



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

**Contact: Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

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

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

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

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

The audit contains the following findings:

**The Pulaski County Fiscal Court lacks adequate segregation of duties over cash, receipts, and reconciliations:** This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The Pulaski County Fiscal Court lacks adequate segregation of duties over cash, receipts, and reconciliations. The county treasurer records receipts, prepares deposits, and reconciles the bank accounts. The fiscal court has implemented some compensating controls such as, the county judge/executive or deputy judge review the bank reconciliations. However, these controls are insufficient to reduce the risk of material misstatement.

According to the county treasurer and county judge/executive, they thought they had sufficient controls in place to reduce the risk of material misstatement. The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If segregation of duties is not feasible due to limited staff or budget, the implementation of compensating controls can reduce the risk that a misstatement could occur and go undetected.

We recommend the fiscal court separate duties over cash, receipts, and reconciliations. If these duties cannot be separated due to limited staff or limited budget, then strong oversight over those areas should occur by an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of review.

*County Judge/Executive's Response: PCFC added an additional person to the finance office. The Finance Officer will receive all monies and log receipts. This will be verified by another person in the office. Another person deposits all monies.*

**The Pulaski County Fiscal Court lacks adequate controls over occupational tax receipts:** This is a repeat finding and was included in prior year audit report as Finding 2021-002. The Pulaski County Fiscal Court lacks adequate controls and segregation of duties over occupational tax collections. The occupational tax employees have the ability to change amounts collected in the software program, the ability to waive interest and penalty without approval, and failed to compare actual tax returns to the amount posted. This has caused a material deficiency.

Due to the lack of oversight, this deficiency was allowed to occur. The lack of controls could result in fraud, misappropriations, and material misstatements. Good and effective internal control procedures would dictate confirmation of all reports of cash receipts.

We recommend the fiscal court contact the computer software company to remove the ability to change amount collected and the ability to remove penalty and interest charged to taxpayers. We also recommend the fiscal court segregate duties and when that is not possible implement necessary compensating internal controls over receipts such as comparison of report to amount deposited and amount posted. The review should be documented by signature or initials.

*County Judge/Executive's Response: The software company will limit editing privileges to the program administrator. The finance officer will verify the data and make deposits.*

**The Pulaski County Fiscal Court's budget was not prepared or reviewed properly:** This is a repeat finding and was included in the prior year audit report as Finding 2021-003. The Pulaski County Fiscal Court did not prepare or review the budget properly and the following occurred:

- Several line-item accounts exceed the budgeted amounts on the fourth quarter report.
- Road fund expenditures exceed total budgeted amounts by \$214,110.
- Road fund new debt totaling \$566,803 was not budgeted.

- Budget amendments on the fourth quarter financial report were not reported correctly.
- American Relief Plan fund included a budgeted amount that was not listed on the original budget or documented in a budget amendment. This amount totaled \$4,497,003.

This was allowed to occur due to no review of the quarterly budget. The county treasurer adjusted the disbursements budget amendment column for intra-fund transfers, therefore, the budget amendment on the quarterly includes some intra-fund transfers resulting in a net amount on the quarterly. In addition, the American Rescue Plan Act (ARPA) fund documented on the fourth quarterly financial report had a budgeted amount however, this fund was not included in the original budget or included in any approved budget amendments. As a result of not reviewing the budget to actual expenditures, the road and ARPA funds exceeded the total budgeted amounts.

KRS 68.240(1) states, in part, “[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year[.]”

In addition, the *County Budget Preparation and State Local Officer Policy Manual* issued by the Department for Local Government (DLG) states, “[i]t is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document. An amendment of this nature should be made immediately upon receipt of those funds.”

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.”

We recommend the Pulaski County Fiscal Court ensure all line items, as well as all funds are properly budgeted. The budget should be reviewed periodically by management and department heads, and always before a purchase order is approved and the expenditure is completed. Budget transfers or budget amendments should be prepared and reported properly on the fourth quarterly report.

