



## Auditor of Public Accounts Allison Ball

**FOR IMMEDIATE RELEASE**

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### **Ball Releases Audit of Owsley County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Allison Ball has released the audit of the financial statements of the Owsley County Fiscal Court for the fiscal year ended June 30, 2023. State law requires annual audits of county fiscal courts.

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

The absence of effective internal controls, oversight, and review procedures created an environment in which funds were misappropriated and financial records were inaccurate. Based on these conditions, we determined the fraud risk to be too high and were unable to apply other procedures to mitigate this risk. A disclaimer of opinion will be issued.

The audit contains the following findings:

**The Owsley County Fiscal Court failed to implement a strong internal control system:** The former Owsley County Treasurer was responsible for recording receipts and disbursements in the ledgers, preparing bank reconciliations, and preparing the county’s payroll. As a result, the Owsley County Fiscal Court’s fourth quarter financial statement was not an accurate representation of the financial activity of the fiscal court for the fiscal year ending June 30, 2023. Several issues were noted including asset misappropriation; unable to trace payments to the ledger; incorrect postings to the ledger; and misstated balances.

We recommend the fiscal court implement internal controls and management oversight over the financial reporting process. Some control examples include a thorough review of the quarterly financial statements by someone independent of the accounting function, tracing transactions posted to the bank statement transactions, and ensuring credit cards are maintained by appropriate personnel and charges are reviewed. This finding will be referred to the Kentucky Department for Local Government.

*County Judge/Executive’s Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will develop a procedure manual to ensure that proper actions are taken on segregation of duties over revenues, disbursements, cash and payroll.*

**The Owsley County Fiscal Court failed to monitor credit card purchases:** The fiscal court maintained a credit card to be used purchases that cannot be made by check. The credit card was utilized primarily by a former employee without oversight of purchases made on this credit card. Based upon a review of the activity for the credit card for fiscal year 2023, the following issues were noted: personal charges, including a cash advancement; unable to determine personal vs. official

purchases due to lack of documentation; late fees were assessed; interest was charged due to late payment; and \$6 in cash advance fees were charged to the account.

We recommend the fiscal court implement internal controls over the use of credit cards. If a credit card is maintained by the fiscal court, the use of the card should be limited to appropriate individuals and standard procedures should be developed and followed. This finding will be referred to the Kentucky State Police and the Kentucky Office of the Attorney General.

*County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court has already put in place that credit card is only given to Treasurer, Finance Officer, Road Forman and Judge Executive to use for any purchases needing bought.*

**The Owsley County Fiscal Court lacks adequate internal controls over receipts at the recreation center:** The recreation center collects receipts for events, room rentals, and the sale of concessions for events, and these receipts are routinely cash receipts. There is no established process for these collections. Receipts are not given to customers, daily checkout sheets are not prepared, and deposits are not made daily. Activities for the recreation center were reviewed from July 2022 to June 2023, and as a result of mismanaged deposits, the parks and recreation center fund receipts were overstated by \$48,709.

We recommend the fiscal court enforce triplicate receipt issuance and maintenance for off-site collections for any payment from a customer, whether the payment is cash or check. In addition, daily checkout sheets should be prepared, daily deposits should be made into a federally insured bank, and a member of management should review collection activity.

*County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will develop a procedure manual to ensure that proper actions are taken on receiving cash on sales that are made at the Recreation Center.*

**The Owsley County Fiscal Court lacks adequate internal controls over receipts:** During fiscal year 2023, the following errors were noted: \$37,830 was paid to the fiscal court from the Kentucky Finance and Administration Cabinet that could not be traced to the receipts ledger; \$1,422,382 was paid to the fiscal court from the Kentucky Finance and Administration Cabinet and was posted to the receipts ledger incorrectly; and \$322,500 was paid to the fiscal court for a pass-through grant and was not recorded on the receipts ledger.

We recommend the fiscal court implement stronger internal controls over all receipts of the county. All receipts should be recorded in the appropriate account code, deposits should be made daily, daily checkout sheets should be prepared, and an employee not involved in the receipts process should review all receipts. We also recommend any payment for off-site collections from a customer should be accompanied by triplicate receipt, daily checkout sheets should be prepared, daily deposits should be made, and a member of management should review collection activity.

*Owsley County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix all problems that have been an issue. Owsley County Fiscal Court will implement stronger internal controls over all receipts of the county. Owsley County Fiscal Court will see that deposits are made daily and recorded correctly.*

**The Owsley County Fiscal Court lacks adequate internal controls over disbursements:** The purchase order system in place did not operate correctly and was not in compliance with the fiscal court's purchasing procedures and Kentucky Department for Local Government (DLG) guidance. The following deficiencies were noted: lack of supporting documentation; disbursements made without approval; late payments; invoices paid without a purchase order; and encumbrances reported on the county's financial statement are not accurate.

We recommend the fiscal court implement stronger internal controls over the disbursements process including ensuring all expenditures are supported by an invoice or bill; ensuring all expenditures are valid obligations of the fiscal court; properly document that all claims were presented to the fiscal court prior to payment; ensuring all invoices are paid within 30 business days; and implementing a functioning purchase order system.

