasurer
Holli Walters	Chief Financial Officer
Laura Montgomery	Deputy Judge/Executive

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MUHLENBERG COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2022

MUHLENBERG COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2022

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 2,899,905	\$	\$
In Lieu Tax Payments	2,402,898		
Excess Fees	1,881,281		
Licenses and Permits	53,286		
Intergovernmental	1,510,867	2,618,374	2,196,689
Charges for Services	370,612		6,050
Miscellaneous	1,430,013	712,675	366,601
Interest	731		
Total Receipts	<u>10,549,593</u>	<u>3,331,049</u>	<u>2,569,340</u>
DISBURSEMENTS			
General Government	4,031,411		
Protection to Persons and Property	1,161,750		3,066,456
General Health and Sanitation	2,056,573		
Social Services	185,647		
Recreation and Culture	425,457		
Roads		2,782,653	
Debt Service	303,222	633,635	542,250
Capital Projects	241,093		
Administration	2,379,563	279,000	850,583
Total Disbursements	<u>10,784,716</u>	<u>3,695,288</u>	<u>4,459,289</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(235,123)</u>	<u>(364,239)</u>	<u>(1,889,949)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	136,582		
Borrowed Money	1,043,000	611,576	
Bond Discount	(41,666)		
Transfers From Other Funds	1,356,255		1,825,000
Transfers To Other Funds	(1,835,000)		
Total Other Adjustments to Cash (Uses)	<u>659,171</u>	<u>611,576</u>	<u>1,825,000</u>
Net Change in Fund Balance	424,048	247,337	(64,949)
Fund Balance - Beginning (Restated)	<u>3,370,546</u>	<u>40,492</u>	<u>117,150</u>
Fund Balance - Ending	<u>\$ 3,794,594</u>	<u>\$ 287,829</u>	<u>\$ 52,201</u>
Composition of Fund Balance			
Bank Balance	\$ 4,018,202	\$ 333,518	\$ 62,921
Plus: Deposits In Transit			
Less: Outstanding Checks	(395,190)	(45,689)	(10,720)
Certificates of Deposit	35,000		
Payroll Revolving Account	136,582		
Fund Balance - Ending	<u>\$ 3,794,594</u>	<u>\$ 287,829</u>	<u>\$ 52,201</u>

The accompanying notes are an integral part of the financial statement.

MUHLENBERG COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2022
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Pennyrile Narcotics Fund	Economic Assistance Fund	Local Government Economic Development Fund	Tourism Fund
\$	\$	\$	\$	\$ 111,859
933,016	326,683		381,385	
66	3	287	38	12
933,082	326,686	287	381,423	111,871
197,000				
507,761				
	355,112			84,004
704,761	355,112			84,004
228,321	(28,426)	287	381,423	27,867
	10,000			
	(10,000)	(1,346,255)		
		(1,346,255)		
228,321	(28,426)	(1,345,968)	381,423	27,867
312,423	39,782	2,973,982	305,337	132,548
\$ 540,744	\$ 11,356	\$ 1,628,014	\$ 686,760	\$ 160,415
\$ 540,744	\$ 13,246	\$ 1,628,014	\$ 686,760	\$ 160,415
	(1,890)			
\$ 540,744	\$ 11,356	\$ 1,628,014	\$ 686,760	\$ 160,415

The accompanying notes are an integral part of the financial statement.

MUHLENBERG COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2022
(Continued)

	<u>Unbudgeted Funds</u>		
	Justice Center Corporation Fund	Jail Commissary Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 3,011,764
In Lieu Tax Payments			2,402,898
Excess Fees			1,881,281
Licenses and Permits			53,286
Intergovernmental	510,163		8,477,177
Charges for Services			376,662
Miscellaneous		550,911	3,060,200
Interest	1		1,138
Total Receipts	<u>510,164</u>	<u>550,911</u>	<u>19,264,406</u>
DISBURSEMENTS			
General Government			4,031,411
Protection to Persons and Property			4,425,206
General Health and Sanitation			2,056,573
Social Services			185,647
Recreation and Culture		552,744	978,201
Roads			3,290,414
Debt Service	510,163		1,989,270
Capital Projects			241,093
Administration			3,948,262
Total Disbursements	<u>510,163</u>	<u>552,744</u>	<u>21,146,077</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1</u>	<u>(1,833)</u>	<u>(1,881,671)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account			136,582
Borrowed Money			1,654,576
Bond Discount			(41,666)
Transfers From Other Funds			3,191,255
Transfers To Other Funds			(3,191,255)
Total Other Adjustments to Cash (Uses)			<u>1,749,492</u>
Net Change in Fund Balance	1	(1,833)	(132,179)
Fund Balance - Beginning (Restated)	<u>722</u>	<u>121,198</u>	<u>7,414,180</u>
Fund Balance - Ending	<u>\$ 723</u>	<u>\$ 119,365</u>	<u>\$ 7,282,001</u>
Composition of Fund Balance			
Bank Balance	\$ 723	\$ 135,897	\$ 7,580,440
Plus: Deposits In Transit		1,683	1,683
Less: Outstanding Checks		(18,215)	(471,704)
Certificates of Deposit			35,000
Investments			136,582
Fund Balance - Ending	<u>\$ 723</u>	<u>\$ 119,365</u>	<u>\$ 7,282,001</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2022

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Muhlenberg County includes all budgeted and unbudgeted funds under the control of the Muhlenberg County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act for and on behalf of, and as the agency and instrumentality of the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Pennyrile Narcotics Fund - The primary purpose of this fund is to account for the activity of a tri-county drug enforcement agency. The primary sources of receipts for this fund are grants from the federal government and contributions from local governments.

Economic Assistance Fund - The primary purpose of this fund is to account for receipts and disbursements related to the American Rescue Plan Act monies. The primary source of receipts for this fund is the federal government.

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund is from the state government.

Tourism Fund - The primary purpose of this fund is to account for tourism taxes. The primary source of receipts for this fund are local hotel taxes.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting according to the laws of Kentucky as required by the state local finance officer, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The state local finance officer does not require the justice center corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Muhlenberg County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Muhlenberg County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the following are considered joint ventures of the Muhlenberg County Fiscal Court:

Paradise Industrial Park
 Bluegrass Crossing Industrial Park

Note 2. Deposits

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2022.

	General Fund	Pennyrile Narcotics Fund	Economic Assistance Federal Economic Fund	Total Transfers In
General Fund	\$	\$ 10,000	\$ 1,346,255	\$ 1,356,255
Jail Fund	1,825,000			1,825,000
Pennyrile Narcotics Fund	10,000			10,000
Total Transfers Out	<u>\$ 1,835,000</u>	<u>\$ 10,000</u>	<u>\$ 1,346,255</u>	<u>\$ 3,191,255</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 4. Custodial Funds

Custodial funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. In accordance with the regulatory basis of accounting, custodial funds are not presented on the financial statement.

The fiscal court has the following custodial fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2022 was \$11,769.