*County Judge/Executive’s Response: Pulaski County Fiscal Court will ensure that all line items and funds are properly budgeted. The budget will be reviewed monthly by management and department heads and be sure a P.O. is issued or expenditure is paid. All transfers or amendments will be prepared and reported properly on all quarterly reports.*

**The jail fund has a deficit fund balance of (\$5,045):** As of June 30, 2022, the jail fund had a deficit fund balance of (\$5,045). The jail fund was not properly monitored for available funds. Failure to properly monitor the jail fund activity and available funds resulted in the deficit fund balance. The deficit fund balance of the jail fund as of June 30, 2022 was (\$5,045).

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*.

We recommend the jail fund deficit be properly remedied.

*County Judge/Executive's Response: To resolve this issue increased emphasis will be placed on appropriate communication between the treasurer and the jailer/office manager via updated monthly general ledgers.*

**The Pulaski County Fiscal Court did not correctly record interfund transfers:** This is a repeat finding and was included in the prior year audit report as Finding 2021-004. There was no evidence of fiscal court approval in the fiscal court order book for one of the interfund transfers for the audit period. Also, the fiscal court failed to document transfer funds regarding American Rescue Plan Act (ARPA) premium pay between the ARPA, general, road, jail, 911, and fire funds. Premium pay paid from the ARPA fund totaled \$2,157,629 and was broken down as follows:

- General fund received \$584,137
- Road fund received \$520,269
- Jail fund received \$683,073
- 911 fund received \$275,930
- Fire fund received \$94,220

This deficiency was due to the lack of oversight and internal controls over accounting functions. Without proper oversight and approval from fiscal court, misappropriation and fraud could occur and go undetected. When cash transfers are made without approval of fiscal court, funds can be moved between funds to cover expenditures without the knowledge of fiscal court. Interfund transfers should be from one fund to another fund and should always balance.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[a]ll transfers require a court order."

We recommend all cash transfers between funds be approved by the fiscal court and approved prior to the transfer being made.

*County Judge/Executive's Response: All cash fund transfers between funds will be approved by fiscal court prior to the transfer being made.*

**The Pulaski County Fiscal Court did not have strong internal controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2021-005. Internal controls over disbursements were not operating as intended during Fiscal Year 2022. The following exceptions were noted:

- Six invoices were paid late.
- Two disbursements tested did not have supporting documentation, which totaled \$335,032.

- Four invoices were recorded in the wrong line items, which totaled \$561,183.
- One invoice was not detailed; this disbursement totaled \$18,100.
- Fourteen invoices for the construction of a new coroner's office were posted to the wrong line item to courthouse renovations; these invoices totaled \$187,447.
- Fourteen invoices tested included purchase orders dated after original invoice dates.
- One late payment documented during debt testing which resulted in \$1,294 in late charges.
- One invoice paid for new debt issued by the county was not recorded on the quarterly report; this invoice totaled \$566,823.

These deficiencies were allowed to occur due to lack of oversight and proper review of supporting documentation. Due to lack of controls over disbursements, the county could incur additional interest and penalties on late payments, incur expenses the county is not obligated for, and exceed available line-item budgets.

Proper internal controls over disbursements are important to ensure invoices are paid within 30 days, to ensure payments are posted correctly, and claims presented to fiscal court include proper supporting documentation.

KRS 68.275 requires the county judge/executive to present all claims to the fiscal court for review prior to payment unless the expenses are included on a standing order adopted by the fiscal court to preapprove the payment of certain claims such as monthly payroll and utility expenses. Furthermore, KRS 65.140 requires invoices to be paid within 30 working days of being received.

We recommend fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

*County Judge/Executive's Response: New procedures will be implemented to ensure that the purchase order process is initiated prior to purchases being made and invoices are returned in a timely fashion for approval by fiscal court.*

**The Pulaski County Fiscal Court did not properly disclose debt information on the quarterly financial report:** This is a repeat finding and was included in the prior year audit report as Finding 2021-006. The fiscal court did not properly disclose required debt information in the liabilities section of the quarterly financial report submitted to the state local finance officer. Four debt obligations were omitted from the quarterly and two debt obligations were reported incorrectly.

This was allowed to occur due to no review of the quarterly and the debt balances were not reconciled to the amortization schedules. By omitting the liabilities of the fiscal court or recording incorrect amounts, the state local finance officer did not have the accurate position of the fiscal court. As a result, the quarterly materially understated principal debt obligations by \$12,050,916 and interest by \$1,178,798.

