

**REPORT OF THE AUDIT OF THE
OWSLEY 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 Zeke Little, Jr., Owsley County Judge/Executive

The Honorable Cale Turner, Former Owsley County Judge/Executive

Members of the Owsley 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 Owsley County Fiscal Court, for the year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the Owsley 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 Owsley 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 Owsley 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 Owsley 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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Holly M. Johnson, Secretary

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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 Owsley 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

Owsley 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 Owsley 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 Owsley County Fiscal Court's ability to continue as a going concern for a reasonable period of time.

To the People of Kentucky
The Honorable Andy Beshear, Governor
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Finance and Administration Cabinet
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Members of the Owsley 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 Owsley County Fiscal Court. The Budgetary Comparison Schedules 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 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2023, on our consideration of the Owsley 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 Owsley County Fiscal Court's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

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The Honorable Cale Turner, Former Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

- 2022-001 The Owsley County Fiscal Court's Disbursements Exceeded Budgeted Appropriations
- 2022-002 The Owsley County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report
- 2022-003 The Owsley County Fiscal Court Did Not Maintain Documentation For Encumbrances
- 2022-004 The Owsley County Fiscal Court's Purchase Order System Did Not Operate Correctly
- 2022-005 The Owsley County Fiscal Court Did Not Have Adequate Controls Over The Payroll Process
- 2022-006 The Owsley County Fiscal Court Did Not Pay Withholdings Accurately and Timely
- 2022-007 The Owsley County Fiscal Court Did Not Have Adequate Segregation Of Duties And Controls Over The Overall Environment Of The County
- 2022-008 The Owsley County Fiscal Court Did Not Charge Or Pay Sales Tax To The Kentucky Department Of Revenue

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

February 17, 2023

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

Cale Turner	County Judge/Executive
Zeke Little, Jr.	Magistrate
Jerry McIntosh	Magistrate (July-December)
Jordan Burch	Magistrate (December-June)
Tim Bishop	Magistrate

Other Elected Officials:

Henley McIntosh	County Attorney
Jason Hollan	Jailer
Shanna Oliver	County Clerk
Phyllis Cornett	Circuit Court Clerk
Brent Lynch	Sheriff
Saundra K. Moore	Property Valuation Administrator
Donald Morgan	Coroner

Appointed Personnel:

Dominic Johnson	County Treasurer (February-June)
Cody Lewis	County Treasurer (July-February)
Tyra Dearborn	Finance Officer (November-June)

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

For The Year Ended June 30, 2022

OWSLEY 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	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 529,662	\$	\$	\$
In Lieu Tax Payments		29,143		
Excess Fees	91,912			
Intergovernmental	536,131	1,291,631	40,032	119,314
Charges for Services			35	
Miscellaneous	315,417	224,041	87	255
Interest	130	113	7	9
Total Receipts	<u>1,473,252</u>	<u>1,544,928</u>	<u>40,161</u>	<u>119,578</u>
DISBURSEMENTS				
General Government	622,402	52,500		7,680
Protection to Persons and Property	31,192		187,386	73,429
General Health and Sanitation	17,384			6,552
Social Services				260
Recreation and Culture	400,000			
Roads		1,320,454		
Debt Service		31,857		
Capital Projects				
Administration	615,786	186,768	10,605	15,196
Total Disbursements	<u>1,686,764</u>	<u>1,591,579</u>	<u>197,991</u>	<u>103,117</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(213,512)</u>	<u>(46,651)</u>	<u>(157,830)</u>	<u>16,461</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	592,271	425,534	155,500	18,531
Transfers To Other Funds	<u>(370,200)</u>	<u>(435,421)</u>	<u></u>	<u>(27,500)</u>
Total Other Adjustments to Cash (Uses)	<u>222,071</u>	<u>(9,887)</u>	<u>155,500</u>	<u>(8,969)</u>
Net Change in Fund Balance	8,559	(56,538)	(2,330)	7,492
Fund Balance - Beginning	<u>126,714</u>	<u>88,551</u>	<u>2,923</u>	<u>5,354</u>
Fund Balance - Ending	<u>\$ 135,273</u>	<u>\$ 32,013</u>	<u>\$ 593</u>	<u>\$ 12,846</u>
Composition of Fund Balance				
Bank Balance	\$ 108,328	\$ 32,827	\$ 768	\$ 13,196
Less: Outstanding Checks	(14,130)	(814)	(175)	(350)
Certificates of Deposit	<u>41,075</u>	<u></u>	<u></u>	<u></u>
Fund Balance - Ending	<u>\$ 135,273</u>	<u>\$ 32,013</u>	<u>\$ 593</u>	<u>\$ 12,846</u>

