



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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

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, 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 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 findings:

The Wolfe County Fiscal Court did not have adequate internal controls over budget monitoring: The Wolfe County Fiscal Court did not have adequate internal controls over monitoring the budget versus expenditures during the fiscal year. Disbursements exceeded approved budgeted appropriations for the general fund, road fund, jail fund, Local Government Economic Assistance (LGEA) Fund, solid waste fund, American Rescue Plan Act (ARPA) fund, and United Against Drugs fund. The following shows excess disbursements that the expenditure accounting codes had over budgeted appropriations:

General Fund – General Government	\$ 20,202
General Fund – General Health and Sanitation	9,639
General Fund – Recreation and Culture	1,150
Road Fund – Roads	414,695
Road Fund – Debt Service	3,039
Jail Fund – General Government	279
Jail Fund – Protection to Persons and Property	45,228
LGEA Fund – General Health and Sanitation	8,748
LGEA Fund – Administration	1,853
Solid Waste Fund – General Health and Sanitation	156,361
ARPA Fund – General Government	330,197
United Against Drugs Fund – Social Services	49,682
United Against Drugs Fund – Administration	373

The fiscal court did not have proper oversight over the disbursement and budgeting processes. Additionally, the fiscal court did not monitor the budget or quarterly reports to prevent disbursements from exceeding approved budget appropriations.

Failure to amend the budget or exceed budgeted appropriations places the county in violation of Kentucky state law.

KRS 68.300 states, in part, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not made within the budget appropriation, shall be void.” KRS 68.280 gives fiscal courts the ability to amend the budget, when necessary, which would have prevented appropriations from exceeding the approved budget. Proper internal controls would ensure that all line items have a sufficient available budget balance prior to processing expenditures.

We recommend the fiscal court implement controls over monitoring the county’s spending throughout the fiscal year to ensure all expenditure line items have sufficient budget amounts available before an expenditure is made. If necessary, budget transfers should be made before any expenditure that would be in excess of available budget balance in any line item.

County Judge/Executive Response: As we learn our accounting software better, we plan to monitor these issues better along with better time management. FY 22 the treasurer had to be absent on several occasions and struggled to adequately monitor disbursements from exceeding budgeted expenditure codes.

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 2021-001. The fiscal court did not prepare a liabilities section for the fourth quarter financial statement. Underlying accounting records show that the county had outstanding liabilities at the end of the year for two different debt obligations totaling \$6,110,000 but did not include a liabilities section for the fourth quarter financial statement as required by the Department for Local Government (DLG).

The fiscal court 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. Previously, many things were not logged and everything had to be learned. We strive to do things correctly to please requirements; unfortunately, some things are 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 2021-002. 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 fiscal court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for the Public Properties Corporation Fund for fiscal year ended June 30, 2022,.

The county does not have proper internal controls in place to ensure the proper preparation of a Public Properties Corporation financial statement. This fund is for reporting debt financing for the fiscal court and is 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 have implemented a corrective action plan and created a financial statement for this fund beginning FY 2023. Due to time of close of our FY 2021 audit, we were unable to implement correction for FY 2022.

The Wolfe County Fiscal Court did not properly account for all lease proceeds on the county's financial statement: The Wolfe County Fiscal Court entered into a lease agreement for the purchase of two new 2021 trucks. Proceeds of \$302,979 from the lease were not recorded on the quarterly report, nor was the corresponding expenditure for the trucks.

The treasurer did not realize these amounts needed to be recorded since they were handled by a third party.

The quarterly report did not properly reflect the county's lease activity and caused the county to overspend their budget. An audit adjustment was made to add the lease proceeds to receipts and the purchase of the trucks to expenditures to properly account for this transaction.

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* requires that all financial activity be recorded on the county's financial statements.

We recommend the county ensure all financial activity is properly recorded on the county's quarterly report in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

County Judge/Executive's Response: This was an oversight. We were unaware third party leases needed to be included in the budget and financial statement. We will work to include these leases in the future.

The Wolfe County Fiscal Court's purchase order system did not operate correctly: This is a repeat finding and was included in the prior year audit report as Finding 2021-003. The fiscal court did not have proper controls over purchasing and disbursement procedures. 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 55 of the 59 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 order.
- Encumbrance list maintained did not agree to amount reported on the financial statement.

The treasurer and finance officer were not aware that purchase orders should be issued for all disbursements, and that the purchase order number should be noted on the related invoice, and that the purchase orders should indicate the amount for which the purchase order was issued.

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 has led to overspending versus the budget in several line items and the financial statement not properly reflecting encumbered balances of each fund.

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, and account codes. Each invoice should include the related purchase order number when being approved for payment. We further recommend that the list of encumbrances be properly maintained to allow for accurate financial statement reporting.

County Judge/Executive's Response: Past internal challenges to our purchase order system have found the system to be effective. Some tested discrepancies dealt with monthly bills/services such as inmate housing bill and utility bills that are 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 requested person, department and point of purchase. All payments get Fiscal Court approval before payment is issued. We will work to improve our purchase order system as we learn our accounting software better and implement when necessary.

The Wolfe County Fiscal Court did not have adequate internal controls over payroll tax collections: This is a repeat finding and was included in the prior year audit report as Finding 2021-005. 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.

We recommend the fiscal court implement additional controls over payroll tax collections and maintain adequate supporting documentation of the control procedures utilized.

County Judge/Executive's Response: Payroll tax collections are collected monthly and quarterly. We receive money throughout the month. CFO and County Judge opens and sorts 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. FY 2023 we began daily log sheets that are given to treasurer to ensure collection and deposits agree to daily tax reports. Due to close of our audit FY 2021, corrective action could not be implemented by FY 2022.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

