



Auditor of Public Accounts
Mike Harmon

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Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Warren County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Warren 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 Warren 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 comments:

The Warren County Fiscal Court failed to implement adequate internal controls to ensure complete and accurate accounting records were maintained: The fiscal court failed to provide adequate oversight, allowing the county treasurer complete control over the accounting and reporting functions. The following errors and reporting violations were noted during the performance of the audit:

- The fourth quarter financial report was inaccurate:
 - The total budgeted amount for receipts per the approved budget and approved budget amendments did not agree to the amount reported as the budgeted amounts per the fourth quarter report. The budgeted receipts for the grants fund were

understated by \$5,000,000. Additionally, the budgeted amounts on the fourth quarter financial report were out of balance by \$5,000,000.

- The fourth quarter financial report showed \$12,096,197 in bond proceeds and corresponding debt service payments for a bond defeasance payoff made in error. The series 2011 bonds were refunded in the prior fiscal year and funds were placed in an escrow to pay the bonds once they were called. The county received a bill from the trustee in error in December 2021 and paid it on December 17, 2021. The trustee discovered the error in January 2022 and refunded the fiscal court for the duplicate payment.
- A cash transfer from the general fund to the jail fund in the amount of \$300,000 was omitted from the fourth quarter financial report.
- All four quarterly financial reports for Fiscal Year 2022 were presented to fiscal court late. The fourth quarter financial report was not submitted to the Department for Local Government (DLG) until August 12, 2022.
- All 12 months of the county treasurer's financial reports for Fiscal Year 2022 were presented to the fiscal court late.
- Resolution 22-23 amending the general and jail funds' budgets each by \$650,000 was approved as an emergency amendment, when no emergency had been declared.
- There was no documentation of internal controls over the preparation and reporting of the Schedule of Expenditures of Federal Awards (SEFA).

The Warren County Fiscal Court failed to implement a strong internal control system or provide proper oversight to ensure complete and accurate accounting records were maintained. Instead, the county placed reliance on the county treasurer, without adequate oversight. The following circumstances also created the issues above:

- When entering the budget amendment for the grants fund the assistant county treasurer mistakenly entered the \$5,000,000 budget amendment to both prior year surplus and transfers out.
- The treasurer instructed the escrow bill be paid prior to following up on the unusual large payment.
- The county treasurer was not sure if the jail fund would need the \$300,000 cash transfer which had been approved by the fiscal court on June 24, 2022. The assistant county treasurer prepared the check on June 24, 2022, but it wasn't posted until July 2022, therefore the activity was not accounted for until Fiscal Year 2023.
- The county treasurer stated he does not receive some of his bank statements until after the tenth of the month.
- The fiscal court approved the \$650,000 amendment as an emergency due to the county treasurer's belief that the jail had exceeded their budget and would not be able to pay bills without an emergency amendment before the end of the fiscal year.

Due to the fiscal court's lack of effective oversight of the treasury functions, the deficiencies, noncompliances, and undetected errors noted above pertaining to required record-keeping occurred without detection. The fiscal court was unable to properly budget and plan for the following fiscal year due to inaccurate financial information being presented. The \$12,096,197 payment in error would have had a significant bearing on the county's financial status if the bond trustee had not caught the error and refunded the county.

Strong internal controls over the preparation and reporting processes are vital to ensure the fiscal court's financial reports accurately reflect the financial activity of the fiscal court, as well as adherence to applicable laws and regulations.

KRS 65.905(2) requires, "[t]he final quarterly report filed by a county within fifteen (15) days after the end of the last quarter of the fiscal year, in accordance with KRS 68.360(2), shall be deemed the uniform financial information report for that county for purposes of compliance with KRS 65.900 to 65.925."

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 (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to "[p]repare a quarterly financial report for the State Local Finance Officer." The manual also provides a formant to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, and actual receipts and disbursements and totals available in each line item. The manual goes on to state, "[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280." It further states, "[a]ny amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency must accompany the budget amendment pursuant to KRS 68.280."