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

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

Budgeted Funds					
Local					
Solid Waste Fund	Parks and Recreation Fund	Government Economic Development Fund	American Rescue Plan Act Fund	Federal Grant Fund	Total Funds
\$	\$	\$	\$	\$	\$ 529,662
					29,143
					91,912
			428,781	455,000	2,870,889
249,426	2,931				252,392
	11,572				551,372
18	1		164		442
<u>249,444</u>	<u>14,504</u>		<u>428,945</u>	<u>455,000</u>	<u>4,325,812</u>
					682,582
					292,007
204,342					228,278
					260
	62,317				462,317
1,737					1,322,191
					31,857
				455,000	455,000
46,532	2,139				877,026
<u>252,611</u>	<u>64,456</u>			<u>455,000</u>	<u>4,351,518</u>
					682,582
					292,007
					228,278
					260
	62,317				462,317
1,737					1,322,191
					31,857
				455,000	455,000
46,532	2,139				877,026
<u>252,611</u>	<u>64,456</u>			<u>455,000</u>	<u>4,351,518</u>
<u>(3,167)</u>	<u>(49,952)</u>		<u>428,945</u>		<u>(25,706)</u>
					1,254,869
10,277	52,756				(1,254,869)
<u>(31,500)</u>			<u>(390,248)</u>		<u>(1,254,869)</u>
<u>(21,223)</u>	<u>52,756</u>		<u>(390,248)</u>		
(24,390)	2,804		38,697		(25,706)
48,242	1,134	897	428,802		702,617
<u>\$ 23,852</u>	<u>\$ 3,938</u>	<u>\$ 897</u>	<u>\$ 467,499</u>	<u>\$ 0</u>	<u>\$ 676,911</u>
					1,254,869
\$ 24,290	\$ 6,933	\$ 897	\$ 467,499	\$	\$ 654,738
(438)	(2,995)				(18,902)
					41,075
<u>\$ 23,852</u>	<u>\$ 3,938</u>	<u>\$ 897</u>	<u>\$ 467,499</u>	<u>\$ 0</u>	<u>\$ 676,911</u>

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

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TO THE FINANCIAL STATEMENT**

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**OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2022

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Owsley County includes all budgeted and unbudgeted funds under the control of the Owsley 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.

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 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.

OWSLEY 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)

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.

Solid Waste Fund - The primary purpose of this fund is to account for disbursements related to solid waste material, trucks, and personnel. The primary source of receipts for this fund is solid waste pickup service fees.

Parks and Recreation Fund - The primary purpose of this fund is to account for disbursements for the county park and recreation area. The primary source of receipts for this fund is transfers from other funds.

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

American Rescue Plan Act Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund is federal grants received under the American Rescue Plan Act (ARPA).

Federal Grant Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary source of receipts for this fund is federal grants.

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.

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.

E. Owsley County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Owsley 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 Owsley County Fiscal Court.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Owsley County Elected Officials (Continued)

- 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.

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 Three Forks Regional Jail is considered a joint venture of the Owsley County Fiscal Court.

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance, and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 First Mortgage Revenue Bonds, Series 2000. In 2012, the bonds were refunded with \$5,570,000 Kentucky Bond Corporation Financing Program Revenue Bonds, Series 2012D that are scheduled to mature on February 1, 2032.

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

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures (Continued)

The only sources of funds expected to meet the debt service requirements of the bonds are the rental payments from the participating counties. Pursuant to a lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bonds as follows (the proportionate share or use allowance): 40 percent for Lee County, 22 percent for Owsley County, and 38 percent for Wolfe County.

Each county is liable solely for its own proportionate share of total annual debt service on the bonds and no one county is liable for another county's debt. Payment of the annual debt service on the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full. Each county has agreed in its lease and sublease agreements that in the event a county cannot pay its indebtedness, an ad valorem tax will be levied in that county for the amount sufficient to provide full payment of the county's rentals due for that year.

Also, on December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority is comprised of an eight-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County Jailer is a required member of the board.

A copy of the Three Forks Regional Jail Authority's most recent audit report for fiscal year 2020 may be obtained at Three Forks Regional Jail, 2475 Center Street, Beattyville, Kentucky 41311.

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.

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

Note 3. Transfers

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

	General Fund	Road Fund	LGEA Fund	Solid Waste Fund	American Rescue Plan Act Fund	Total Transfers In
General Fund	\$	\$ 435,421	\$	\$	\$ 156,850	\$ 592,271
Road Fund	197,500		27,500	15,000	185,534	425,534
Jail Fund	141,500			14,000		155,500
LGEA Fund	6,000				12,531	18,531
Solid Waste Fund					10,277	10,277
Parks and Recreation Fund	25,200			2,500	25,056	52,756
Total Transfers Out	<u>\$ 370,200</u>	<u>\$ 435,421</u>	<u>\$ 27,500</u>	<u>\$ 31,500</u>	<u>\$ 390,248</u>	<u>\$ 1,254,869</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.

Note 4. Accounts Receivable

At June 30, 2022, the Owsley County Fiscal Court had receivables in the amount of \$114,263, due from residential and commercial customers for garbage collection services.

Note 5. Leases

Lessee

During the current fiscal year, the Owsley County Fiscal Court entered into a five-year lease agreement as lessee for the acquisition and use of office equipment on October 27, 2021. An initial lease liability was recorded in the amount of \$16,865 during the current fiscal year. As of June 30, 2022, the value of the lease liability was \$14,054. The Owsley County Fiscal Court is required to make monthly principal payments of \$281. The future principal and interest lease payments as of June 30, 2022, were as follows:

Fiscal Year Ended June 30	Principal
2023	\$ 3,373
2024	3,373
2025	3,373
2026	3,373
2027	562
	<u>\$ 14,054</u>

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

Note 6. Long-term Debt

A. Direct Borrowings and Direct Placements

1. Financing Obligation - Flood Relief

On April 22, 2021, the Owsley Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the financing of a flood relief project. The principal component of lease payments shall be \$200,000. The term of this agreement shall be from date of closing through June 20, 2027, with no principal component or interest component collected through June 30, 2022, nor will any interest accrue through June 30, 2021. Beginning on July 1, 2022 the interest component of lease payments shall be the annual rate of 3.74% with the principal and interest payments due monthly starting July 2022.

