



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Livingston County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Livingston County Fiscal Court for the fiscal year ended June 30, 2020. 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 Livingston 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 115 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:

Cash transfers were not properly approved prior to transfer: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. Cash transfers totaling \$1,155,163 were approved after funds had been spent. Cash transfers were made each month by the treasurer and then approved at the following month’s fiscal court meeting.

The treasurer maintains all budgeted funds in one checking account. The treasurer does not book the cash transfers until after the checking account is reconciled at the end of each month. Because cash transfers occurred before being presented to the fiscal court, the county’s funds were at an increased risk of being misappropriated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, all transfers require a court order. Thus, court orders are to be obtained prior to cash transfers being made. Additionally, strong internal controls dictate that fiscal court oversee the movement of funds in order to decrease the risk of misappropriation. It is also the responsibility of the fiscal court to make financial decisions, such as transferring cash between funds.

We recommend that all cash transfers be presented to, and approved by, the Livingston County Fiscal Court before the transactions occur.

County Judge/Executive's Response: This will be corrected.

The Livingston County Fiscal Court overspent the jail, sheriff department, and 911 fund budgets: The Livingston County Fiscal Court approved an original budget in the amount of \$9,096,284. Later, the fiscal court approved two budget amendments and transfers totaling \$1,359,611 thereby making the total available budget \$10,455,895. However, the total available budget was reported on the fourth quarter financial statement as being \$10,952,684.

According to the county treasurer, this condition is the result of a clerical error in which the amount of the first budget amendment was inadvertently included on the financial statement twice. This condition resulted in the Livingston County Fiscal Court overspending the budgets for the jail fund by \$68,213, sheriff department fund by \$90,578, and the 911 fund by \$4,245. Additionally, line-items were overspent in the general fund, Local Government Economic Assistance (LGEA) fund, and occupational tax fund. Because the fiscal court overspent its approved budget, it is not in compliance with KRS 68.300.

Strong internal controls dictate that the total available budget reported on the fourth quarter financial statement agree with the original budget and any budget amendments approved by fiscal court to ensure that those monitoring the budget know exactly how much is available when making purchases.

Furthermore, 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 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 Livingston County Fiscal Court strengthen internal controls to ensure that the approved budgeted amounts agree with the fourth quarter financial statement. We further recommend the fiscal court monitor its budget closely and approve additional budget amendments as necessary to ensure compliance with KRS 68.300.

County Judge/Executive's Response: This has been corrected.

The Livingston County Fiscal Court lacks adequate internal controls over debt reporting:

This is a repeat finding and was included in the prior year audit report as Finding 2019-004. The Livingston County principal debt balance was \$8,896,201 on the liabilities section of the June 30, 2020 quarterly financial statement. However, the confirmed ending principal balance of the Livingston County Fiscal Court debt was \$10,868,201.

According to the county treasurer, this occurred due to a clerical error that was not caught. As a result, the liabilities section of the quarterly financial statement was materially understated by \$1,972,000.

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 accurate financial records be maintained, which includes the schedule of liabilities. In addition, good internal controls require accurate information be presented in order for the fiscal court to make informed financial decisions, such as budget preparation or making large purchases.

We recommend the fiscal court review debt schedules and the debt liabilities section of the quarterly financial statements to ensure that accurate outstanding principle and interest is reported.

County Judge/Executive's Response: This will be corrected.

The Livingston County Fiscal Court lacks adequate internal controls over purchase orders:

The Livingston County Fiscal Court's purchase order system does not work as designed. Throughout the fiscal year, rather than properly issuing purchase orders prior to purchases being made, the county created several purchase orders after the expenses had already been incurred and the invoices had been received. Out of 63 disbursements tested, 17 purchase orders totaling \$271,110 were created after expenses had already been incurred.

This condition is a result of management's lack of understanding of a properly executed purchase order system. Because purchase orders were issued after expenses were incurred, the risk of overspending budgeted line-items, as well as the risk of misappropriation, is increased.

Strong internal controls dictate that purchase orders be issued prior to purchases being made to ensure that purchases do not exceed the available line-item appropriation unless the necessary and appropriate transfers have been made.

We recommend the Livingston County Fiscal Court strengthen internal controls over disbursements by requiring purchase orders be approved and issued prior to purchases being made.

County Judge/Executive's Response: Better efforts will be made to issue PO's before purchases are made when possible.

The Livingston County Fiscal Court lacks proper oversight of the payroll revolving account:

This is a repeat finding and was included in the prior year audit report as Finding 2019-003. As of June 30, 2020, the payroll revolving account had a reconciled balance of \$16,856. Incorrect amounts were transferred from the operating funds to the payroll revolving account.

There were no internal controls verifying payments to and from the payroll account, as well as, no review of the payroll account activity to verify transactions were properly handled and recorded. Additionally, since the payroll account was not reconciled to a zero balance, individual operating fund disbursements and ending balances were misstated on the fourth quarter financial statement.

Good internal controls over the payroll account require oversight by fiscal court to protect employees while performing duties and to protect county assets against misappropriation. The payroll account is a revolving account and should reconcile to zero.

We recommend the fiscal court implement strong internal controls over the payroll revolving account. These controls should include having someone independent of the payroll function verify proper amounts are transferred to the payroll revolving account from the corresponding operating funds. These controls should also include verifying that withholdings amounts and county contributions are handled properly, paid over to the proper authorities in a timely manner, and verifying that any accumulated balance is properly allocated and reflected on the county's financial statement.

County Judge/Executive's Response: This has been corrected.

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

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