Note 5. Leases

A. Lessor

1. Southern Wine and Spirits

On October 28, 2021, Muhlenberg County began leasing the Flynn building in Central City, Kentucky to Southern Glazer's Wine and Spirits of Kentucky, LLC. The lease is for one year, with the option to renew for an additional year. Muhlenberg County recognized \$15,600 in lease revenue during the current fiscal year related to this lease.

B. Lessee

1. Copier

On February 6, 2018, Muhlenberg County entered into a five-year lease agreement as lessee for the use of a copier. An initial lease liability was recorded in the amount of \$2,484 during the current fiscal year, which is the annual payment due. As of June 30, 2022, the value of the lease had been satisfied for the current fiscal year.

2. Postage Meter

On December 14, 2020, Muhlenberg County entered into a five-year lease agreement as lessee for the use of a postage meter in the county clerk's office. An initial lease liability was recorded in the amount of \$3,106 during the current fiscal year, which is the annual payment due. As of June 30, 2022, the value of the lease had been satisfied for the current fiscal year. The lease value of the outstanding payments is \$12,425.

Fiscal Year Ended June 30	Amount
2023	\$ 4,142
2024	4,142
2025	<u>4,142</u>
Total	<u>\$ 12,425</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 5. Leases (Continued)

B. Lessee (Continued)

3. Software Management

On April 9, 2018, Muhlenberg County entered into a five-year lease agreement as lessee for the use of software licenses and computer workstations in the county clerk's office. An initial lease liability was recorded in the amount of \$89,580 during the current fiscal year, which is the annual payment due. As of June 30, 2022, the value of the lease had been satisfied for the current fiscal year. The lease value of the outstanding payments is \$14,930.

Fiscal Year Ended June 30	Amount
2023	\$ 14,930
Total	<u>\$ 14,930</u>

4. Copiers

On September 16, 2021, Muhlenberg County entered into a one-year, annually renewing lease agreement as lessee for the use of a copier in the sheriff's office. An initial lease liability was recorded in the amount of \$328 during the current fiscal year, which is the monthly base payment of \$23 plus charges for additional black copies. As of June 30, 2022, the value of the lease had been satisfied for the current fiscal year.

5. Multi-Function Copier and Printer

On June 15, 2018, Muhlenberg County entered into a three-year lease agreement as lessee for the use of a multi-function copier and printer in the Sheriff's office. An initial lease liability was recorded in the amount of \$463 during the current fiscal year, which is the annual payment due. As of June 30, 2022, the value of the lease had been satisfied for the current fiscal year. The lease was not renewed.

6. Multi-Function Copier and Printer

On September 16, 2021, Muhlenberg County entered into a three-year lease agreement as lessee for the use of a multi-function copier and printer in the sheriff's office. An initial lease liability was recorded in the amount of \$1,729 during the current fiscal year, which is the annual payment due. As of June 30, 2022, the value of the lease had been satisfied for the current fiscal year. The lease value of the outstanding payments is \$3,602.

Fiscal Year Ended June 30	Amount
2023	\$ 1,729
2024	1,729
2025	<u>144</u>
Total	<u>\$ 3,602</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Trucks - 2020

On November 5, 2020, the Muhlenberg County Fiscal Court entered into an 18-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing four trucks. The principal amount borrowed was \$612,806 with an interest rate of 2.52%. The agreement is secured by the vehicles purchased. Upon the happening and continuance of any event of default as defined in the agreement, the lease may be terminated, project sold, repossessed, or re-leased, or lease rental payments may be declared due and payable. The outstanding principal was paid, and the debt was retired during fiscal year ended June 30, 2022.

2. Trucks - 2021

On October 25, 2021, the Muhlenberg County Fiscal Court entered into an 18-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing four trucks. The principal amount borrowed was \$611,576 with an interest rate of 2.52%. The agreement is secured by the vehicles purchased. Upon the happening and continuance of any event of default as defined in the agreement, the lease may be terminated, project sold, repossessed, or re-leased, or lease rental payments may be declared due and payable. The balance of the financing obligation at June 30, 2022, was \$611,576. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2023	\$ 611,576	\$ 12,843
Totals	<u>\$ 611,576</u>	<u>\$ 12,843</u>

3. Felix E. Martin Jr. Foundation Charitable Loan

On January 20, 2021, the Muhlenberg County Fiscal Court entered into a five year charitable loan agreement with the Felix E. Martin Jr. Foundation for the purpose of constructing a trash transfer station facility in Greenville, Kentucky. The principal amount borrowed was \$250,000. Upon the happening and continuance of any event of default, the loan will bear interest at a per annum rate equal to 3.5% on the principal balance outstanding. The balance of the financing obligation at June 30, 2022 was \$200,000. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2023	\$ 50,000	\$ 0
2024	50,000	
2025	50,000	
2026	<u>50,000</u>	
Totals	<u>\$ 200,000</u>	<u>\$ 0</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

4. KACo Lease - Tornado Damage

On April 26, 2022, Muhlenberg County entered into a financing agreement with the Kentucky Association of Counties Finance Corporation in the amount of \$1,043,000 for the purpose of paying, on an interim basis, the costs associated with clean-up resulting from tornado damage. A one-time balloon payment is due on March 20, 2024. The ending principal balance as June 30, 2022 was \$1,043,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2023		
2024	\$ 1,043,000	\$ 15,645
Totals	<u>\$ 1,043,000</u>	<u>\$ 15,645</u>

5. KACo Lease – Refinancing of General Obligation Refunding and Improvement Bonds, Series 2011

On October 13, 2020, the fiscal court entered into a financing agreement with Kentucky Association of Counties Finance Corporation in the amount of \$7,245,000 for the purpose of paying the costs associated with the refunding and refinancing of the fiscal court's general obligation refunding and improvement bonds, series 2011 used to renovate the Muhlenberg County Courthouse. The lease will mature on June 30, 2031. Interest is payable each January 15 and July 15. The basic security for the debt of the county including the lease is the county's ability to levy, and is pledged to levy, an annual tax to pay the interest on and principal of the bonds as and when the same become due and payable. The constitution of the state mandates the collection of a tax sufficient to pay the interest of an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. As of June 30, 2022, the balance of the financing obligation was \$7,070,000. Future principal and interest requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2023	\$ 740,000	\$ 134,645
2024	745,000	125,395
2025	755,000	115,338
2026	770,000	103,635
2027	785,000	90,160
2028-2031	<u>3,275,000</u>	<u>205,095</u>
Totals	<u>\$ 7,070,000</u>	<u>\$ 774,268</u>

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Long-term Debt (Continued)

B. Other Debt

1. General Obligation Bonds Series 2017

On August 14, 2017, the fiscal court issued General Obligation Bonds, Series 2017A, in the amount of \$2,246,000 for the purpose of paying the costs associated with the refunding and refinancing of the fiscal court's mortgage revenue bonds, series 2007 used to renovate the Muhlenberg County Detention Center. The bonds bear interest of 3.028 percent. The maturity date of the bonds is February 1, 2023. The basic security for the general obligation debt of the county including the bonds is the county's ability to levy, and is pledged to levy, an annual tax to pay the interest on and principal of the bonds as and when the same become due and payable. The constitution of the state mandates the collection of a tax sufficient to pay the interest of an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. As of June 30, 2022, the balance of these bonds was \$534,200. Annual debt service requirements to maturity for the bonds are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2023	\$ 534,200	\$ 8,088
Totals	\$ 534,200	\$ 8,088