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 liabilities section of the quarterly financial report to be utilized for reporting all current long-term debt.

We recommend the fiscal court properly disclosure all debt on the liability section of the quarterly financial reports.

*County Judge/Executive's Response: New accounting procedures ensure that all debt has been properly listed on quarterly reports.*

**The Pulaski County Fiscal Court did not maintain proper records for the public properties corporation fund and general obligation bond funds:** This is a repeat finding and was included in the prior year audit report as Finding 2021-007. The Pulaski County Fiscal Court is financially accountable and legally obligated for the debt of the public properties corporation (PPC) and the general obligation bond funds. The fiscal court did not maintain receipt and disbursement ledgers, did not prepare monthly bank reconciliations, and did not prepare financial statements for the PPC and the general obligation bond funds.

The county treasurer stated she did not maintain the records because they do not go on her quarterly financial report. As a result of not maintaining proper records, the county was unaware if funds were used properly which could lead to the financial statement being materially inaccurate.

Furthermore, adjustments to include financial activity within the PPC fund were required. In total, \$1,920,851 of PPC fund receipts and \$1,916,587 of PPC disbursements had to be adjusted to document PPC fund financial activity for fiscal year ended June 30, 2022. Adjustments to prior year surplus in the general fund for \$2,470,352 were also required for general obligation bond funds not included on the quarterly report.

Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements and book and bank balances be reconciled monthly in order to ensure proper accounting and accurate fund balances. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states the following minimum requirements for handling public funds "Monthly bank reconciliation" and "Books of original entry for receipts and expenditures..."

We recommend the fiscal court prepare and maintain ledgers for receipts and disbursements of the PPC and general obligation bond funds. We also recommend monthly bank reconciliations be prepared for all funds. In addition, fiscal court should prepare end of the year financial statements for funds in order to ensure compliance with DLG requirements.

*County Judge/Executive's Response: Fiscal court will prepare and maintain ledgers for receipts and disbursements of the PPC and general obligation bond funds. Monthly bank reconciliations will be prepared for all funds. Additionally, fiscal court will prepare year end financial statements for the funds to ensure compliance with DLG requirements.*

**The Pulaski County Detention Center did not prepare daily check-out sheets for all revenue received:** This is a repeat finding and was included in the prior year audit report as Finding 2021-008. Daily checkout sheets were not prepared for the Pulaski County Detention Center Commissary account.

The Pulaski County Jailer was not aware all receipts should be documented and accounted for on a daily checkout sheet. Without accurate daily check-out sheets, undeposited receipts and fraud could occur and not be detected.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds in *County Budget Preparation and State Local Finance Officer Policy Manual* states, “Daily deposits intact into a federally insured banking institution.” It also states for jail commissaries that, “Daily deposits are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet.” Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft.

We recommend the jailer complete daily checkout sheets for all monies received in both the commissary and inmate accounts.

*County Judge/Executive’s and Jailer’s Response: The Jailer has initiated, and is monitoring, daily checkout sheets for all monies received in commissary and inmate accounts. These documents are reviewed in house by the office manager/Jailer/designee.*

**The Pulaski County Detention Center did not have strong internal controls over disbursements:** This is a repeat finding that was included in the prior year audit report as Finding 2021-009. The Pulaski County Detention Center did not have strong internal controls over disbursements. Supporting documentation was not maintained and appropriate and proper procedures were not followed for exceptions noted during testing.

Internal controls were not strong enough to eliminate the deficiencies in recording disbursements. During our testing of twenty-seven disbursements from the jail commissary account, inmate fund disbursements, and credit card transactions, we noted the following deficiencies:

- Four disbursements were not paid within 30 days.
- One disbursement was not supported by a detailed invoice.
- One credit card charge was not properly supported with a receipt of payment.

Proper internal controls over disbursements are important to ensure invoices are paid timely, correctly, and have adequate supporting documentation. In addition, KRS 65.140 requires invoices to be paid within 30 working days of being received.

We recommend the jailer implement good internal controls over disbursements by ensuring all purchases have an invoice, paying invoices within 30 working days of invoice received date, and obtaining supporting documentation for all credit card charges.