Whenever any event of default has occurred and is continuing, the lessor may, without any further demand or notice, take one or any combination of the following remedial steps:

- (a) Terminate the lease term and give notice to the lessee to vacate or surrender the project assets within seven days from the date of such notice.
- (b) Exercise all the rights and remedies of a secured party under the Kentucky Uniform Commercial Code, with respect to the project assets, and may otherwise repossess and liquidate or realize foreclosure upon the project assets in lawful manner.
- (c) Sell or re-lease the project or any portion thereof.
- (d) Recover from the lessee lease payments which would otherwise have been payable hereunder during any period in which the lessee continues to use, occupy, or retain possession of the project assets.

The principal outstanding as of June 30, 2022 was \$200,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2023	\$ 37,070	\$ 6,849
2024	38,480	5,438
2025	39,944	3,974
2026	41,464	2,455
2027	43,042	877
Totals	<u>\$ 200,000</u>	<u>\$ 19,593</u>

2. Financing Obligation - KACoLT Lease #19

On September 13, 2019, the fiscal court entered into a \$120,000 lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a drill for the road department. The amortization schedule was revised after an additional principal payment was made in November 2019. The revised agreement requires monthly payments of \$3,540, ending September 2022. As of June 30, 2022, the principal balance outstanding was \$7,688. Payments for the remaining years are as follows:

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

Note 6. Long-term Debt (Continued)

A. Direct Borrowings and Direct Placements (Continued)

2. Financing Obligation - KACoLT Lease #19 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2023	\$ 7,688	\$ 42
Totals	<u>\$ 7,688</u>	<u>\$ 42</u>

B. Changes In Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 248,960	\$	\$ 41,272	\$ 207,688	\$ 44,758
Total Long-term Debt	<u>\$ 248,960</u>	<u>\$ 0</u>	<u>\$ 41,272</u>	<u>\$ 207,688</u>	<u>\$ 44,758</u>

C. Aggregate Debt Schedule

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

Fiscal Year Ended June 30	Direct Borrowings and Direct Placements	
	Principal	Interest
2023	\$ 44,758	\$ 6,891
2024	38,480	5,438
2025	39,944	3,974
2026	41,464	2,455
2027	43,042	877
Totals	<u>\$ 207,688</u>	<u>\$ 19,635</u>

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

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 \$226,930, FY 2021 was \$236,496, and FY 2022 was \$261,455.

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. 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:

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

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.

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

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

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.

Note 8. Deferred Compensation

The Owsley 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 Owsley 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.

**OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2022

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OWSLEY 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	\$ 511,575	\$ 511,575	\$ 529,662	\$ 18,087
In Lieu Tax Payments	37,000	37,000		(37,000)
Excess Fees	15,535	15,535	91,912	76,377
Intergovernmental	118,200	518,200	536,131	17,931
Miscellaneous	196,670	196,670	315,417	118,747
Interest	10	10	130	120
Total Receipts	<u>878,990</u>	<u>1,278,990</u>	<u>1,473,252</u>	<u>194,262</u>
DISBURSEMENTS				
General Government	575,527	584,615	622,402	(37,787)
Protection to Persons and Property	16,800	26,800	31,192	(4,392)
General Health and Sanitation	34,500	5,300	17,384	(12,084)
Recreation and Culture		400,000	400,000	
Administration	375,440	385,552	615,786	(230,234)
Total Disbursements	<u>1,002,267</u>	<u>1,402,267</u>	<u>1,686,764</u>	<u>(284,497)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(123,277)</u>	<u>(123,277)</u>	<u>(213,512)</u>	<u>(90,235)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	228,500	228,500	592,271	363,771
Transfers To Other Funds	<u>(175,223)</u>	<u>(175,223)</u>	<u>(370,200)</u>	<u>(194,977)</u>
Total Other Adjustments to Cash (Uses)	<u>53,277</u>	<u>53,277</u>	<u>222,071</u>	<u>168,794</u>
Net Change in Fund Balance	(70,000)	(70,000)	8,559	78,559
Fund Balance - Beginning	<u>70,000</u>	<u>70,000</u>	<u>126,714</u>	<u>56,714</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 135,273</u>	<u>\$ 135,273</u>

OWSLEY 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				
In Lieu Tax Payments	\$ 7,000	\$ 7,000	\$ 29,143	\$ 22,143
Intergovernmental	1,819,069	1,819,069	1,291,631	(527,438)
Miscellaneous	88,000	88,000	224,041	136,041
Interest	12	12	113	101
Total Receipts	<u>1,914,081</u>	<u>1,914,081</u>	<u>1,544,928</u>	<u>(369,153)</u>
DISBURSEMENTS				
General Government	61,096	61,096	52,500	8,596
Roads	1,161,300	1,323,158	1,320,454	2,704
Debt Service	43,000	43,000	31,857	11,143
Capital Projects	80,000	80,000		80,000
Administration	440,185	278,327	186,768	91,559
Total Disbursements	<u>1,785,581</u>	<u>1,785,581</u>	<u>1,591,579</u>	<u>194,002</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>128,500</u>	<u>128,500</u>	<u>(46,651)</u>	<u>(175,151)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			425,534	425,534
Transfers To Other Funds	<u>(228,500)</u>	<u>(228,500)</u>	<u>(435,421)</u>	<u>(206,921)</u>
Total Other Adjustments to Cash (Uses)	<u>(228,500)</u>	<u>(228,500)</u>	<u>(9,887)</u>	<u>218,613</u>
Net Change in Fund Balance	(100,000)	(100,000)	(56,538)	43,462
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>88,551</u>	<u>(11,449)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,013</u>	<u>\$ 32,013</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 68,450	\$ 68,450	\$ 40,032	\$ (28,418)
Charges for Services	100	100	35	(65)
Miscellaneous			87	87
Interest	2	2	7	5
Total Receipts	<u>68,552</u>	<u>68,552</u>	<u>40,161</u>	<u>(28,391)</u>
DISBURSEMENTS				
Protection to Persons and Property	181,717	181,717	187,386	(5,669)
Administration	30,283	30,283	10,605	19,678
Total Disbursements	<u>212,000</u>	<u>212,000</u>	<u>197,991</u>	<u>14,009</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(143,448)</u>	<u>(143,448)</u>	<u>(157,830)</u>	<u>(14,382)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	142,698	142,698	155,500	12,802
Total Other Adjustments to Cash (Uses)	<u>142,698</u>	<u>142,698</u>	<u>155,500</u>	<u>12,802</u>
Net Change in Fund Balance	(750)	(750)	(2,330)	(1,580)
Fund Balance - Beginning	<u>750</u>	<u>750</u>	<u>2,923</u>	<u>2,173</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 593</u>	<u>\$ 593</u>

