



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Ohio County Fiscal Court for the fiscal year ended June 30, 2022. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Ohio County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 116 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following findings:

**The Ohio County Fiscal Court does not have adequate controls over occupational and net profit tax collections:** During the testing of occupational and net profit taxes the following exceptions were noted:

- Out of ten companies selected for occupational tax testing, three original returns were not maintained properly.
- Out of ten companies selected for occupational tax testing, nine had at least one quarterly return that was not filed in a timely manner. This resulted in a total of 15 quarterly occupational tax returns that were filed late.

- Out of ten companies selected for occupational tax testing, there were three instances where the return was not completed properly.
- Out of 20 companies selected for net profit testing, one company's net profit tax return was not maintained.
- Out of 20 companies tested, there were three instances where the net profit tax return was filed late without an extension.
- Out of 20 companies tested, there were two instances where the company did not file a net profit return.

Additionally, daily deposits for occupational tax and net profit are not made intact, as required by state requirements.

According to the occupational tax administrator there are only two individuals working in the office and without extra help companies occupational tax returns and net profit returns do not always get processed accurately. Additionally, the deposits are not made intact because the bank allows them to split the deposit between the general fund and emergency management fund.

By failing to implement internal controls over the collection of occupational taxes and net profits the county could lose out on tax revenues. Additionally, the county is not in compliance with the Department for Local Government's (DLG) budget manual.

Effective internal controls include procedures to ensure occupational and net profits tax collections are properly and accurately processed and recorded to the ledger on a timely basis.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts which is outlined in the *County Budget Preparation & State Local Finance Officer Policy Manual* (DLG budget manual). The DLG budget manual requires public officials to make daily deposits intact into a federal insured banking institution.

We recommend the county implement internal control procedures to ensure that the county is properly processing occupational taxes and net profit taxes correctly. Additionally, we recommend that all deposits be made intact into one bank account and then the separate portion transferred to another account instead of splitting the deposit.

*County Judge/Executive's Response:*

*Bullet points addressed:*

- *Will look into desktop scanners with a scan sorting software. This will enable our office to locate forms received more efficiently.*
- *Will mail delinquent notices on a more frequent basis.*
- *Will look into software availability that would enable taxpayers to upload to us directly with the ability to be notified when more information is required.*
- *Scanning software, as mentioned above, would allow for forms to be accessed once scanned and easy to retrieve.*

- *We notify the Net Profits License Fee Returns that when filing late we must receive an extension to waive the late filing penalty.*
- *We will speak with the county attorney to determine a method on noncompliant filers of Net Profits License Fee Returns. Possibly a letter on county attorney letterhead will capture their attention and they may respond more timely.*

**The Ohio County Detention Center does not have adequate segregation of duties over jail commissary receipts and disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The Ohio County Detention Center does not have adequate segregation of duties over jail commissary receipts and disbursements. The jailer prepares deposits, prepares checkout sheets for inmate fees collected, handles cash collected from inmates, and approves and signs commissary checks. According to the jailer, this lack of segregation of duties is a result of a limited budget, which restricts the number of qualified employees the Ohio County Detention Center can hire for accounting functions. Without the proper segregation of duties, the jailer creates the opportunity for misappropriation of assets and inaccurate financial reporting to occur and go unnoticed.

Good internal controls dictate that duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, collection of cash, and preparation of checks be segregated in order to lower the risk of misappropriation of assets and inaccurate financial reporting occurring and going unnoticed.

We recommend the Ohio County Detention Center implement segregation of duties over jail commissary receipts and disbursements of the jail commissary. If the duties cannot be segregated due to a limited number of staff or budget, strong oversight should be provided over the employee responsible for the duties. In addition, any compensating controls should be documented if performed.

*Jailer's Response: Cash and Receipts are segregated as much as feasibly possible with current staff. We will implement a second person to review and certify the Commissary Fund Bank Statements. This will begin immediately.*

**The Ohio County Fiscal Court did not have a properly designed purchase order system:** The Ohio County Fiscal Court's purchase order system is not designed properly. Due to departments not being able to keep up-to-date changes in budget, departments cannot ensure that they are not overspending in a budgeted area.

This was due to a misunderstanding of purchase order requirements. The county treasurer believed the current purchase order system was sufficient. If a properly designed purchase order system is not kept in place, the fiscal court cannot ensure that their disbursements are within budgeted amounts.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[p]urchase requests shall not be approved in an

amount that exceeds the available line-item appropriation unless the necessary and appropriate transfers have been made.”

In addition, according to a memorandum from DLG dated August 4, 2016, “[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county’s budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*.” Additionally, the *County Budget Preparation and State Local Finance Officer Policy Manual* also states, “[e]ach department head issuing purchase request shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.” The definition for a purchase order journal is “[a] daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the P.O. number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim reviewed by fiscal court, date paid, and amount paid.” Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

Also, Chapter 11(b) Purchase Order System in the county’s administrative code states, “Ohio County Fiscal Court and All Departments will follow Purchasing Policy and Procedures of the Ohio County Fiscal Court. The Purchasing Policy of the Ohio County Fiscal Court will follow all State and Federal requirements of proper procurement.”

Strong internal controls dictate that purchase orders be approved and issued prior to items being ordered and expenses being incurred, in order to ensure available line-item appropriation exists.

We recommend the Ohio County Fiscal Court implement internal control procedures to ensure the purchase order system is operating as designed.

*County Judge/Executive’s Response: Payroll date fell on Friday, July 1. Payroll match checks, from General, Road, Emg Services and ARPA Funds has to be issued on Thursday, June 30 in order for the payroll account not to be overdrawn. There was no other way to handle this and keep compliant and not overdraw the payroll revolving account.*

The compliance report contains the following finding:

**The Ohio County Fiscal Court did not properly bid out disbursements:**

*Federal Program: Assistance Listing #21.027 Coronavirus State and Local Fiscal Recovery Fund*

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

*Pass-Through Agency: Not Applicable*

*Award Number and Year: 2022*

*Amount Expended: \$1,821,974*

*Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles*  
*Type of Finding: Noncompliance*  
*Amount of Questioned Costs: \$0.00*  
*Opinion Modification (if applicable): N/A*

During Fiscal Year 2022, the Ohio County Fiscal Court received funds from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). The Ohio County Fiscal Court fail to bid out disbursements appropriated to these funds.

According to auditor observation and inquiry with the treasurer, there was a typo in the approved administration code that stated that any purchase over \$10,000 had to be bid out. The treasurer stated that the fiscal court used the \$30,000 threshold to determine if a disbursement needed to be bid. Since bidding procedures were not followed, it is possible that the county did not get the lowest rate for purchases. This also puts the county at higher risk for potential fraudulent purchases. Additionally, the county was not in compliance with KRS 424.260.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws, and to keep good records of all bid transactions.

The version of KRS 424.260(1) in effect during fiscal year 2022 stated, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for: (a) Materials; (b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

Also, according to the Ohio County Administration Code Chapter 11 1(a), “[b]idding will be employed when detailed specifications for the goods or services to be procured can be prepared and the primary basis for award in cost. When the cost of a contract, lease or equipment or contractual services other than those personal or professional exceeds \$10,000.00[.]”

We recommend the Ohio County Fiscal Court bid out any disbursement over the \$10,000 threshold or amend the administrative code to reflect current bidding policy.

*County Judge/Executive’s Response: The County Admin Code had been updated, to reflect the \$30,000 bid limit. The Admin Code had this detail listed in two different places. One line got changed but the other did not. The bid limit was followed, It was simply a typographical error in not changing the bid limit in 2 different places.*

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

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