



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Wolfe County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Wolfe 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 statement presents fairly the receipts, disbursements, and changes in fund balances of the Wolfe 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 Wolfe County Fiscal Court did not record long-term liabilities on the quarterly report: This is a repeat finding and was included in the prior year audit report as Finding 2020-007. The fiscal court did not prepare a liabilities section for the fourth quarter financial statement. Underlying accounting records show that the county has outstanding liabilities at the end of the year for three different debt obligations totaling \$6,777,917, but did not include a liabilities section for the fourth quarter financial statement as required by the Department for Local Government (DLG).

The county did not have proper controls in place to ensure the fourth quarter financial statement that was prepared included all elements according to DLG requirements.

By not preparing a liabilities section for the fourth quarter financial statement, the county is not in compliance with KRS 68.210. This also results in the liabilities information not accurately being presented to management, regulatory agencies, and other users of the information.

The fiscal court is required to follow the guidelines as set forth by the *County Budget Preparation Manual* prepared by DLG in order to be in compliance with KRS 68.210. These guidelines require the preparation of a liabilities section to be included with the submission of the fourth quarter financial report which shall include all outstanding debt obligations of the county including any debt outstanding for the public properties corporation.

We recommend the fiscal court implement internal controls to ensure the fourth quarter financial statement includes an accurate liabilities section and all other elements required by DLG.

County Judge/Executive's Response: This was an oversight. When the treasurer started, many things were not logged and everything had to be learned. We strive to do things correctly to please requirements; unfortunately, some things are still missed occasionally. We will work to ensure long-term liabilities are reported properly in the future.

The Wolfe County Fiscal Court did not maintain proper records for the public properties corporation fund: This is a repeat finding and was included in the prior year audit report as Finding 2020-005. The fiscal court did not have proper records for the public properties corporation fund. The quarterly statements received from the financial institution for this account were presented to the fiscal court. However, the county did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for the fiscal year ended June 30, 2021, for the public properties corporation's fund.

The county treasurer was unaware that he had to prepare a financial statement for the public properties corporation fund. This fund is for reporting debt financing for the fiscal court and not included on the quarterly report, per Department for Local Government (DLG) guidelines.

The failure to appoint an employee to be responsible for the proper maintenance and accounting for these records results in the fiscal court being unable to properly account for the receipts and disbursements of the public properties corporation. Furthermore, this also results in the fiscal court being unable to accurately assess the level of debt for which it is responsible.

The fiscal court is financially accountable and legally obligated for the debt of the public properties corporation and this fund is reported as an unbudgeted fund of the fiscal court in the audit report. As the fiscal court is financially accountable and legally obligated for the debt of the public properties corporation, they should maintain proper records to be able to account for the cash balances, project costs, and debt payments for which they are responsible. Furthermore, good internal controls require that all fiscal court funds be reconciled, and financial statements be prepared for each fund.

We recommend the fiscal court prepare and maintain ledgers for the receipts and disbursements of the public properties fund. We also recommend the fiscal court prepare bank reconciliations and an end-of-the-year financial statement for the public properties corporation fund.

County Judge/Executive's Response: February 2021 we began presenting the quarterly and annual reports for this fund to the Fiscal Court. We were unaware of a financial statement that needed to be prepared for reconciliation of this fund. We will work to implement a corrective action plan and create a financial statement for this fund.

The Wolfe County Fiscal Court's purchase order system did not operate correctly: During Fiscal Year 2021, a lack of proper controls existed over purchasing and disbursement procedures by the Wolfe 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:

Purchase orders were not issued for 37 of the 47 disbursements tested. Invoices for which a purchase order was issued did not include the purchase order number related to the disbursement and sometimes the purchase order listing did not include a dollar amount for the purchase.

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.

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 adequate 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.

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*, 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 would require the purchase order number be noted on the related invoice.

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, account codes. Each invoice should include the related purchase order number when being approved for payment.

County Judge/Executive's Response: In past internal challenges to our purchase order system, we have found the system to be effective. The discrepancies found in this audit seem to be related to issues that are out of the Fiscal Court's domain. For example, one finding dealt with federal funds managed by KRADD. The purchases there would have been handled by

KRADD staff. Other discrepancies deal with monthly bills such as inmate housing bill that is individually approved by the Fiscal Court. All day to day purchases (routine and otherwise) require a purchase order, which is date stamped and logged, including the requester and point of purchase.

Auditor Reply: The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states the required purchasing procedures for counties. Per the manual, "purchases shall not be made without approval by the judge/executive (or designee), and/or department head."

The Wolfe County Fiscal Court lacks adequate controls over their bid process: The Wolfe County Fiscal Court failed to follow bid requirements for the purchase of a dump truck in the amount of \$53,856. In addition, the fiscal court did not maintain appropriate bid files for all expenditures that were bid.

The county judge/executive stated failing to bid the dump truck purchase was an oversight. The county also failed to properly implement internal controls and provide sufficient management oversight over the bid process. These issues were compounded due to management's and accounting personnel's lack of understanding regarding bid process and documentation requirements.

As a result, the fiscal court was not in compliance with state bidding laws or their administrative code. In addition, the fiscal court might not have received the best value for services or products provided.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws and keep good records of all bid transactions. KRS 424.260 states "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for: (a) Materials; (b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids." Additionally, this requirement is outlined in Section 9 of the Wolfe County Administrative Code.