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

	LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 67,000	\$ 67,000	\$ 119,314	\$ 52,314
Miscellaneous			255	255
Interest	4	4	9	5
Total Receipts	<u>67,004</u>	<u>67,004</u>	<u>119,578</u>	<u>52,574</u>
DISBURSEMENTS				
General Government	8,679	7,680	7,680	
Protection to Persons and Property	45,220	53,823	73,429	(19,606)
General Health and Sanitation	10,000	9,827	6,552	3,275
Social Services	5,400	543	260	283
Administration	11,730	9,156	15,196	(6,040)
Total Disbursements	<u>81,029</u>	<u>81,029</u>	<u>103,117</u>	<u>(22,088)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(14,025)</u>	<u>(14,025)</u>	<u>16,461</u>	<u>30,486</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	12,525	12,525	18,531	6,006
Transfers To Other Funds			(27,500)	(27,500)
Total Other Adjustments to Cash (Uses)	<u>12,525</u>	<u>12,525</u>	<u>(8,969)</u>	<u>(21,494)</u>
Net Change in Fund Balance	(1,500)	(1,500)	7,492	8,992
Fund Balance - Beginning	<u>1,500</u>	<u>1,500</u>	<u>5,354</u>	<u>3,854</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,846</u>	<u>\$ 12,846</u>

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

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 250,000	\$ 250,000	\$ 249,426	\$ (574)
Miscellaneous	1,000	1,000		(1,000)
Interest	5	5	18	13
Total Receipts	<u>251,005</u>	<u>251,005</u>	<u>249,444</u>	<u>(1,561)</u>
DISBURSEMENTS				
General Health and Sanitation	172,952	174,189	204,342	(30,153)
Roads	8,000	6,763	1,737	5,026
Debt Service	520	520		520
Administration	99,533	99,533	46,532	53,001
Total Disbursements	<u>281,005</u>	<u>281,005</u>	<u>252,611</u>	<u>28,394</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(3,167)</u>	<u>26,833</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			10,277	10,277
Transfers To Other Funds			<u>(31,500)</u>	<u>(31,500)</u>
Total Other Adjustments to Cash (Uses)			<u>(21,223)</u>	<u>(21,223)</u>
Net Change in Fund Balance	(30,000)	(30,000)	(24,390)	5,610
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>48,242</u>	<u>18,242</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,852</u>	<u>\$ 23,852</u>

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

	PARKS AND RECREATION FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 50,000	\$ 50,000	\$	\$ (50,000)
Charges for Services	8,400	8,400	2,931	(5,469)
Miscellaneous	17,600	17,600	11,572	(6,028)
Interest	2	2	1	(1)
Total Receipts	<u>76,002</u>	<u>76,002</u>	<u>14,504</u>	<u>(61,498)</u>
DISBURSEMENTS				
Recreation and Culture	74,830	74,830	62,317	12,513
Administration	22,172	22,172	2,139	20,033
Total Disbursements	<u>97,002</u>	<u>97,002</u>	<u>64,456</u>	<u>32,546</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(21,000)</u>	<u>(21,000)</u>	<u>(49,952)</u>	<u>(28,952)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>20,000</u>	<u>20,000</u>	<u>52,756</u>	<u>32,756</u>
Total Other Adjustments to Cash (Uses)	<u>20,000</u>	<u>20,000</u>	<u>52,756</u>	<u>32,756</u>
Net Change in Fund Balance	(1,000)	(1,000)	2,804	3,804
Fund Balance - Beginning	<u>1,000</u>	<u>1,000</u>	<u>1,134</u>	<u>134</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,938</u>	<u>\$ 3,938</u>

OWSLEY 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	\$ 250,000	\$ 250,000	\$	\$ (250,000)
Total Receipts	<u>250,000</u>	<u>250,000</u>		<u>(250,000)</u>
DISBURSEMENTS				
Capital Projects	250,000	250,000		250,000
Total Disbursements	<u>250,000</u>	<u>250,000</u>		<u>250,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning			897	897
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 897</u>	<u>\$ 897</u>