In addition, KRS 68.360(1) states, "[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation." Additionally, KRS 68.360(2) states, "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund. The county judge/executive shall post the statement in a conspicuous place in the courthouse near the front door for at least ten (10) consecutive days and transmit a copy to the fiscal court and to the state-local finance officer. The statement shall be read at the next meeting of the fiscal court."

We recommend the Warren County Fiscal Court strengthen oversight and internal controls over financial reporting in order to ensure complete and accurate records are maintained and that no one individual has control over the accounting functions without establishing checks and balances to verify amounts recorded and reported are accurate. We also recommend the fiscal court scrutinize any unusual amounts or variances noted on the quarterly reports.

Former County Judge/Executive's Response: In response to the fourth quarter financial report being inaccurate in the grant fund this was due to a manual typo by the treasurer's office and the amount was entered into the wrong column. The quarterly report was reviewed by both the treasurer and Dept for Local Govt and all aspects that were checked were in balance but this oversight was missed. Budget Amendments will be double checked in the future on quarterly reports and I don't expect this manual error to happen again.

In response to the posting of the \$12,096,197 bond payoff, this invoice was sent to the treasurer's office to be paid but the escrow agent also wired the money to the bond trustee without communicating with the treasurer's office. Once the statement was received by the treasurer's office in January the funds were asked to be sent back due to the duplicate payment and they were received.

Currently it is still not possible to get the quarterly reports to DLG by the 20th of the following month following quarter end due to several statements cutting off on the 15th of the month and those statements being received on the 18th or 19th of the month. The quarterly is still done manually and takes 4-5 full working days to complete. The correction being put in place is to get online statements sent to the treasurer's office on the first of the month and to switch the accounts cutting off on the 15th to the 1st.

Treasurer Reports will be submitted timely even though all the information will not be collected to meet the timeline.

County Judge will declare an emergency prior to any emergency budget amendments.

The Treasurer works in unison with every dept head and the grant writer to ensure the SEF A is done correctly. The oversight of not sending in with 4th quarter financial report will be corrected but there was no notification from DLG that we were not in compliance.

The Warren County Fiscal Court's purchase order process did not function as designed: Purchase orders were either not issued for all purchases or in other instances were issued after the purchase had been made and the invoice was received.

We tested 72 transactions totaling \$21,057,808. One of these transactions in the amount of \$123 did not have a purchase order prepared for the purchase. Thirty of these transactions totaling \$9,445,802 had purchase orders prepared after the invoice date was received from the vendor. Furthermore, four transactions totaling \$2,727,724 were paid after 30 working days.

Due to the purchase order process not working as designed, encumbrances listed on the fourth quarter financial statement were not accurate. Outstanding invoices were not properly being shown as encumbrances.

According to the assistant treasurer she was unaware of any issues with the purchase order process and would work to fix this. She also stated that due to the size of Warren County and the lack of

staffing, it is very difficult to approve purchase orders for all departments prior to purchases being made. The issues noted above could result in line-items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.”

In addition, according to a memorandum from the Department for Local Government (DLG) dated August 4, 2016, “[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county’s budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*.” Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

KRS 65.140(2) states, “[u]less the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipts of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.”

Lastly, strong internal controls dictate the purchase orders be issued and approved prior to items being ordered and expenses being incurred, in order to ensure available line item appropriation exists, as well as ensuring invoices are paid within 30 working days.

We recommend the Warren County Fiscal Court strengthen internal controls over disbursements by ensuring that purchase orders are issued prior to all purchases being made and that all invoices are paid within 30 working days. We further recommend that the fiscal court use these purchase orders to keep an accurate list of encumbrances.

Former County Judge/Executive’s Response: County Treasurer’s office is currently soliciting vendors for a new purchase order system. The correction will be a new system that will issue a PO prior to any purchase being made. Currently there are manual POs being done prior to purchases and some dates did not match correctly with invoice dates although sometimes the invoices are received by the county much later than the invoice date on the invoice.

The Warren County Fiscal Judge/Executive failed to require encumbrances reported on the fourth quarter financial report be properly supported: Warren County’s encumbrances reported on the fourth quarter financial report were not properly supported. The June 30, 2022 encumbrance list provided to auditors did not agree to the amounts reported on the fourth quarter financial report, with the exception of the road fund. Further, encumbrances totaling \$4,196,504 for the general, jail, grants, and storm water funds could not be supported.