2. Revenue Refunding Bonds, Series 2012

On April 5, 2012, the Muhlenberg County Justice Center Corporation (corporation) issued \$4,570,000 First Mortgage Refunding Revenue Bonds (Judicial Center Project), Series 2012, for the purpose of (i) advance partial refunding the \$6,955,000 Muhlenberg County, Kentucky Justice Center Corporation First Mortgage Revenue Bonds, Series 2002, the proceeds of which were used for the construction of a Judicial Center facility (prior bonds); (ii) paying accrued interest, if any; and (iii) paying the cost of issuance incurred with respect to the issuance of the bonds. Interest on the bonds is payable each March 1 and September 1, beginning September 1, 2012. The bonds will mature on September 1 of each year beginning September 1, 2013. The interest rate on the bonds ranges from 1.0% to 2.75%.

The corporation, the county and the Administrative Office of the Courts (AOC) have entered into a lease agreement, dated as of April 5, 2012 (lease), wherein the AOC will lease from the corporation the project and the project site (as described herein), at an agreed rental, which rental amount will be assigned by the corporation to the trustee and is anticipated to be adequate to pay approximately 100% of the principal and interest on the bonds. The lease does not require the county to make any rental payments toward the project; however, the county is obligated to provide for the operation, maintenance, insurance, and repair of the project. On May 1 of each even numbered year, this lease may be renewed by AOC for another biennial period of two years.

The series 2012 bonds are secured by a foreclosable first mortgage lien on the project. Upon the happening and continuance of any event of default as defined in the agreement, the bonds may be declared due and payable, a suit may be filed, or the foreclosable mortgage lien on the project may be enforced.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Long-term Debt (Continued)

B. Other Debt (Continued)

2. Revenue Refunding Bonds, Series 2012 (Continued)

Bonds outstanding as of June 30, 2022 totaled \$990,000. Annual debt service requirements to maturity for the bonds are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2023	\$ 490,000	\$ 22,488
2024	500,000	6,875
Totals	<u>\$ 990,000</u>	<u>\$ 29,363</u>

C. Changes in Long-term Debt

Long-term Debt activity for the year ended June 30, 2022, was as follows:

	Restated* Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and					
Direct Placements	\$ 8,107,806	\$ 1,654,576	\$ 837,806	\$ 8,924,576	\$ 1,401,576
General Obligation Bonds	1,052,600		518,400	534,200	534,200
Revenue Bonds	1,465,000		475,000	990,000	490,000
Total Long-term Debt	<u>\$ 10,625,406</u>	<u>\$ 1,654,576</u>	<u>\$ 1,831,206</u>	<u>\$10,448,776</u>	<u>\$ 2,425,776</u>

* Direct borrowings and direct placements were restated by \$200,000 for debt not included in prior year and by \$7,245,000 for debt reclassified from general obligation bonds.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 6. Long-term Debt (Continued)

D. Aggregate Debt Schedule

The amounts of required principal and interest payments on long-term obligations at June 30, 2022, were as follows:

Fiscal Year Ended June 30	Other Debt		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2023	\$ 1,024,200	\$ 30,576	\$ 1,401,576	\$ 147,488
2024	500,000	6,875	1,838,000	141,040
2025			805,000	115,338
2026			820,000	103,635
2027			785,000	90,160
2028-2031			3,275,000	205,095
Totals	<u>\$ 1,524,200</u>	<u>\$ 37,451</u>	<u>\$ 8,924,576</u>	<u>\$ 802,756</u>

Note 7. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (Ky. Ret. Sys.). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Effective April 1, 2021, the Kentucky Public Pension Authority (KPPA) was created by KRS 61.505 to provide staffing and daily administrative needs for CERS and Ky. Ret. Sys. The CERS nine (9) member board of trustees is responsible for the governance of the CERS pension and insurance plans.

The county's contribution for FY 2020 was \$1,227,376, FY 2021 was \$1,186,310, and FY 2022 was \$1,505,281.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the Ky. Ret. Sys. insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 7. Employee Retirement System (Continued)

Nonhazardous (Continued)

The employer contribution rate is set annually by the Ky. Ret. Sys. Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 26.95 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of Ky. Ret. Sys. benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KPPA will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

Annual Financial Report and Proportionate Share Audit Report

Ky. Ret. Sys. issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KPPA also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 8. Deferred Compensation

The Muhlenberg County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2022, the Muhlenberg County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2022, was added to the general fund cash balance for financial reporting purposes.

Note 11. Conduit Debt

From time to time, the county has issued bonds and notes to provide financial assistance to various government entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Muhlenberg County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2022, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2022
(Continued)

Note 12. Prior Period Adjustments

	<u>Jail Commissary</u>
Ending Cash Balance - Prior Year	\$ 156,000
Adjustments:	
To Jail Inmate Account	<u>(34,802)</u>
Beginning Fund Balance Restated	<u>\$ 121,198</u>

Note 13. Jail Technology Grant

As part of their contract with their jail phone contractor, the Muhlenberg County Jail received an initial \$135,000 technology grant with an additional \$35,000 made available each subsequent year of the contract. The jailer sends invoices for jail equipment to be paid directly by the phone contractor. Although these transactions do not pass through the fiscal court's accounts, they are receipts and disbursements of the county. In fiscal year 2022, \$22,060 of these funds were included in the county's financial statements.

Note 14. Assets Held For Resale

Assets held for resale activity for the year ended June 30, 2020, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Vehicles and Equipment	\$ 612,806	\$ 611,576	\$ 612,806	\$ 611,576
Total	<u>\$ 612,806</u>	<u>\$ 611,576</u>	<u>\$ 612,806</u>	<u>\$ 611,576</u>

Note 15. Contingencies

The county is involved in multiple lawsuits. While individually they may not be significant, in the aggregate they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2022

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MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2022