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

AMERICAN RESCUE PLAN ACT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$ 857,562	\$ 428,781	\$ (428,781)
Interest		200	164	(36)
Total Receipts		<u>857,762</u>	<u>428,945</u>	<u>(428,817)</u>
DISBURSEMENTS				
Administration		<u>857,762</u>		<u>857,762</u>
Total Disbursements		<u>857,762</u>		<u>857,762</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>428,945</u>	<u>428,945</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			<u>(390,248)</u>	<u>(390,248)</u>
Total Other Adjustments to Cash (Uses)			<u>(390,248)</u>	<u>(390,248)</u>
Net Change in Fund Balance			38,697	38,697
Fund Balance - Beginning			<u>428,802</u>	<u>428,802</u>
Fund Balance - Ending	\$ 0	\$ 0	<u>\$ 467,499</u>	<u>\$ 467,499</u>

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

	FEDERAL GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	800,000	\$ 455,000	\$ (345,000)
Total Receipts		800,000	455,000	(345,000)
DISBURSEMENTS				
Capital Projects		800,000	455,000	345,000
Total Disbursements		800,000	455,000	345,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$	0	\$ 0	\$ 0

OWSLEY 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. Excess of Disbursements Over Appropriations

Total disbursements in the general fund exceeded budgeted appropriations by \$284,497.

Total disbursements in the LGEA fund exceeded budgeted appropriations by \$22,088.

The general fund, general government line item, exceeded budgeted appropriations by \$37,787.

The general fund, protection to persons and property line item, exceeded budgeted appropriations by \$4,392.

The general fund, general health and sanitation line item, exceeded budgeted appropriations by \$12,084.

The general fund, administration line item, exceeded budgeted appropriations by \$230,234.

The jail fund, protection to persons and property line item, exceeded budgeted appropriations by \$5,669.

The LGEA fund, protection to persons and property line item, exceeded budgeted appropriations by \$19,606.

The LGEA fund, administration line item, exceeded budgeted appropriations by \$6,040.

The solid waste fund, general health and sanitation line item, exceeded budgeted appropriations by \$30,153.

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

For The Year Ended June 30, 2022

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OWSLEY 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:

	Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 319,407	\$	\$	\$ 319,407
Buildings	2,969,904			2,969,904
Vehicles and Equipment	2,585,769			2,585,769
Infrastructure	3,855,941			3,855,941
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	<u>\$ 9,731,021</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,731,021</u>

Note: The fiscal court did not update the Schedule of Capital Assets for fiscal year 2022.

OWSLEY 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 and Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**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 Zeke Little, Jr., Owsley County Judge/Executive
The Honorable Cale Turner, Former Owsley County Judge/Executive
Members of the Owsley 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 Owsley County Fiscal Court for the fiscal year ended June 30, 2022, and the related notes to the financial statement which collectively comprise the Owsley County Fiscal Court's financial statement and have issued our report thereon dated February 17, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Owsley 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 Owsley County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owsley 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 Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Responses as items 2022-001, 2022-002, 2022-003, 2022-004, 2022-005, 2022-006, and 2022-007 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2022-001, 2022-002, 2022-003, 2022-004, 2022-005, 2022-006, and 2022-008.

Views of Responsible Official and Planned Corrective Action

Owsley County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. 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,



Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

February 17, 2023

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2022

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**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2022

FINANCIAL STATEMENT FINDINGS:

2022-001 The Owsley County Fiscal Court's Disbursements Exceeded Budgeted Appropriations

The Owsley County Fiscal Court lacks strong internal controls over the budget process. The fiscal court exceeded their approved budgeted appropriations in the general fund, local government economic assistance (LGEA) fund, and solid waste fund. Fiscal courts are required to maintain disbursements within budgeted appropriations in all operating funds. The following line items exceeded the approved budget:

- The general fund, general government disbursements, exceeded budgeted appropriations by \$37,787.
- The general fund, protection to persons and property disbursements, exceeded budgeted appropriations by \$4,392.
- The general fund, general health and sanitation disbursements, exceeded budgeted appropriations by \$12,084.
- The general fund, administration disbursements, exceeded budgeted appropriations by \$230,234.
- The jail fund, protection to persons and property disbursements, exceeded budgeted appropriations by \$5,669.
- The LGEA fund, protection to persons and property disbursements, exceeded budgeted appropriations by \$19,606.
- The LGEA fund, administration disbursements, exceeded budgeted appropriations by \$6,040.
- The solid waste fund, general health and sanitation disbursements, exceeded budgeted appropriations by \$30,153.

By exceeding the budgeted line items listed above this caused the fiscal court to also exceed the overall approved budget for the following funds:

- The general fund budget was overspent in the amount of \$284,497.
- The LGEA fund budget was overspent in the amount of \$22,088.

The fiscal court failed to properly monitor budgeted disbursements of the county's operating funds and to submit budget amendments for approval as necessary. A portion of disbursements of the Owsley County Fiscal Court's general fund and LGEA fund were made without sufficient budget appropriations.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

Strong internal controls over financial reporting are vital in ensuring the fiscal court's actual disbursements do not exceed the amount budgeted in each fund.

