



Auditor of Public Accounts Allison Ball

FOR IMMEDIATE RELEASE

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Ball Releases Audit of Perry County Fiscal Court

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Perry County Fiscal Court for the fiscal year ended June 30, 2021. 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 Perry 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 audit contains the following findings:

The Perry County Fiscal Court Failed To Implement And Maintain An Effective Internal Control Environment: During the audit, auditors were unable to obtain audit documentation for several areas of the audit despite additional time given. Once the documentation was obtained, the information was found to be inaccurate and unreliable to support audit objectives. Due to the county's failure to maintain adequate accounting records, and other failures noted below, the auditors were unable to perform sufficient audit procedures to overcome the significant risks. Therefore, we cannot provide the Perry County Fiscal Court an opinion or give reasonable assurance on whether the financial statement is free from material error or fraud or on compliance for each major federal program. A disclaimer of opinion will be issued.

We recommend the fiscal court provide sufficient management oversight of the day-to-day financial activities of the county. We further recommend the fiscal court improve its overall control environment to ensure sufficient accounting records are maintained to support transactions, ensure accounts are reconciled, bills are paid timely, and duties are adequately segregated to safeguard public assets. This finding will be referred to the Kentucky Department for Local Government.

County Judge/Executive's Response: Internal controls have been implemented so records are more detailed. We have also switched to new software that will assist with reporting.

The Perry County Fiscal Court Should Seek Guidance On The Transfer Of Financial Management Activities Of The Sanitation District No.1 Of Perry County: During the previous fiscal year, the Sanitation District No. 1 of Perry County and the Perry County Fiscal Court agreed that the fiscal court would take over financial accounting of the sanitation district. Once the county started maintaining the bank accounts, the county treasurer included the sanitation district maintenance and operation account on the fourth quarter financial statement. The county treasurer did not include all receipts or disbursements of the Sanitation District No. 1 on the fourth quarter financial statement. No documented oversight from the sanitation board was obtained for these expenditures.

We recommend the fiscal court seek written guidance from the county attorney and the Department for Local Government to determine all legal ramifications of taking over the financial duties of a separate entity. In addition, we recommend the fiscal court properly budget and account for all money received and deposited into the custody of the fiscal court.

County Judge/Executive's Response: Perry County has transferred the sanitation account to Chris Gooch, CPA, located 132 E Main St. Hazard, KY.

The Perry County Fiscal Court Did Not Maintain Adequate Internal Controls Over Cash, Receipts, And The Reporting Process: We noted the following: an outstanding check of \$63,775 for health insurance was found to during the review of bank reconciliations; however, the check number was improperly recorded in the ledger and improperly reissued to the vendor; no documented evidence of the review of bank reconciliations, bank statements, and deposits by someone independent of the recording and reporting functions were found; the fourth quarter report and bank reconciliations were incorrect; the jail fund owes the road fund \$201,601; the payroll account was not properly reconciled; the county failed to reconcile and prepare a financial statement for the Justice Center Corporation Fund; the county failed to include \$206,133 in the jail fund for unused proceeds from the refinancing of a bank note; and the fiscal court failed to approve cash transfers between county funds.

We recommend the fiscal court separate the duties of the cash and reconciliation process. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

County Judge/Executive's Response: We will implement stringent internal controls, conduct regular reconciliations, and establish clear procedures for cash handling, receipts, and financial reporting to ensure accuracy and accountability.

The Perry County Fiscal Court Did Not Maintain Adequate Internal Controls Over Debt And Reporting: During the audit, the treasurer had to obtain bank statements regarding the debt issued from a third party. Therefore, no personnel at the county level were reviewing, tracking, or posting these transactions to the financial statement. In addition, we noted the fiscal court did not budget for and record all debt related disbursements, did not properly disclose debt on the quarterly financial report, obtained financing in the form of a promissory note that exceeded the allowable term permitted, and failed to maintain proper accounting records for the Justice Center Corporation Fund.

We recommend the fiscal court implement policies and procedures to ensure proper debt management and reporting. Additionally, we recommend the fiscal court properly disclosure all debt on the quarterly financial reports and the county follow the requirements of Kentucky Revised Statutes noted by budgeting all fiscal court disbursements, amending the budget as necessary to reflect any unanticipated receipts and disbursements, and when seeking financing in the future.

County Judge/Executive's Response: Perry County Fiscal Court will establish comprehensive internal controls, conduct regular audits, and implement strict monitoring procedures for debt management and financial reporting.

The Perry County Fiscal Court Failed To Implement Proper Internal Controls Over Disbursements: The Perry County Fiscal Court did not comply with competitive bidding requirements. The follow deficiencies were noted during the testing: five invoices did not have sufficient documentation totaling \$10,346; 116 disbursements were missing purchase orders totaling \$6,864,704; 37 disbursements were not paid within 30 days totaling \$1,301,815; five invoices supporting credit card purchases were not provided totaling \$264; two credit card invoices showed paid finance charges of \$78; three credit card invoices showed paid sales tax totaling \$110; five credit card invoices showed no purchase orders totaling \$3,554; did not maintain proper bid files for the service of excavation and removal of slide material in the amount of \$75,000; the treasurer did not report accurate encumbrances on the fourth quarter report; and the county's disbursements exceeded approved budgeted appropriations.

We recommend the fiscal court implement policies and procedures to ensure disbursements are in compliance with applicable statutes and regulations. Additionally, we recommend the fiscal court put into place internal controls to monitor that these policies and procedures are operating effectively.

County Judge/Executive's Response: Perry County Fiscal Court will enforce robust internal control procedures, require dual authorization for disbursements, and perform regular audits to ensure proper handling of funds.

The Schedule Of Expenditures Of Federal Awards Did Not Provide Sufficient And Appropriate Evidence To Support Compliance With Each Major Program: The county is required to provide the Department of Local Government with a Schedule of Federal Awards (SEFA) at the end of the fiscal year when the final fourth quarter financial statement is submitted. The county failed to provide the Department of Local Government with the SEFA. When the audit began, auditors requested a SEFA from the county treasurer and, after additional time was given, a SEFA was completed. The SEFA provided was materially incorrect. The following items were found: \$288,912 of expenditures were omitted; \$216,625 of expenditures were not recorded in the correct disaster category; and \$112,626 of expenditures were included that should not have been included.

We recommend the fiscal court establish and maintain effective internal control over the federal awards and provide reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. We also recommend the fiscal court contact the Department for Local Government for guidance on how to resolve this issue.

County Judge/Executive's Response: We will enhance our documentation procedures, ensure detailed record keeping, and regularly review compliance requirements to provide sufficient and appropriate evidence for each major program.

The Perry County Fiscal Court Failed To Implement Proper Internal Controls Over Federal Programs: Due to issues found during the audit of the financial statement of the Perry County Fiscal Court, we cannot rely on the design and implementation of the internal controls with the types of compliance requirements that could have a direct and material effect on each major program. The internal control structure increases the risk associated with federal awards since these transactions are processed in the same internal control environment as other county expenditures.

The Perry County Fiscal Court did not provide sufficient oversight for management's day-to-day financial activity of the county. Without sufficient oversight, management did not follow established internal control procedures or ensure compliance with laws and regulations.

We recommend the fiscal court ensure that internal controls exist over federal awards and design and implement internal controls that will ensure material compliance with applicable requirements for all federal awards.

County Judge/Executive's Response: Perry County Fiscal Court will enhance internal controls by providing training for staff on federal compliance requirements, and regularly review and audit federal program activities.

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

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