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 2,829,300	\$ 2,829,300	\$ 2,899,905	\$ 70,605
In Lieu Tax Payments	2,500,000	2,500,000	2,402,898	(97,102)
Excess Fees	1,600,000	1,600,000	1,881,281	281,281
Licenses and Permits	75,000	75,000	53,286	(21,714)
Intergovernmental	864,000	1,635,150	1,510,867	(124,283)
Charges for Services	501,100	501,100	370,612	(130,488)
Miscellaneous	1,288,000	1,288,000	1,430,013	142,013
Interest	300	300	731	431
Total Receipts	9,657,700	10,428,850	10,549,593	120,743
DISBURSEMENTS				
General Government	4,064,130	4,564,514	4,031,411	533,103
Protection to Persons and Property	1,046,450	1,299,725	1,161,750	137,975
General Health and Sanitation	795,750	2,144,138	2,056,573	87,565
Social Services	80,000	192,500	185,647	6,853
Recreation and Culture	323,800	455,285	425,457	29,828
Debt Service	1,319,335	311,835	303,222	8,613
Capital Projects	150,000	270,000	241,093	28,907
Administration	2,417,600	2,432,433	2,379,563	52,870
Total Disbursements	10,197,065	11,670,430	10,784,716	885,714
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(539,365)	(1,241,580)	(235,123)	1,006,457
Other Adjustments to Cash (Uses)				
Borrowed Money	1,000,000	1,000,000	1,043,000	43,000
Bond Discount			(41,666)	(41,666)
Transfers From Other Funds	624,000	624,000	1,356,255	732,255
Transfers To Other Funds	(1,756,595)	(1,756,595)	(1,835,000)	(78,405)
Total Other Adjustments to Cash (Uses)	(132,595)	(132,595)	522,589	655,184
Net Change in Fund Balance	(671,960)	(1,374,175)	287,466	1,661,641
Fund Balance - Beginning	671,960	671,960	3,370,546	2,698,586
Fund Balance - Ending	\$ 0	\$ (702,215)	\$ 3,658,012	\$ 4,360,227

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 2,235,430	\$ 2,235,430	\$ 2,618,374	\$ 382,944
Miscellaneous	552,500	552,500	712,675	160,175
Total Receipts	2,787,930	2,787,930	3,331,049	543,119
DISBURSEMENTS				
Roads	2,745,400	2,970,727	2,782,653	188,074
Debt Service	625,700	634,300	633,635	665
Administration	279,000	279,000	279,000	
Total Disbursements	3,650,100	3,884,027	3,695,288	188,739
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(862,170)	(1,096,097)	(364,239)	731,858
Other Adjustments to Cash (Uses)				
Borrowed Money			611,576	611,576
Governmental Leasing Act Receipts	650,000	650,000		(650,000)
Transfers From Other Funds	162,170	162,170		(162,170)
Total Other Adjustments to Cash (Uses)	812,170	812,170	611,576	(200,594)
Net Change in Fund Balance	(50,000)	(283,927)	247,337	531,264
Fund Balance - Beginning	50,000	50,000	40,492	(9,508)
Fund Balance - Ending	\$ 0	\$ (233,927)	\$ 287,829	\$ 521,756

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 2,284,000	\$ 2,284,000	\$ 2,196,689	\$ (87,311)
Charges for Services	5,000	5,000	6,050	1,050
Miscellaneous	205,000	205,000	366,601	161,601
Total Receipts	2,494,000	2,494,000	2,569,340	75,340
DISBURSEMENTS				
Protection to Persons and Property	2,739,500	3,149,613	3,066,456	83,157
Debt Service	542,425	542,425	542,250	175
Administration	856,500	856,500	850,583	5,917
Total Disbursements	4,138,425	4,548,538	4,459,289	89,249
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,644,425)	(2,054,538)	(1,889,949)	164,589
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,594,425	1,594,425	1,825,000	230,575
Total Other Adjustments to Cash (Uses)	1,594,425	1,594,425	1,825,000	230,575
Net Change in Fund Balance	(50,000)	(460,113)	(64,949)	395,164
Fund Balance - Beginning	50,000	50,000	117,150	67,150
Fund Balance - Ending	\$ 0	\$ (410,113)	\$ 52,201	\$ 462,314

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 624,900	\$ 624,900	\$ 933,016	\$ 308,116
Interest	100	100	66	(34)
Total Receipts	625,000	625,000	933,082	308,082
DISBURSEMENTS				
General Government	413,000	413,000		413,000
Protection to Persons and Property	197,000	197,000	197,000	
Roads	500,000	510,000	507,761	2,239
Capital Projects	25,000	15,000		15,000
Total Disbursements	1,135,000	1,135,000	704,761	430,239
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(510,000)	(510,000)	228,321	738,321
Net Change in Fund Balance	(510,000)	(510,000)	228,321	738,321
Fund Balance - Beginning	510,000	510,000	312,423	(197,577)
Fund Balance - Ending	\$ 0	\$ 0	\$ 540,744	\$ 540,744

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

PENNYRILE NARCOTICS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 326,683	\$ (173,317)
Interest	50	50	3	(47)
Total Receipts	500,050	500,050	326,686	(173,364)
DISBURSEMENTS				
Administration	500,000	500,000	355,112	144,888
Total Disbursements	500,000	500,000	355,112	144,888
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	50	50	(28,426)	(28,476)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			10,000	10,000
Transfers To Other Funds	(25,000)	(25,000)	(10,000)	15,000
Total Other Adjustments to Cash (Uses)	(25,000)	(25,000)		25,000
Net Change in Fund Balance	(24,950)	(24,950)	(28,426)	(3,476)
Fund Balance - Beginning	24,950	24,950	39,782	14,832
Fund Balance - Ending	\$ 0	\$ 0	\$ 11,356	\$ 11,356

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,973,980	\$ 2,973,980	\$	\$ (2,973,980)
Interest			287	287
Total Receipts	2,973,980	2,973,980	287	(2,973,693)
DISBURSEMENTS				
Capital Projects	5,947,965	4,601,710		4,601,710
Total Disbursements	5,947,965	4,601,710		4,601,710
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,973,985)	(1,627,730)	287	1,628,017
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(1,346,255)	(1,346,255)
Total Other Adjustments to Cash (Uses)			(1,346,255)	(1,346,255)
Net Change in Fund Balance	(2,973,985)	(1,627,730)	(1,345,968)	281,762
Fund Balance - Beginning	2,973,985	2,973,985	2,973,982	(3)
Fund Balance - Ending	\$ 0	\$ 1,346,255	\$ 1,628,014	\$ 281,759

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 400,000	\$ 400,000	\$ 381,385	\$ (18,615)
Interest			38	38
Total Receipts	<u>400,000</u>	<u>400,000</u>	<u>381,423</u>	<u>(18,577)</u>
DISBURSEMENTS				
Capital Projects	<u>1,000</u>	<u>1,000</u>		<u>1,000</u>
Total Disbursements	<u>1,000</u>	<u>1,000</u>		<u>1,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>399,000</u>	<u>399,000</u>	<u>381,423</u>	<u>(17,577)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(599,000)</u>	<u>(599,000)</u>		<u>599,000</u>
Total Other Adjustments to Cash (Uses)	<u>(599,000)</u>	<u>(599,000)</u>		<u>599,000</u>
Net Change in Fund Balance	(200,000)	(200,000)	381,423	581,423
Fund Balance - Beginning	<u>200,000</u>	<u>200,000</u>	<u>305,337</u>	<u>105,337</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 686,760</u>	<u>\$ 686,760</u>

MUHLENBERG COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2022
(Continued)