We recommend the Owsley County Fiscal Court implement controls to ensure that disbursements are within budget appropriations as required by statute and if necessary, request a budget amendment prior to exceeding the budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will budget appropriately going forward, addressing necessities and making amendments when necessary.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Owsley County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report

The Owsley County Fiscal Court's financial information on the fourth quarter report contained the following material errors:

- Receipts of \$455,000 for a Community Development Block Grant received through the fiscal court and passed through to another entity were not recorded on the receipts ledger, disbursements ledger, or fourth quarter financial report.
- Receipts totaling \$41,075 were used to open up a certificate of deposit at the local bank; however, the receipts were not recorded on the receipts ledger or the fourth quarter financial report. Further, a bank reconciliation was not prepared.
- The fourth quarter financial report's original budget column included a budgeted transfer of \$18,000 from the solid waste fund that was not included on the approved budget.
- The fourth quarter financial report's budget amendment column for American Rescue Plan Act (ARPA) fund receipts included a budgeted amount for a federal grant totaling \$800,000 which did not agree to the approved budget amendment. The approved budget amendment specified the federal grant totaling \$800,000 was to be received in a separate federal grant fund and not the ARPA Fund.
- The fourth quarter financial report's budget amendment column for ARPA fund disbursements included a budgeted amount for reserve for transfers totaling \$800,000. However, the approved budget amendment specified the reserve for transfer of \$800,000 was to be disbursed from a separate federal grant fund and not the ARPA Fund.
- The fourth quarter financial report included a recorded receipt for the general fund totaling \$29,220 that should have been recorded as a receipt for the road fund.
- Receipts totaling \$3,881 were recorded on the receipts ledger for the general fund but were not included on the financial report.
- A transfer from the general fund of \$15,000 was not included on the fourth quarter financial report, which resulted in transfers for the general fund being understated by that amount.
- Receipts totaling \$3,539 for the road fund were deposited into the road fund bank account but were not recorded on the receipts ledger or included on the financial report.
- A duplicate posting to road material sales of \$10,000 had already been included as transfers from other funds for the road fund, which resulted in receipts for road material sales being overstated by \$10,000.
- A duplicate posting to transfers from other funds for the road fund in the amount of \$28,477 which caused transfers in to be overstated by \$28,477.
- A duplicate posting to transfers from the ARPA fund for the LGEA fund in the amount of \$3,645 which caused transfers in to be overstated by \$3,645.
- A duplicate posting to transfers from other funds for garbage collections totaling \$4,029 and \$1,125, which resulted in receipts for garbage collections being overstated by \$5,154.
- A duplicate posting in the parks and recreation fund of \$10,407 to the federal grant receipt account and to transfers from other funds, which resulted in receipts for federal grant receipt account being overstated by \$10,407.

The fiscal court failed to recognize the importance of strong internal controls over reporting financial information, and instead relied on a single employee without sufficient oversight. Due to the lack of effective internal controls, the amounts reported on the quarterly financial report were materially misstated and did not agree with the actual budgeted amounts and the actual transaction amounts. Also, not having internal controls in place resulted in material receipts not being included on the financial report reducing the usefulness of the financial reports to the public as well as to the fiscal court.

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Owsley County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report (Continued)

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

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 (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to, “[p]repare a quarterly financial statement for the State Local Finance Officer.” The manual provides a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements and total available in each line item. In addition, the manual provides a chart of accounts and states, “[a]ll counties must use the account numbers from the chart of accounts.”

Strong internal controls over financial reporting are vital in ensuring the fiscal court’s financial reports accurately reflect the financial activity of the fiscal court.

We recommend the fiscal court strengthen internal controls to help ensure accurate financial reporting by complying with the KRS and guidance located in the DLG policy manual by having the finance officer and treasurer reconcile the receipts and appropriation ledgers at least once a month and document the review by initialing and dating the reconciliation.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The Fiscal Court will accurately report all financials on quarterly report.

2022-003 The Owsley County Fiscal Court Did Not Maintain Documentation For Encumbrances

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The Owsley County Fiscal Court did not include encumbrances on the fourth quarter financial statement. Purchase orders are issued manually by the finance officer and are not put into the accounting software until they are to be paid.

The county treasurer stated that the accounting software can create an encumbrance list for the financial statements; however, since the finance officer is the person who issues the purchase orders and does not have access to the accounting software the encumbrances are not included. The county could not provide the encumbrances on the fourth quarter financial report sent to the Department for Local Government. Without including the encumbrances on the fourth quarter financial report, the county’s financial status has not been accurately or properly reported.

The *County Budget Preparation and State Local Finance Officer Policy Manual*, issued pursuant to KRS 68.210, states “[e]ach department head issuing purchase requests 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.” Also, the *County Budget Preparation and State Local Finance Officer Policy Manual* states, “Total Encumbrances – Enter the total dollar amount of unpaid purchase orders from the purchase order journal.”

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-003 The Owsley County Fiscal Court Did Not Maintain Documentation For Encumbrances (Continued)

We recommend the fiscal court ensure the encumbrance listing is accurate and submitted as part of their fourth quarter report as well as the treasurer settlement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court has already created adequate checks/balances to ensure proper documentation for encumbrances are maintained.

2022-004 The Owsley County Fiscal Court's Purchase Order System Did Not Operate Correctly

This is a repeat finding and was included in the prior year audit report as finding 2021-001. During fiscal year 2022, a lack of proper controls existed over purchasing and disbursement procedures by the Owsley County Fiscal Court. The purchase order system in place did not operate correctly and was not in compliance with the fiscal court's purchasing procedures. The following deficiencies were noted:

- Sixty-one invoices with no purchase order
- Sixteen disbursements with no invoice
- Six instances of invoices that were not itemized
- Seven instances of invoices that were not paid within 30 days with a finance charge paid on one invoice
- One purchase order was issued after the invoice date
- In two instances the county paid sales tax
- One instance of a required item that was not advertised for bids
- One instance of a purchased item that did not agree to the bid price
- Seventy-two instances of invoices not being canceled
- Two instances of duplicate payments for the same invoice totaling \$2,273 and \$287 respectively

The treasurer and finance officer were not aware that purchase orders should be issued for all disbursements, that the purchase order number should be noted on the related invoice, and that purchase orders should indicate the amount the purchase order was issued for. In addition, the county treasurer stated that the accounting software can create a purchase order; however, since the finance officer is the person who issues the purchase orders and does not have access to the accounting software, the purchase order system is not working properly.