*County Judge/Executive's and Jailer's Response: The Jailer is implementing stronger internal controls to eliminate these deficiencies making sure invoices are accounted for and paid within the prescribed time. This coincides with personnel changes in the business office of the Jail.*

**The Pulaski County Fiscal Court did not follow proper procurement procedures for purchases over \$20,000:** This is a repeat finding and was included in the prior year audit report as Finding 2021-011. The Pulaski County Fiscal Court did not advertise for bids on all expenditures exceeding \$20,000. The fiscal court paid for the following items during the fiscal year ending June 30, 2022:

- The fiscal court paid \$22,964 for bath house plumbing at a park.
- The fiscal court paid \$59,090 for a general contractor for the construction of the coroner's office.
- The fiscal court paid \$21,780 for equipment rental for the construction of the coroner's office.
- The fiscal court paid \$27,001 for building supplies for the construction of the coroner's office.

The items related to the park and coroner's office were not advertised for bids by the fiscal court. In addition, the fiscal court did not properly accept bids for goods and services. The fiscal court did not document which bidders were selected and approved. The fiscal court voted on June 22, 2021 to approve all 2021-2022 bids.

The fiscal court was not aware the items listed above should have been advertised for bid. As a result, the fiscal court was not in compliance with procurement laws or their administrative code. In addition, the county may not have received the best value for services or products provided.

Pulaski County formally adopted the Commonwealth Model Procurement Code (KRS 45A.343). In addition, the Pulaski County Fiscal Court Administrative Code states, "Any expenditure or contract for materials, supplies (except perishable meat, fish and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) shall be subject to competitive bidding. The County Judge shall open all bids publicly at the time and place stated in the advertisements and shall select the lowest and/or best bid by qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be stated in writing."

We recommend the fiscal court monitor disbursements to ensure procurement procedures are followed properly for all purchases and contracts in the future.

*County Judge/Executive's Response: Department managers have been trained by finance personnel on correct purchasing procedures related to Model Procurement. Pulaski Fiscal Court has adopted a Model Procurement limit of \$30,000.*



**The Pulaski County Fiscal Court did not properly budget and include all debt activity in the financial statement:** The Pulaski County Fiscal Court's fourth quarter financial report did not include financing proceeds and the disbursement for the purchase of four road trucks in the amount of \$566,823.

The fiscal court failed to report the financial activity related to this purchase due to the financing proceeds being paid directly to the vendor from the financial institution. Since these transactions did not run through the fiscal court's bank accounts, they were not included in the fiscal court's budget process or reflected on the fiscal court's financial report. The fiscal court was not aware the proceeds needed to be reported. Failure to include all debt activity on the financial statement caused the financial statement to be understated by \$566,823.

After the financial statement was adjusted to properly account for the debt, the county's budget to actual statement presented as supplementary information accompanying the financial statement shows the capital project line in the road fund to be overbudget by \$412,660.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget," page 72 of the manual states, "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not," and page 74 of the manual states, "[a]ny borrowed money that is not reflected in the original budget estimate must be **amended** into the budget and be properly reflected on the financial report as a receipt as well as an "expenditure" for repayment of borrowed funds."

We recommend the Pulaski County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting. In addition to complying with DLG's financial statement presentation requirements, this will also ensure all line items are properly budgeted or amended as needed.

*County Judge/Executive's Response: This was an oversight which will be remedied by ensuring the DLG financial statement presentation requirements are followed.*

**The Pulaski County Fiscal Court capital asset listing had material misstatements:** The Pulaski County Fiscal Court's schedule of capital assets beginning balances did not agree to the prior year audit report schedule of capital assets ending balances from June 30, 2021 by \$19,000,555. This was due to not comparing the schedule from Fiscal Year 2021 to the current year fiscal year ending June 30, 2022 prior to presenting to the auditors. Management agreed to make the corrections to the schedule.

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 states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement." The

manual further states that an “annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented.” We recommend the fiscal court review this schedule for accuracy each year to ensure information is presented correctly and to comply with DLG requirements.

*County Judge/Executive’s Response: Since we now have additional personnel in the finance department the duty to review correctness of information will be assigned to a specific persons. Material mistakes will be remedied on future documents.*

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

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