We recommend in the future the fiscal court monitor all disbursements to ensure that bidding procedures are followed for all qualifying disbursements. We further recommend the fiscal court document these procedures in the fiscal court minutes and maintain bid files to document the bidding process for all applicable expenditures.

County Judge/Executive's Response: This was an oversight. This purchase in question was a truck that was purchased in June of 2021. At the time of purchase many car lots were empty. The county was in dire need of a new small dump truck. Vehicle supply was very low and demand was very high nationwide due to effects of global pandemic. In fear of missing out,

the process of buying the truck was rushed and the bid process was missed. We will work to closer monitor bidding procedures.

The Wolfe County Fiscal Court did not have adequate internal controls over payroll tax collections: It was noted during the audit that the daily tax reports from the tax software system were not being agreed and reconciled to the actual deposit and receipt ledger postings and that daily deposits were not being made.

Internal controls over the occupational and net profit tax collections were not properly developed and implemented. The lack of adequate appropriate controls being implemented and monitored over the payroll tax collection process could lead to the misappropriation of assets and inaccurate financial reporting.

Proper internal controls and maintaining documentation of control procedures completed is essential to protect the fiscal court against misappropriation of assets and inaccurate financial reporting, while also protecting employees in the normal course of performing their job responsibilities.

It is recommended that the fiscal court implement additional controls over the payroll tax collections and maintain adequate supporting documentation of the control processes that are utilized.

County Judge/Executive's Response: Payroll tax collections are collected monthly and quarterly. We receive money throughout the month. CFO and County Judge open and sort mail. After CFO logs amount of collections into payroll tax software, checks are then given to Treasurer for deposit. All funds are reconciled monthly. Monthly collection reports are filed in a folder as they are received. We will work to implement more controls that monitor collections to ensure deposits agree to daily tax reports.

The Wolfe County Fiscal Court schedule of expenditures of federal awards was not accurate: The Wolfe County schedule of expenditures of federal awards (SEFA) did not accurately report federal grant disbursements for fiscal year ended June 30, 2021. The county treasurer tracks federal grant activity receipts and disbursements to prepare the SEFA each fiscal year based on his records and information provided from the various department heads. The treasurer did not include the expenditures for the TAP grant relating to the East Campton Sidewalk Project. The expenditures for this project during fiscal year 2021 totaled \$549,977.

This grant was originally going to be sponsored by the city of Campton. The city was unable to fiscally manage the project so the county stepped in as grantee. This caused some miscommunication to the treasurer about whether this should be put on the county's SEFA or not. The fiscal court is not in compliance with reporting requirements for federal awards. As the county did end up being the grant sponsor, the expenditures for this grant should have been included on the fiscal year 2021 SEFA.

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 prepare a schedule of expenditures of federal awards and submit this schedule with the fourth quarter report to DLG.

Additionally, *OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements For Federal Awards* 2 CFR 200.508(b) requires the auditee to "[p]repare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with 200.510 Financial statements." 2 CFR 200.510(b) states, in part, "The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502." In addition, good internal controls dictate the SEFA be complete and accurate.

We recommend the Wolfe County Fiscal Court ensure the SEFA is complete and accurately prepared for each fiscal year federal monies are expended.

County Judge/Executive's Response: This was an oversight. This grant was originally to be awarded to the City of Campton. There was an issue with the City of Campton being able to manage the grant. It was our understanding the Fiscal Court would be used as a pass-through, and City of Campton was still managing the grant therefore the Fiscal Court would not have to report on the Wolfe County Fiscal Court SEFA. It appears this was a complete misunderstanding. We will try to monitor all Federal Awards and ensure all are reported on the SEFA.

The Wolfe County Fiscal Court did not prepare purchase orders for federal expenditures: The Wolfe County Fiscal Court does have a purchase order system in place; however, the controls to ensure they were prepared for federal expenditures was not working. The expenditures tested for the Community Development Block Grant (CDBG) did not have purchase orders prepared.

The treasurer and finance officer were not aware that purchase orders should be issued for the CDBG expenditures.

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 adequate 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.

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*, 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.

In addition, 2 CFR 200.318(a) states, “The non-Federal entity must use its own documented procurement procedures, consistent with State, local, and tribal laws and regulations and the standards of this section, for the acquisition of property or services required under a Federal award or subaward. The non-Federal entity’s documented procurement procedures must confirm to the procurement standards identified in § 200.317 through 200.327.”

We recommend the county strengthen controls over federal disbursements and the purchasing procedures by requiring all disbursements to have purchase orders prepared prior to the expenditure being made. All purchase orders should be completed properly with dates, amounts, and account codes.

County Judge/Executive’s Response: In past internal challenges to our purchase order system, we have found the system to be effective. The discrepancies found in this audit seem to be related to issues that are out of the Fiscal Court’s domain. For example, the finding of CBDG fund dealt with federal funds managed by KRADD. The purchases there would have been handled by KRADD staff. A detailed draw request is submitted to the Fiscal Court after purchases have been made, requesting payment. Detailed draw request is kept on file along with copies in Fiscal Court meeting minutes. No disbursements or draw request are made without Fiscal Court review and approval. All day-to-day purchases (routine and otherwise) require a purchase order, which is date stamped and logged, including the requester and point of purchase.

Auditor Reply: The Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* states the required purchasing procedures for counties. Per the manual, “purchases shall not be made without approval by the judge/executive (or designee), and/or department head.”

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

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