The purpose of a purchase order system is to ensure the county is aware of cash balances and budget capacity at any given time. Without amounts or estimated amounts for purchase orders, it is impossible for the county to determine if there are adequate cash balances and budget capacity to cover the purchases, which could lead to overspending. The amount (or estimated amount) is the single most important piece of information to include on the purchase order listing. In addition, by not ensuring all payments are made timely, with proper supporting documentation, and at the agreed upon price, the county could be paying for the same items more than once.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, which outlines the necessary requirements of a purchase order system. These requirements include listing the amount of the claim and the appropriation code to which the claim will be posted. Proper internal controls require the purchase order number be noted on the related invoice.

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-004 The Owsley County Fiscal Court's Purchase Order System Did Not Operate Correctly (Continued)

KRS 65.140(2) requires, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]”

KRS 424.260 requires that when procuring services at a cost exceeding \$30,000, the county should make a newspaper advertisement for bids. A county should determine its reasonable and anticipated needs for at least a year. The fiscal court cannot divide the necessary purchases so as to reduce purchases below the required level for bidding.

We recommend the county strengthen controls over disbursements and the purchasing procedures by requiring disbursements to have purchase orders submitted prior to approval. All purchase orders should be completed properly with dates, amounts, and account codes. Each invoice should include the related purchase order number when being approved for payment. Furthermore, the county should not be paying sales tax and should ensure all invoices are properly canceled to ensure they are paid only once.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court has already created adequate checks/balances to ensure Purchase Order System operates efficiently and correctly.

2022-005 The Owsley County Fiscal Court Did Not Have Adequate Controls Over The Payroll Process

The Owsley County Fiscal Court's internal controls over payroll processes were not operating effectively as noted by the following deficiencies:

- One timesheet was not approved by the supervisor.
- One employee signed their timesheet at the start of the pay period.
- One timesheet was approved by the supervisor prior to the end of the pay period.
- One employee took leave which was not reflected on his timesheet.
- One employee's salary was approved by the fiscal court at a rate of \$547, however the check was written for \$528.
- One employee's salary was approved by the fiscal court at a rate of \$181, however the check was written for \$192. In addition, this employee is receiving a second salary that was approved by the fiscal court at a rate of \$466, however the check was written for \$552. This employee does not turn in a timesheet to the payroll officer.
- One employee works two part-time positions for the county, one position is paid at an hourly rate while the second is paid at a salary rate, however the employee does not turn in a timesheet for the salary position.
- One employee worked 49 hours but was only paid for 39 hours.
- Three employees exceeded the authorized accrued vacation as of December 31, 2021.
- Seven employees exceeded the authorized accrued vacation as of June 30, 2022, with accrued vacation of 620 to 1,387 hours.
- One employee was paid for 80 hours, however the timesheet showed no hours worked nor was any sick or vacation time indicated as being used.
- No employee's timesheet indicated they take a lunch nor does the county have a lunch waiver on file for the employees.

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-005 The Owsley County Fiscal Court Did Not Have Adequate Controls Over The Payroll Process
(Continued)

The above deficiencies occurred as a result of internal controls over payroll not being designed and/or operating effectively. A lack of good internal controls over payroll could allow employees to be under or over paid, in addition, the Owsley County Fiscal Court is not in compliance with Kentucky Revised Statutes and the U.S. Department of Labor.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. KRS 337.320 states “(1) Every employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” The Owsley County Administrative Codes states, “each employee will receive one day annual leave for each complete month worked and may accumulate to a maximum of thirty days.”

Section 13(a)(1) of the Fair Labor Standards Act provides an exemption from both the minimum wage and overtime pay requirements for employees employed as bona fide executive, administrative, and professional employees (including teachers and academic administrative personnel in elementary and secondary schools), outside sales employees, and certain skilled computer professionals (as defined in the Department of Labor's regulations).

U.S. Department of Labor Fact Sheet #17C states:

“To qualify for the administrative employee exemption, all of the following tests must be met:

- The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than \$684 per week;
- The employee’s primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer’s customers; and
- The employee’s primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.”

KRS 337.355 states, “[e]mployers, except those subject to the Federal Railway Labor Act, shall grant their employees a reasonable period for lunch, and such time shall be as close to the middle of the employee's scheduled work shift as possible. In no case shall an employee be required to take a lunch period sooner than three (3) hours after his work shift commences, nor more than five (5) hours from the time his work shift commences. This section shall not be construed to negate any provision of a collective bargaining agreement or mutual agreement between the employee and employer.”