*Owsley County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will implement a stronger internal control over the disbursements process including ensuring all expenditures are supported by an invoice or bill; ensuring all expenditures are valid obligations of the fiscal court; properly document that all claims were presented to the fiscal court prior to payment; ensuring all invoices are paid within thirty business days; and implementing a functioning purchase order system.*

**The Owsley County Fiscal Court does not have adequate controls over the payroll process:** The following deficiencies were noted: timesheet timesheets not approved by a supervisor; timesheets did not separate hours worked from overtime hours; overtime paid to a former employee was not documented on the employee's timesheets; timesheets signed before the end of the respective pay period; payroll taxes withheld from employee pay were not remitted timely, resulting in interest and penalties paid by the county for the late payments, totaling \$25,659; the payroll revolving account, used to process payroll, has an unreconciled ending balance of \$56,889 as of June 30, 2023; and amounts from the fiscal court's payroll reports do not agree to amounts on monthly retirement remittance reports.

We recommend the fiscal court develop and implement strong internal controls over payroll. All timesheets prepared by employees should be dated, reviewed, and approved correctly, and the payroll revolving account should be reconciled monthly. Also, all taxes withheld should be paid promptly in accordance with their respective taxing agency.

*Owsley County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will add a column to timesheets to capture overtime hours. Owsley County Fiscal Court will ensure that ALL timesheets are signed by supervisors.*

**The Owsley County Fiscal Court did not prepare an accurate schedule of expenditures of federal awards:** The Owsley County Treasurer prepared a Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2023. The SEFA reported federal expenditures totaling \$1,875,024. The SEFA was materially misstated. The amounts reported could not be verified and the following discrepancies were noted: \$18,808 was included for 'OPIOID Funding' that could not be verified; Federal Emergency Management Agency (FEMA) expenditure amount was overstated by \$831,833; and U.S. Department of Housing and Urban Development expenditures were overstated by \$22,500.

We recommend the fiscal court implement internal controls to ensure that the SEFA is properly prepared and federal expenditures are reported accurately. This finding will be referred to the Kentucky Department for Local Government, the U.S. Department of The Treasury, and Kentucky Emergency Management.

*Owsley County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will develop a procedure manual to ensure that proper actions are taken when utilizing Federal Expenditures.*

**The Owsley County Fiscal Court did not follow bidding requirements or have adequate controls over bidding process:** The fiscal court advertised for bids but did not keep any documentation to support the approval or awarding of bids. Also, the fiscal court failed to advertise for bids for fuel, on which \$63,629 was spent during fiscal year 2023. The fiscal court failed to keep records to support the awarding of bids and were unaware of the requirement to advertise for bids for fuel.

We recommend the fiscal court ensure any purchases over \$30,000 or more are bid in compliance with the county administrative code. When bids are awarded by the fiscal court, adequate documentation should be maintained to support the award. In addition, we recommend any invoice for items bid be compared to the actual proposal to ensure items delivered were the one bid and to ensure accurate billing.

*Owsley County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will develop a procedure manual to ensure that proper actions are taken when handling bidding procedures.*

**The Owsley County Fiscal Court's disbursements exceeded budget appropriations:** The fiscal court is required to prepare a budget each fiscal year and make any amendments to the budget if necessary. The fiscal court exceeded their budgeted appropriations in the general fund and the solid waste fund by \$3,456 and \$27,145, respectively. Furthermore,

budget amendments were not recorded correctly on the financial statement, approved by the fiscal court, or submitted to the Kentucky Department for Local Government (DLG) as required.

We recommend the Owsley County Fiscal Court implement internal controls to ensure that expenditures are within budget appropriations as required by statute and if necessary, request a budget amendment prior to exceeding the budget. Furthermore, any amendments to the fiscal court's budget should be recorded on the financial statement, documented in the fiscal court minutes, and submitted to DLG for approval.

*Owsley County Judge/Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will have the Judge and Finance Officer review budget before sending to DLG.*

**The Owsley County Fiscal Court did not maintain documentation to support expenditures for federal programs:**

The Owsley County Fiscal Court was awarded \$857,562 from the United States Department of The Treasury during fiscal years 2021 and 2022. These funds were provided to respond to the public health emergency with respect to COVID-19 and its negative economic impact. The fiscal court used the funds to supplement a loss of revenue in the county's various funds used for day-to-day operations. The fiscal court expended \$474,553 during fiscal year 2023 through inter-fund transfers and expenditures directly from the fund. Of the \$474,553 expended, there was no documentation maintained to support the expenditures.

We recommend the fiscal court strengthen internal controls over federal awards to ensure all expenditures of federal program awards are adequately supported and documentation is maintained.

*Owsley County Judge Executive's Response: Owsley County Fiscal Court has been under new administration since January 2023 and working diligently to fix any and all problems that have been an issue. Owsley County Fiscal Court will develop a procedure manual to ensure that proper actions are taken when utilizing Federal Expenditures.*

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

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