TOURISM FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 125,000	\$ 125,000	\$ 111,859	\$ (13,141)
Interest			12	12
Total Receipts	<u>125,000</u>	<u>125,000</u>	<u>111,871</u>	<u>(13,129)</u>
DISBURSEMENTS				
Recreation and Culture	180,000	170,000		170,000
Administration	<u>75,000</u>	<u>85,000</u>	<u>84,004</u>	<u>996</u>
Total Disbursements	<u>255,000</u>	<u>255,000</u>	<u>84,004</u>	<u>170,996</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(130,000)</u>	<u>(130,000)</u>	<u>27,867</u>	<u>157,867</u>
Net Change in Fund Balance	(130,000)	(130,000)	27,867	157,867
Fund Balance - Beginning	<u>130,000</u>	<u>130,000</u>	<u>132,548</u>	<u>2,548</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 160,415</u>	<u>\$ 160,415</u>

**MUHLENBERG COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES**

June 30, 2022

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting according to the laws of Kentucky as required by the state local finance officer, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation Of The General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ 522,589
To adjust for payroll account balance	<u>136,582</u>
Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ 659,171</u>
Fund Balance - Ending-Budgetary Basis	\$ 3,658,012
To adjust for payroll account balance	<u>136,582</u>
Fund Balance - Regulatory Basis	<u><u>\$ 3,794,594</u></u>

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MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2022

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MUHLENBERG COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity's Identifying Number	Provided to Subrecipient	Total Federal Expenditures
<u>U. S. Department of Justice</u>				
<i>Direct Program</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		\$	\$ 247,355
Total U.S. Department of U.S. Department of Justice				247,355
<u>U. S. Department of Treasury</u>				
<i>Direct Program</i>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		\$	\$ 1,346,255
Total U.S. Department of Treasury				1,346,255
<u>U. S. Department of Homeland Security</u>				
<i>Passed-Through Kentucky Division of Emergency Management</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		\$	\$ 1,303,920
Emergency Management Performance Grants	97.042			21,443
Total U.S. Department of Homeland Security				1,325,363
Total Expenditures of Federal Awards			\$ 0	\$ 2,918,973

The accompanying notes are an integral part of this schedule.

MUHLENBERG COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2022

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Muhlenberg County, Kentucky under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Muhlenberg County, Kentucky, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Muhlenberg County, Kentucky.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

Muhlenberg County has not adopted an indirect cost rate and has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

MUHLENBERG COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis

For The Year Ended June 30, 2022

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**MUHLENBERG COUNTY
SCHEDULE OF CAPITAL ASSETS
Other Information - Regulatory Basis**

For The Year Ended June 30, 2022

The fiscal court reports the following Schedule of Capital Assets:

	(*Restated) Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,975,585	\$	\$	\$ 1,975,585
Land Improvements*	202,962			202,962
Buildings	33,291,452			33,291,452
Vehicles and Equipment*	7,058,605	322,676	244,335	7,136,946
Infrastructure	594,527			594,527
Total Capital Assets	<u>\$ 43,123,131</u>	<u>\$ 322,676</u>	<u>\$ 244,335</u>	<u>\$ 43,201,472</u>

MUHLENBERG COUNTY
NOTES TO OTHER INFORMATION - REGULATORY BASIS
SCHEDULE OF CAPITAL ASSETS

June 30, 2022

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture, and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 15,000	3-25
Vehicles	\$ 10,000	3-25
Infrastructure	\$ 50,000	10-50

Note 2. Restatement of Capital Assets Beginning Balance

The Muhlenberg County Fiscal Court's Capital Asset Schedule's beginning balance differs from the prior year audited Capital Asset Schedule's ending balance. This is due to additions, deletions, and errors made in prior years and errors made by the fiscal court in preparing the current year's schedule. The following illustrates the difference between the two schedules:

	Prior Year Audited Balance	Difference	Current Year Beginning Balance
Land	\$ 1,975,585	\$	\$ 1,975,585
Land Improvements	184,053	18,909	202,962
Buildings	33,291,452		33,291,452
Vehicles and Equipment	7,718,803	(660,198)	7,058,605
Infrastructure	594,527		594,527
	<u>\$ 43,764,420</u>	<u>\$ (641,289)</u>	<u>\$ 43,123,131</u>
Total Capital Assets	<u>\$ 43,764,420</u>	<u>\$ (641,289)</u>	<u>\$ 43,123,131</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

The Honorable Mack McGehee, Muhlenberg County Judge/Executive
The Honorable Curtis McGehee, Former Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Muhlenberg County Fiscal Court for the fiscal year ended June 30, 2022, and the related notes to the financial statement which collectively comprise the Muhlenberg County Fiscal Court's financial statement and have issued our report thereon dated June 9, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Muhlenberg County Fiscal Court's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Muhlenberg County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Muhlenberg County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003, 2022-004, and 2022-005 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002.

Views of Responsible Officials and Planned Corrective Action

Muhlenberg County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a horizontal line.

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

June 9, 2023

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With The Uniform Guidance

Independent Auditor's Report

The Honorable Mack McGehee, Muhlenberg County Judge/Executive
The Honorable Curtis McGehee, Former Muhlenberg County Judge/Executive
Members of the Muhlenberg County Fiscal Court

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Muhlenberg County Fiscal Court's compliance with the types of compliance requirements identified as subject to audit in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Muhlenberg County Fiscal Court's major federal programs for the year ended June 30, 2022. The Muhlenberg County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Muhlenberg County Fiscal Court complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Muhlenberg County Fiscal Court and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Muhlenberg County Fiscal Court's compliance with the compliance requirements referred to above.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With The Uniform Guidance
(Continued)

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Muhlenberg County Fiscal Court's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Muhlenberg County Fiscal Court's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Muhlenberg County Fiscal Court's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Muhlenberg County Fiscal Court's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Muhlenberg County Fiscal Court's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Muhlenberg County Fiscal Court's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With The Uniform Guidance
(Continued)

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-006, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on Muhlenberg County Fiscal Court's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Muhlenberg County Fiscal Court's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

June 9, 2023

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MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2022

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**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2022

Section I: Summary of Auditor's Results

Financial Statement

Type of report the auditor issued on whether the financial statement audited was prepared in accordance with GAAP:
Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: Unmodified		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID19 – Coronavirus State and Local Fiscal Recovery Funds
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings

Financial Statement Findings

2022-001 The Muhlenberg County Fiscal Court Failed to Implement Internal Controls Over The Schedule Of Expenditures Of Federal Awards

During the testing of Muhlenberg County's Schedule of Expenditures of Federal Awards (SEFA), we found significant issues in the SEFA.

- The SEFA was not submitted to the Department for Local Government (DLG) with the fourth quarter financial report as required by DLG.
- The Muhlenberg County Fiscal Court's original SEFA was misstated by \$444,209. The following errors were included in the SEFA provided to auditors.
 - (a) Assistance Listing Number 21.027 – \$200,855 was included on the SEFA that were not federal expenditures.
 - (b) Assistance Listing Number 97.036 – \$114,747 was included that was reimbursed by state funds and not federal funding. \$128,607 was included on the schedule of expenditures of federal awards that was the state and local share of the expenditures and were not reimbursed by the federal government.
- The fiscal court did not maintain appropriate documentation to support amounts recorded on the SEFA.