We recommend the Owsley County Fiscal Court comply with KRS 337.320, KRS 337.355, and the administrative code regarding vacation hours. We further recommend the Owsley County Fiscal Court seek guidance from the Owsley County Attorney and the U.S. Department of Labor to determine if the employees being paid as salary employees meet the qualifications to be considered salaried employees or should be paid as hourly employees. In addition, we recommend the employee under paid 10 hours be paid the additional wages due.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive’s Response: The Fiscal Court has already taken action to ensure proper Checks/Balances with the Payroll Process.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-006 The Owsley County Fiscal Court Did Not Pay Withholdings Accurately and Timely

This is a repeat finding and was included in the prior year audit report as finding 2021-003. The county withholds taxes each pay period based on employees' payroll documentation. A review of the current year payments for withholding indicates the county was late paying the withholdings to the state in March 2022. In addition, the county also had five months that the proper payments had not been remitted and an additional four months that had not been properly documented in the ledgers. The improper and late payment caused the county to pay an additional \$89 in penalties. The county has also received a bill for prior year unpaid taxes of \$36,866 with \$5,400 in interest for a total of \$42,266 due to the state. This bill was paid on July 7, 2022. It was further noted that some of the items that were being taxed should have been considered pre-tax when making the tax calculation.

The lack of review or monitoring of the payroll process in the current and prior years allowed county employees' withholdings to go unpaid. The treasurer stated the past due payments have been an ongoing issue and the county was in the process of resolving the issues with the state. He further stated he was unaware of the items that were pre-tax and would make the necessary changes to the program to correct this issue. The treasurer also stated the bill was paid in error in July 2022, as it had already been previously paid by the former treasurer.

Failure to pay obligations to the state has resulted in penalties being assessed to the county, but can also result in collection via court action against the county.

Per the Withholding Kentucky Income Tax manual, "Wages paid to a Kentucky resident as a regular employee in the conduct of business of an employer required to withhold taxes, are subject to withholding on services performed both in and outside Kentucky." In addition, "[e]mployers withholding \$50,000 or more Kentucky income tax a year must file and pay on a twice-monthly basis. Employers meeting the twice-monthly filing requirement must notify DOR and be placed on a twice-monthly basis. When an account has been placed on twice-monthly filing and the employer fails to file twice-monthly, applicable interest and penalties will be assessed as described in Section X."

We recommend withholdings be accurately and timely paid to the department of revenue as well as properly documented on the payroll ledgers. We further recommend the county get with the department of revenue to determine if the \$42,266 has already been paid over and if so, request a refund for the overpayment.

Views of Responsible Official and Planned Corrective Action:

County Judge Executive's Response: The Fiscal Court has already taken action to ensure proper Checks/Balances in the payment of withholdings.

2022-007 The Owsley County Fiscal Court Did Not Have Adequate Segregation Of Duties And Controls Over The Overall Environment Of The County

The Owsley County Fiscal Court lacks adequate segregation of duties over revenues, disbursements, cash (specifically bank reconciliations), and payroll. The Owsley County Treasurer was responsible for recording receipts and disbursements in the ledgers, preparing bank reconciliations, and preparing the county's payroll. Additionally, the Owsley County Treasurer prepared monthly, quarterly, and annual financial reports on behalf of the Owsley County Fiscal Court. The Owsley County Fiscal Court failed to establish adequate management oversight to ensure proper recording of receipts and disbursements and complete and accurate bank reconciliations.

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-007 The Owsley County Fiscal Court Did Not Have Adequate Segregation Of Duties And Controls Over The Overall Environment Of The County (Continued)

The Owsley County Fiscal Court failed to adequately segregate the duties involved in recording revenues and disbursements, preparing monthly bank reconciliations, and preparing the Owsley County Fiscal Court's payroll. Management also failed to provide adequate oversight regarding the Owsley County Treasurer's preparation of financial reports. The lack of adequate segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

The segregation of duties over various accounting functions such as recording receipts and disbursements; preparing bank reconciliations; preparing payroll; and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting.

Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports.

We recommend the Owsley County Fiscal Court segregate the duties involved in recording receipts and disbursements, preparing bank reconciliations, preparing payroll, and preparing monthly, quarterly, and annual financial reports where possible. If this is not feasible due to a limited budget, appropriate management oversight should be established.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court has already taken action to ensure proper Checks/Balances over the Overall Environment of the County.

2022-008 The Owsley County Fiscal Court Did Not Charge Or Pay Sales Tax To The Kentucky Department Of Revenue

The Owsley County Fiscal Court did not charge or pay sales tax on gravel sales totaling \$108,643 made through the county judge's office and included with road fund receipts. The county also did not charge or pay sales tax for receipts totaling \$9,305 collected at the recreation center and included with the parks and recreation fund.

The fiscal court was not aware of sales and use tax requirements. The fiscal court was not in compliance with Kentucky law.

KRS 139.200 states, in part, "[a] tax is hereby imposed upon all retailers at the rate of six percent (6%) of the gross receipts derived from: (1) retail sales of: (a) Tangible personal property, regardless of the method of delivery, made within this Commonwealth[.]"

KRS 139.260 states, in part, "it shall be presumed that all gross receipts and all tangible personal property, digital property, and services sold by any person for delivery or access in this state are subject to the tax until the contrary is established[.]"

KRS 139.540 requires that sales taxes are due and payable to the Kentucky Department of Revenue "monthly and shall be remitted on or before the twentieth (20th) day of the next succeeding month."

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2022
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-008 The Owsley County Fiscal Court Did Not Charge Or Pay Sales Tax To The Kentucky Department
Of Revenue (Continued)

We recommend the fiscal court comply with Kentucky law by accounting for sales tax and paying it timely.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Fiscal Court will take appropriate corrective actions to ensure taxes are properly charged and remitted.

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

OWSLEY COUNTY FISCAL COURT

For The Year Ended June 30, 2022

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

COUNTY FISCAL COURT

For The Year Ended June 30, 2022

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



County Judge/Executive



County Treasurer