The county judge/executive failed to require encumbrances reported on the fourth quarter financial report be properly supported. By not properly supporting encumbrances, amounts reflected on the fourth quarter financial report could be incorrect, which could result in inaccurate cash balances and fail to alert management to any possible cash flow issues.

KRS 68.360(2) states, in part, “[t]he county judge/executive shall within (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund.” Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarter financial report. Furthermore, good internal controls dictate the fiscal court monitor line items to ensure that there is ample funds and disbursement is within budget prior to approving payment of bills.

We recommend the county maintain an encumbrance listing and properly report encumbrances on the fourth quarter financial report in order to accurately disclose unencumbered fund balances.

Former County Judge/Executive’s Response: County Treasurer understood an encumbrance to be when an expense is approved by fiscal court to be paid but the state interprets an encumbrance to be when the county receives an invoice. Some of the encumbrances listed are approved expenditures that will have to be paid in the future but the county has yet to be billed for. The \$4,196,504 is comprised mostly of \$3,440,635 of broadband work that was agreed on but the county had yet to be billed for yet and a \$200,000 dump truck ordered in 2020 for the road dept that has still not been received, these are considered by the state as not encumbrances but by definition are encumbrances.

Auditor’s Reply: The county treasurer failed to provide documentation to support the encumbrance amounts on the fourth quarter financial statement that was submitted to the Department for Local Government (DLG). DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual* has the following instructions for presenting encumbrances. “Total Encumbrances – Enter the total dollar amount of unpaid purchase orders from the purchase order journal.” See Finding 2022-002 that discusses issues noted with the county’s purchase order system.

The Warren County Fiscal Court failed to implement adequate internal controls over subrecipient monitoring:

Federal Program: 21.027 COVID-19 - Coronavirus State And Local Fiscal Recovery Funds

Award Number and Year: 1505-0271 2021

*Name of Federal Agency and Pass-Thru Agency (if applicable): U.S. Department of the Treasury
Compliance Requirements: Subrecipient Monitoring*

Type of Finding: Material Weakness

Amount of Questioned Costs: None

Opinion Modification (if applicable): Yes, Qualified

COVID Related: Yes

The Warren County Fiscal Court failed to implement adequate internal controls over subrecipient monitoring. The fiscal court granted a subaward of Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) to Live the Dream Development, Inc. in the amount of \$1,000,000 for an affordable housing project. As a requirement of the subaward, the subrecipient is required to submit quarterly progress and financial reports to the fiscal court. The fiscal court did not receive any quarterly subrecipient progress or financial reports during Fiscal Year 2022. Awards unspent as of December 31, 2024 are required to be returned to the Warren County Fiscal Court.

The award of \$1,000,000 was paid on February 14, 2022. Subrecipient reports were not submitted by the subrecipient for quarters ending on March 31, 2022 or June 30, 2022.

This was caused by an oversight of the fiscal court. The county treasurer was unaware that reports needed to be submitted to the fiscal court even if none of the funds have been spent by the subrecipient. The treasurer was under the assumption that the project had not been started as of June 30, 2022.

By not receiving adequate subrecipient monitoring documentation, the fiscal court is unable to document their supervision of the subaward to the agency to ensure requirements for the federal monies are being followed. Additionally, unallowable activities could go unnoticed due to the lack of oversight. In addition, the opinion was modified.

2 CFR 200.332 lists the requirements for pass-through entities. 2 CFR 220.332(d) requires all pass-through entities to “Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include: (1) Reviewing financial and performance reports required by the pass-through entity.”

Additionally, 2 CFR 200.501(a) states “A non-federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

This is not a repeat finding from the previous year.

Former County Judge/Executive's Response: The Treasurer and County Judge have been in communication with Live the Dream Development about proper sub recipient reporting and they are providing quarterly reports. The project had not started and there was some confusion on whether they had to report that they hadn't started. They had communicated this verbally to the county but a written report was not received by June 30, 2022.

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

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