According to the county treasurer:

- The payments included for Assistance Listing Number 21.027 had the appearance of being a federal payment and he did not realize they were state funds.
- For Assistance Listing Number 97.036, due to this federal funding being sent to them from the state, the \$114,747 came in the same manner and was originally requested for federal reimbursement. The \$128,607 was included as this was the total expenditure made by the county for the funds reimbursed by the federal government and he was unaware that matching portions should have been removed.
- The treasurer was unaware that the SEFA was supposed to be attached to the financials submitted for the fourth quarter financial report.

Additionally, there was a lack of understanding of the fiscal court's responsibilities for the required documentation since they had hired a company to manage their federal disbursements.

As a result of the errors made and lack of effective operating controls, the original SEFA was misstated. By not maintaining proper adequate internal controls over federal disbursements documentation, the fiscal court was not able to document items on their SEFA without first contacting an outside source. This could create issues with future federal reimbursements if they cannot verify what amounts have been requested beforehand and could lead to duplication or omission on future requests.

Strong internal controls over financial reporting are vital in ensuring that federal awards expended are accounted for, reported properly, and adequately supported by proper documentation. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with all requirements and guidance. Additionally, 2 CFR 200.510(b) states, "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended." Additionally, KRS 68.210 gives the state local finance officer the right to prescribe the reporting requirements for all counties. One of the requirements set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* is the requirement for the preparation of a SEFA to be submitted with the 4th quarter financial reports.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)**

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-001 The Muhlenberg County Fiscal Court Failed to Implement Internal Controls Over The Schedule Of Expenditures Of Federal Awards (Continued)

We recommend the Muhlenberg County Fiscal Court implement internal controls over federal award expenditures reporting to ensure the SEFA is properly submitted to DLG, that amounts reported on the SEFA represent true federal expenditures, and maintain appropriate records to support the amounts recorded on the SEFA.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: County Treasurer was not aware the SEFA report was due with the fourth quarterly report to DLG. This task would have been impossible to provide with the fourth quarter report anyway because the FEMA grant requests for tornado DR#4630 expenses were not formulated until three or four months after the fiscal year during this period. Per the contractor's reimbursement reports, the reports were not prepared and submitted until a few months after year end. Some were dated as late as January 2023. None of the awards reported on the SEFA report were received during the audit year. The earliest was received August 2022, the last in January 2023. In addition, FEMA's acceptance to pay such expenses was not authorized until even after this period.

The two errors on the SEFA report are discussed below:

- 1. The \$200,855 in the SEFA report was acknowledged as Federal money on two different occasions by personnel at the Jail inquiring from the State of Kentucky, where this money was received. The first inquiry was to verify that this was actually federal monies and was represented as such by state officials. On a subsequent inquiry, this money was represented as federal ARPA money but the auditor says that because it passed through the state that is it not accounted for as federal money for single audit act purposes. With our inquiries, we reasonably should have concluded this was Federal money.*
- 2. Our FEMA account project manager did not provide information to separate the matching portion of federal money regarding the \$114,747 and \$128,607 when the FEMA request was submitted. The FEMA project manager put together grant reimbursement grouped expenses for grant categories, no payments from FEMA or STATE for the disaster were received in this fiscal year. While Muhlenberg County suffered a major disaster with the Tornado that hit Bremen, killing 11 of our citizens, the Fiscal court did expend monies as any government would during a catastrophic emergency. As I am sure you are aware we are still dealing with this storm and recouping money.*

Both findings above are unintentional.

This finding can be corrected by closer coordination with our contracted federal grant supervisor. The finding should not be an issue in the future and we are currently working on a plan to adhere to proper filing of SEFA timely submitted SEFA information.

Auditor's Reply: The Schedule of Federal Expenditures is based on the county's expenditures for the fiscal year, receipt dates are null to the schedule. Proper documentation and understanding of expenditures and receipts are vital to ensure accurate reporting of federal expenditures.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-002 The Muhlenberg County Fiscal Court Does Not Have Adequate Controls Over Disbursements And Procurement Processes

The Muhlenberg County Fiscal Court does not have adequate controls over disbursements and procurement processes. During testing of disbursements and procurement, we found the following issues:

- Two disbursements for fire department donations totaling \$54,000 and two disbursements for insurance totaling \$643 were not presented to the fiscal court prior to payment
- Two disbursements totaling \$54,000 did not have adequate supporting documentation.
- Finance charges of \$411 were paid.
- Sales tax was paid on 19 purchases for a total of \$273.
- Fifty-six out of 56 items tested had missing or inadequate purchase orders.
- A jail grant paid for items that were not presented to the fiscal court. Instead, invoices are sent to a company who pays the invoices directly. The amounts paid by the company are then provided to the treasurer who includes the amounts in his financial report.
- The jail vending contract in the amount of \$370,142 was not properly procured through competitive bidding. Additionally, paid invoices were not itemized by the vendor.

The above findings are due to a lack of oversight and insufficient internal control procedures and a lack of knowledge about proper procurement procedures.

Due to the lack of controls over the disbursement process, invoices were paid without approval, finance charges and interest were unnecessarily paid, and there is an increased risk of misappropriation. Strong internal controls require proper documentation to be kept for all disbursements, as well as accurate journal posting and dual signatures for all checks. Additionally, 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 Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties and each county is responsible for ensuring their purchase order system is executed and working properly.

KRS 68.275(2) states, "the county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid."

KRS 139.470(6) and (7) exempts local governments from paying state sales tax on goods and services.

The Muhlenberg County Administration Code section 9.2 (C.), "Any expenditure or contract for materials, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than Twenty Thousand Dollars (\$20,000) shall be subject to competitive bidding.

We recommend the Muhlenberg County Fiscal Court strengthen controls over the disbursement process to ensure all disbursements are valid and presented to fiscal court prior to payment. The fiscal court should require that proper documentation be maintained for all expenditures. The Muhlenberg County Fiscal Court should also ensure that bidding procedures are followed for all purchases that exceed \$20,000 in accordance with the administrative code. We also recommend that supporting documentation be maintained for the entire bid transaction.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-002 The Muhlenberg County Fiscal Court Does Not Have Adequate Controls Over Disbursements And Procurement Processes (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response:

1. *A. Disbursements/contributions for the volunteer fire departments totaling \$54,000 were approved in the initial budget as well as recorded in the claims for payment. This is not a new process for the fiscal court as it has been done this way since the Muhlenberg County Fiscal Court has been contributing monies to our volunteer fire departments over 30 years ago.
 B. Disbursements for the Pennyriple Narcotics Task Force, AFLAC invoices totaling \$643.14 are paid and kept in the Treasurer's office. The Treasurer states that insurance is not listed on claims for approval as it is his understanding that is not required.*
2. *Finance charges were accrued in the amount of \$411 on some of the [credit card name redacted] purchases. The Finance Officer states she would try and recoup these as they were noticed but only a few were reimbursed by the credit card company. Corrective Action was implemented by changing the credit card company to [bank name redacted] locally in August 2022. Since that change and appropriate account set up, there has been no more finance charges to date.*
3. *Sales tax was accrued in the amount of \$273- The Treasurer and Finance Officer recognize that sales tax is not to be paid as the Fiscal Court is a tax exempt entity. Corrective Action: The Judge Executive and Finance Officer are currently working on a Credit Card Policy to implement by 08/01/2023. This policy will address and stop the sales tax issue.*
4. *56/56 purchase orders were missing or inadequate-Corrective Action: Purchase Orders have been reinforced with all departments effective May 1, 2023.*
5. *Four [brand name redacted] Trucks purchased and held for resale totaling \$611,576 were procured through the state bid list facilitated by KACo (Kentucky Association of Counties) and the DLG (Department for Local Government). The vendor, [vendor name redacted], provides a master agreement with the State of Kentucky. All parties involved were not aware that a catalogue was to be provided with the master agreement. Corrective Action: a catalogue will be requested along with a master agreement before the Muhlenberg County Fiscal Court enters into a purchasing contract with the entities on the state list effective 06/30/23.*
6. *A jail grant paid for items that were not approved by the fiscal court. Corrective Action: effective 06/30/2023 the Muhlenberg County Detention Center will supply all documentation needed to properly administer protocols and seek Fiscal Court approval.*
7. *The jail vending contract is the amount of \$370,142 was not properly procured through competitive bidding, invoices were not itemized. Corrective Action: Effective 06/30/2023 the Jail will properly procure through competitive bidding. All invoices will be itemized.*

Auditor's Reply: The disbursements to the volunteer fire departments totaling \$54,000 were not presented to the fiscal court until after the disbursements were already made. Approving a budget does not replace the fiscal court's requirement of presenting each appropriation before payment is made. KRS 68.275(2) in part states, "the county judge/executive shall present all claims to the fiscal court for review prior to payment.."

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-003 The Muhlenberg County Jailer Does Not Have Internal Controls Over Commissary Reporting

The jail commissary year-end report was misstated. Receipts and disbursements of \$47,115 each were omitted from the commissary report provided to auditors and submitted to the county treasurer. Additionally, the jail commissary report was not submitted to the treasurer until after auditors arrived on site.

According to the bookkeeper, the original report submitted was misstated because of refunds and error adjustments. The county jailer corrected these misstatements and resubmitted the commissary report to the treasurer.

The information in the jail commissary report could not be relied upon. Internal controls require that the commissary report be accurate and complete. KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires that the commissary report be submitted to the County Treasurer.

We recommend that the jailer maintain accurate receipts and disbursements ledgers in order to prepare an accurate financial report which should be submitted to the county treasurer after the fiscal year end.

Views of Responsible Official and Planned Corrective Action:

Jailer's Response: We will work with all parties involved to maintain a timely and accurate financial report starting immediately.

2022-004 The Muhlenberg County Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Functions And Financial Reporting

The Muhlenberg County Fiscal Court failed to provide proper oversight and monitoring of accounting functions and financial reporting. The treasurer was responsible for preparing monthly, quarterly, and annual financial reports, preparing debt schedules, and reconciling bank accounts. There were no functioning internal controls in place to monitor, provide oversight, or check the work performed by the county treasurer which allowed the county treasurer to have total control over the accounting and reporting functions.

The following deficiencies and reporting errors occurred due to the lack of internal controls including the lack of segregation of duties over accounting and reporting:

- There was no documentation to support the encumbrances reported on the fourth quarter financial statement.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-004 The Muhlenberg County Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Functions And Financial Reporting (Continued)

- The treasurer did not maintain an accurate liability schedule. The liabilities section of the fourth quarter financial statement omitted \$210,000 outstanding debt principal and \$17,222 outstanding interest due.
- The treasurer did not maintain an accurate lease schedule. Lease receipts were understated by \$15,600 and lease disbursements were understated by \$48,739.
- The payroll revolving account does not properly reconcile to zero. (See finding 2022-006)
- Schedule of Expenditures of Federal Awards was not correctly maintained, nor was one submitted to the Department for Local Government. (see finding 2022-001)

While it may be customary for the county treasurer to perform these functions, the fiscal court failed to adequately segregate the duties involved. The fiscal court also failed to establish an adequate system of oversight and internal controls to ensure that receipts and disbursements were properly recorded, completed bank reconciliations were accurate and agreed to financial records, and to ensure fund balances, cash balances, and outstanding debt balances were accurately reported.

The lack of adequate management oversight created an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds. The deficiencies, noncompliances, and errors noted above occurred without detection. The fiscal court relies on information presented on the quarterly financial reports to make financial decisions affecting the county. Therefore, this inaccurate financial information could affect fiscal court's ability to make well-informed financial decisions.

Strong internal controls over various accounting functions such as recording receipts and disbursements, performing bank reconciliations, and preparing monthly, quarterly, and annual financial reports are vital in ensuring the financial reports accurately reflect the financial activity of the fiscal court as well as ensuring adherence to applicable laws and regulations. These internal controls are essential for providing protection from asset misappropriation and inaccurate financial reporting.

Additionally, KRS 68.210 gives the state local finance officer the right to prescribe the reporting requirements for all counties. One of the requirements set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* is the requirement for the preparation of a SEFA to be submitted with the 4th quarter financial reports.

KRS 68.020(4) states that county treasurer, "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of account of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer."

We recommend the fiscal court segregate the duties involved in recording receipts and disbursements, reconciling bank accounts, and preparing monthly, quarterly, and annual financial reports so that one individual does not have control over the accounting functions. If segregation of duties is not possible, appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports, including budgetary amounts, actual receipts, and disbursements, as well as cash balances.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)**

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-004 The Muhlenberg County Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Functions And Financial Reporting (Continued)

This oversight should include a documented review of financial reports by management to verify amounts recorded and reported are accurate. We also recommend the fiscal court scrutinize any unusual amounts or variances noted on the quarterly reports.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response:

Encumbrances were shown on the fourth quarter report to DLG but the detail of these balances was misplaced. This obviously can be easily fixed by safeguarding a schedule of such encumbrances for the auditors.

The liability schedule mentioned in the audit findings all from the county's office machine lease obligations are not part of the financial report. All bond and note obligations are properly and accurately maintained by the county Treasurer. One audit finding was the omissions of an interest free grant/loan from a nonprofit foundation that was originally booked as revenue. This account was rectified before the conclusion of the audit and properly reported to DLG, it was also included on the financial report several months ago. This loan is scheduled to be paid in full at the first of the new fiscal year. The monies for the loan were received for a landfill transfer station. This project has been dropped and the funds will be repaid.

The lease schedule will be corrected once the proper leasing documents are submitted to the Judge Executive's Office. We will have this rectified by 08/01/2023 for both the lease receipts and disbursements schedule.

**MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)**

Section II: Financial Statement Findings (Continued)

Financial Statement Findings (Continued)

2022-005 The Muhlenberg County Treasurer Failed To Properly Reconcile The Payroll Revolving Account

The Muhlenberg County Fiscal Court uses a payroll revolving account for payroll processing. Payroll revolving accounts are established in order to process individual payroll transactions. The county treasurer did not properly reconcile the payroll revolving account each month. Employee withholdings for health insurance were left in the payroll account each month, while the monthly health insurance invoices were paid in full out of the general fund for most of the year. The treasurer uses the excess employee withholdings to make the health insurance payments the first few months of the fiscal year. As of June 30, 2022, the payroll revolving account had a balance of \$136,582, with no documentation maintained that the account was reconciled or that the balance is comprised solely of employee withholdings. According to the treasurer, he was unaware that this process was not sufficient, or that a balance should not be maintained in a payroll revolving account.

Errors in payroll processing could go undetected when a sitting balance is maintained in the account throughout the year. In addition, this also results in funds of the county being maintained in an account that is not reported on quarterly reports or other financial statements presented to fiscal court and outside entities.

Good internal controls require timely, accurate reconciliations for bank accounts, and all other reports concerning payroll, to ensure all funds are properly accounted for and to prevent misappropriation of funds and inaccurate financial reporting. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies should be transferred from other funds. Therefore, the reconciled balance each month of the payroll revolving account should be zero.

We recommend the payroll revolving account be properly reconciled monthly. Because the payroll revolving account is a clearing account, this account should reconcile to a zero ending cash balance or a minimal carrying balance at the end of each month.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: First of all, the payroll revolving account is reconciled on a timely basis, monthly, along with all bank accounts maintained by the county Treasurer. All the insurance withholdings are kept in this revolving account until the end of the fiscal year because of the cumbersome matching of the amounts withheld compared to the everchanging amounts payable. These amounts are then paid by check and carried as outstanding checks until the account has reached a zero balance. The insurance vendor requires electronic withdrawals from the general fund account and we ask they cease this process at year end and write the remaining checks from the payroll revolving account as described above. We have handled this account in a similar manner several years in the past. We do agree that this is a confusing procedure and will only write one actual check at June 30 in the future from this revolving account to the insurance company to zero this account. This has been a practice for many years except in most prior years only one check is written by June 30 to zero the account due to employee withholdings.

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section III: Federal Award Findings And Questioned Costs

2022-006 The Muhlenberg County Fiscal Court Did Not Establish And Maintain Effective Internal Controls Over Compliance With Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Requirements

Federal Program: 21.027 COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Award Number and Year: 2022

Name of Federal Agency: U.S. Department of the Treasury

Compliance Requirements Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Type of Finding: Significant Deficiency

Amount of Questioned Costs: \$9,425

COVID Related: Yes

The Muhlenberg County Fiscal Court transferred Coronavirus State and Local Fiscal Recovery Funds (SLFRF) from the economic assistance fund (where SLFRF funds were maintained) to the general fund without sufficient supporting documentation of allowable expenditures. Once the list of reimbursed expenditures supporting the transfer was created, auditors found unallowable costs had been reimbursed.

In June 2022, the county transferred \$1,346,255 from the economic assistance fund into the general fund for “lost revenue”. At the time of the transfer, and until auditors inquired about the supporting documentation, the county did not maintain a list of expenditures that reconciled to the transfer total. Instead, the treasurer, with help from an outside company, used estimates for fourth quarter expenditures to arrive at this total. After this inquiry, the county gathered documentation and provided auditors a reconciliation of expenditures of eligible costs that supported the amount transferred into the general fund.

However, during testing we noted the following issues:

- A portion of the deputy judge/executive’s salary in the amount of \$4,967 was included in the reimbursement total, however, this portion of the salary had been reimbursed by another federal grant.
- One employee had two timesheets that had no time documented as worked but was signed by the employee. Unsupported time charges applied to the SLFRF grant were \$3,280.
- One employee’s timesheet did not calculate properly to support the charge of \$1,178.

The Muhlenberg County Fiscal Court failed to implement an adequate system of internal controls due to a lack of understanding of the requirements provided by the U.S. Department of the Treasury. An effective internal control system was not established to ensure compliance with requirements related to the SLFRF funds and the Allowable Costs/Cost Principles compliance requirements. According to the treasurer the unallowable and unsupported charges were due to an oversight by the department heads and the treasurer. He attempted to remove all unallowable or unsupported costs but missed these.

Failure to establish and maintain effective internal controls over compliance with federal program requirements could subject the county to the risk of using federal funds for unallowable purposes. These funds could be requested back from the federal government and could cause increased scrutiny for any federal awards in the future.

2 CFR 200.303 states in part: “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

MUHLENBERG COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2022
(Continued)

Section III: Federal Award Findings And Questioned Costs (Continued)

2022-006 The Muhlenberg County Fiscal Court Did Not Establish And Maintain Effective Internal Controls Over Compliance With Coronavirus State and Local Fiscal Recovery Fund (SLFRF) Requirements
 (Continued)

We recommend the county establish and maintain internal controls over compliance for all federal program expenditures to ensure accurate use and reporting of federal awards, including maintaining sufficient supporting documentation of expenditures that reconciles to any transfer from a federal program fund into another county fund. Additionally, documentation used to support federal expenditures should be reviewed by someone who is knowledgeable about the federal program requirements and should verify the supporting documentation is adequate.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The County made the decision to contract a professional organization with a legal staff to monitor and prepare all funding requests for all SLFRF funds. In April, 2022 the first funding request and transfer request was received from the contracted firm and the transfer of funds was made in June, 2022. This request was presented on the county's Schedule of Federal Financial Assistance and presented to the auditor. Because the request included some projected payroll amounts rather than actual payroll amounts, the auditor stated these projections were not allowable. The County Treasurer then reworked the schedule to include only expenses (payroll) paid through the date of transfer which the auditor said was in compliance. The questioned payroll costs disallowed can be substantiated and are immaterial. The finding regarding the Deputy Judge Executive salary of \$4,967 being ineligible because paid by another grant is incorrect.

Auditor's Reply: A portion of the deputy judge/executive's salary was included in reimbursements requested under a federal emergency management grant. The remainder of their salary was an eligible use of SLFRF funds.

Section IV: Summary Schedule of Prior Audit Findings

Finding Number	Prior Year Finding Title	Status	Corrective Action
2021-001	The Muhlenberg County Fiscal Court Did Not Present All Debt Activity In The Financial Statement	Unresolved	Auditor made the proper adjustment regarding proper accounting of bond refinancing. This was the intention of the County due to the extreme difficulty of applying pronouncements regarding bond refinancing. The County Treasurer discussed with the auditor on future refinancings that he will seek proper advice regarding such application of pronouncements although no refinancings are expected in the immediate future. Therefore completion date is not applicable.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MUHLENBERG COUNTY FISCAL COURT

For The Year Ended June 30, 2022

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MUHLENBERG COUNTY FISCAL COURT

For The Year Ended June 30, 2022

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer