



Auditor of Public Accounts  
Mike Harmon

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### **Harmon Releases Audit of Trigg County Fiscal Court**

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

**The Trigg County Fiscal Court lacks an adequate segregation of duties over receipts and financial reporting:** This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The fiscal court does not have an adequate segregation of duties or documented compensating controls over recording, reconciling and reporting receipts. The county treasurer collects receipts, records transactions on ledgers, reconciles accounts, and prepares reports. Reviews of these financial activities are not documented by anyone else in the office. While the duties listed above are statutorily required duties of the treasurer, the fiscal court also failed to establish sufficient oversight procedures to ensure receipts are properly recorded, reconciled, and reported.

The lack of segregation of duties and lack of compensating controls led to inaccurate financial reporting as discussed in Findings 2020-002, 2020-003, and 2020-006. This lack of internal controls could also lead to the misappropriation of assets or fraud. An adequate segregation of duties is achieved by separating the functions of authorizing, recording, reconciling and reporting duties. If duties cannot be segregated, compensating controls should be in place to ensure receipts are complete, accurate, and valid. These compensating controls should be documented by the individual or individuals performing the review.

We recommend the fiscal court segregate duties related to recording, reconciling, and reporting receipts. If segregating duties is not feasible, the fiscal court should implement oversight procedures. All review procedures should be signed and dated by employee performing the review.

*County Judge/Executive's Response: In an effort to segregate duties, Trigg County has an employee (other than the treasurer) to open mail and document checks in a spreadsheet. Any receipts that come from another source than the mail are signed off by at least one other employee and the treasurer. All receipts from the recreation complex are brought to our office by the complex director. The money is counted by the Administrative Assistant to confirm what the Complex Director has brought in, then the money is counted by the treasurer. Money brought in from the recycling center is signed off by two employees at the recycling center, usually the Solid Waste Coordinator and another employee. Then that money is confirmed by the treasurer. Receipts to rent any facility at the Recreation Complex is brought directly to the Judge Executive's office. Receipts are given to anyone who brings in money and the money is counted by the Administrative Assistant and the County Treasurer. All deposit slips from the bank are signed off by another employee (not the treasurer) to ensure that all checks are deposited properly.*

**The Trigg County Fiscal Court overspent in two funds due to an unbalanced budget being presented on the fourth quarter financial report:** This is a repeat finding was included in the prior year audit report in part as Finding 2019-005. The Trigg County Fiscal Court approved an original budget of \$10,359,890 for fiscal year ended June 30, 2020. In November 2019, the fiscal court approved a budget amendment in the amount of \$699,877, thereby bringing the final budget for the fiscal year to \$11,059,767. However, the budget reported on the fourth quarter financial report for fiscal year ending June 30, 2020, showed \$10,434,890 for receipts and \$10,913,767 for disbursements. Therefore, the budget reported to the fiscal court and presented to the Department of Local Government (DLG) on the fourth quarter financial report was unbalanced by \$478,877. Additionally, the fiscal court also failed to budget for debt obligations related to a financing agreement on the Pennyrile Area Development District (PADD) building.

This debt is in the county's name but is being paid by the PADD office. For Fiscal Year 2020, \$41,835 was paid on this debt obligation, which was not recorded or reported on the quarterly financial report.

Budgeted amounts reported on the fourth quarter financial report did not agree to the approved budget which resulted in the sheriff fund being overspent by \$27,859. The general fund, debt service line item, was overspent by \$31,997 due to the omission of the PADD debt activity. These issue were caused by the amounts of the budget amendment being input erroneously on the fiscal

court's software. Also, the fiscal court failed to account for the PADD debt obligation. Additionally, the fiscal court has not implemented control procedures to ensure budget and budget amendments are accurately reported on quarterly financial reports.

KRS 68.260(1) states, "[t]he proposed county budget, tentatively approved by the fiscal court and approved by the state local finance officer as to form and classification, shall be submitted to the fiscal court for adoption not later than July 1 of each year. The budget as presented and amended shall be adopted as of July 1." Good internal controls dictate that procedures be in place to ensure the approved budget and subsequent budget amendments are accurately reported on the quarterly financial report.

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."

Also, good internal controls dictate that procedures be in place to ensure sufficient budget appropriations are available prior to approving and paying claims and all county debt obligations are appropriately recorded on the county's ledgers.

We recommend the fiscal court establish control procedures to ensure approved budget and any budget amendments are accurately reported on quarterly financial report, as well as having procedures in place to ensure the inclusion of all fiscal court financial activity on financial reporting.

*County Judge/Executive's Response: The reports matched before being submitted to DLG. Due to the numbers being updated on the Treasurer's Settlement, the amounts were altered and not corrected.*

**The Trigg County Fiscal Court failed to report over \$7,000,000 in outstanding debt obligations:** This is a repeat finding and was included in the prior year audit report as Finding 2019-003. The fiscal court did not report all outstanding debt bearing the county's name on the Schedule of Outstanding Liabilities as of June 30, 2020. Debt obligations related to the justice center bonds and the financing agreement on the Pennyryle Area Development District (PADD) office building were both omitted from the report. The outstanding principle balance of the justice center bonds as of June 30, 2020, was \$6,470,000, outstanding principle balance of financing agreement on PADD building as of June 30, 2020, was \$465,000. Also, principle balances reported for the hospital lease was understated by \$225,000, senior citizens lease was understated by \$11,875, and sheriff's office building loan was overstated by \$65,952.

The fiscal court has not implemented control procedures to ensure outstanding debt bearing the county's name is reported accurately on the quarterly financial report. Outstanding debt obligations reported to the Department for Local Government (DLG) were materially understated.

Also, due to this omission, the county may not be aware of the future financial obligations necessary to retire debt.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts is outlined in *The County Budget Preparation and State Local Finance Officer Policy Manual* issued by DLG. *The County Budget Preparation and State Local Finance Officer Policy Manual* (page 75) outlines instruction for completing the Section III: Outstanding Liabilities Section of the quarterly financial report. This budget section is to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, Governmental Leasing Act issues, and bond anticipation notes. The instruction include reporting:

- Principal Balance Remaining - The principal amount outstanding at the time of the report,
- Interest Balance Remaining - The amount of scheduled interest outstanding at the time of the report,
- Net Outstanding - The sum of principal balance and interest balance (line 10 plus line 11) remaining,
- Total Outstanding Debt - The sum of the net outstanding for all liabilities, both long term and short term.

The *County Budget Preparation and State Local Finance Officer Policy Manual* (page 72) also requires – all county money is to be reported on the financial statement whether it is included in the budget or not. The statement is a cumulative report and is prepared, signed and dated by the county judge/executive and the county treasurer pursuant to KRS 68.210. Also, good internal controls dictate procedures be in place to ensure outstanding debt reported be complete and accurate at time of filing the report.

We recommend the fiscal court establish control procedures to ensure all outstanding debt obligations bearing the county's name are accurately reported on quarterly financial reports.

*County Judge/Executive's Response: A sublease between Trigg County and the Pennyriple Area Development District is attached. It shows the transferred financial responsibility to PADD in its entirety.*

Auditor's Reply: All debt described above was financed in the name of Trigg County or The Trigg County Public Justice Center. This debt is ultimately the responsibility of Trigg County Fiscal Court.

**The Trigg County Fiscal Court has not implemented adequate controls over off-site collections:** The fiscal court has not implemented adequate controls over receipts collected by off-site locations. The fiscal court does not require off-site locations to submit any documentation to ensure amounts received are complete and accurate. The fiscal court receives money from off-site locations for concession sales, complex rentals, and recycling fees.

Concession sales are mostly cash transactions collected by the complex director during sporting events. These transactions are processed through a cash register; however, the cash register tape

is not provided to the county to ensure amount received is accurate. Also, the complex director keeps the cash from concession sales at his house overnight.

Complex rentals fees are collected by the complex director at the time of scheduling, but receipts are not issued to the customer. The complex director maintains a calendar of events to ensure building is open and available for the customers. However, a copy of the calendar of events is not provided to the county to determine that all rental fees collected are turned over to the county.

Recycling fees are collected at the recycling center. Customers are not given a receipt. The recycling center employee take the cash/check and places it into a lockbox and writes the items on a receipts listing. Money and a receipts listing is turned into the county treasurer's office once a week.

The fiscal court has failed to realize the importance of establishing controls procedures over receipts from off-site locations, which are at greater risk of misappropriation. Since control procedures have not being implemented over receipts from off-site locations, the fiscal court cannot ensure that all receipts are accounted for properly. Without requiring adequate documentation, proper collection procedures, and sufficient supervisor oversight, the fiscal court is increasing the risk of misappropriation of county assets or fraud occurring in these areas.

KRS 64.840 also requires that any receipt for a fine, forfeiture, tax, or fee to a county official should have triplicate receipt copies, with one copy given to the person paying the fine, forfeiture, tax, or fee, one copy retained for recordkeeping, and one copy placed with the daily bank deposit. Good internal controls dictate the procedures be in place to ensure all receipts collected are complete and accurate, especially from off-site locations that do not fall within the county's normal collection process.

We recommend the fiscal court implement control procedures for receipts collected by off-site locations. At a minimum, the fiscal court should require off-site locations to maintain and submit supporting documentation on amounts collected. This could include cash register tapes, calendar of events log, receipts issued to customers, and daily check out sheet.

*County Judge/Executive's Response: Any receipts that come from another source than the mail are signed off by at least one other employee and the treasurer. All receipts from the recreation complex are brought to our office by the complex director. The money is counted by the Administrative Assistant to confirm what the Complex Director has brought in, then the money is counted by the treasurer. Money brought in from the recycling center is signed off by two employees at the recycling center, usually the Solid Waste Coordinator and another employee. Then that money is confirmed by the treasurer. Receipts to rent any facility at the Recreation Complex is brought directly to the Judge Executive's office. Receipts are given to anyone who brings in money and the money is counted by the Administrative Assistant and the County Treasurer.*

**The Trigg County Fiscal Court did not maintain adequate documentation to support payroll disbursements:** Based on test of timesheets, five out of 18 employees were compensated for hours not actually worked. One employee was paid 48 hours for each pay period for the month,

However, the employee's timesheet documented that the employee only worked 25 hours the first period and did not work at all the second pay period.

One employee was paid eight hours of overtime; however, no overtime hours were documented on the employee's timesheet. One employee was paid 50 hours for the pay period; however, the employee's timesheet documented that the employee only worked 22 hours during the pay period. One employee's timesheet documented 36 hours worked during the pay period, however, the employee was paid for only 21.5 hours. One employee was paid twice for sick leave used.

Additionally, the fiscal court does not set a fixed compensation rate for each county employee but rather a range of rates. For example, the yearly compensation range approved for one employee was \$36,000 to \$55,000 or \$17 to \$26 per hour. Set a range of compensation rates were approved, it was impossible to determine if employees were compensated properly.

The fiscal court has not implemented control procedures to ensure approved timesheets agree to payroll summary reports. The lack of effective internal controls over payroll opens to county up to being vulnerable to fraud related to payroll expenses.

KRS 64.530 states, in part, "...the fiscal court of each county shall fix the reasonable compensation of every county officer and employee..." Also, good internal controls dictate that procedures be in place to ensure that employees are properly compensated based on hours worked.

We recommend the fiscal court approve salaries and hourly wage rates at fixed amounts for all county employees. We also recommend the fiscal court strengthen internal controls over the timekeeping function by requiring timesheets to be compared to payroll summary reports to ensure employees are received the accurate amount of wages.

*County Judge/Executive's Response: Hours are given to the treasurer before the timesheets are presented if it is the middle of the month. Those hours did not properly match up. The Treasurer will ensure that the hours align with what managers/supervisors submit. Also, some hours were altered due to COVID-19. Furthermore, the pay scale was updated in May 2021 to ensure that all employees are paid within the scale.*

**The Trigg County Fiscal Court did not prepare a financial statement for the public justice center corporation fund:** The fiscal court maintains an unbudgeted fund, public justice center corporation fund, to account for bond issuance and debt payments related to the construction of the justice center. During Fiscal Year 2020, this fund received \$910,675 from the Administrative Office of the Courts (AOC) and expended \$910,426 on debt payments and administrative fees. The fiscal court maintains ledgers related to the justice center fund but did not prepare an annual financial statement. The county treasurer was not aware that an official financial statement was required to be prepared on the justice center fund.

Due to the omission of the financial activity related to the justice center corporation fund, the county's financial statements as of June 30, 2020, were materially misstated. Audit adjustments have been proposed to account for the fund.

The public justice center corporation is a component unit of the Trigg County Fiscal Court. As such, the fiscal court is responsible to account for these funds in accordance with the requirements set forth by the state local finance officer. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts is outlined in *The County Budget Preparation and State Local Finance Officer Policy Manual* (Budget Manual) issued by the Department for Local Government (DLG), which requires county government to maintain a receipts and disbursements journal, perform monthly bank reconciliations, and prepare an annual financial statement.

While DLG does not require the public justice center corporation to be budgeted, the fiscal court is required to maintain a receipts and disbursements journal, perform monthly bank reconciliations, and prepare a year-end financial statement for the public justice center corporation. Good internal controls dictate that procedures be in place to ensure all financial activity related to operating the county is properly reported.

We recommend the fiscal court establish procedures to ensure compliance with DLG requirements for reporting financial activity related to the public justice center corporation.

*County Judge/Executive's Response: A Spreadsheet has been created to maintain the Public Justice Center Corporation Fund and was believed to be adequate. The County Treasurer is not privileged to any other information apart from the monthly statement.*

**The Trigg County Fiscal Court did not accurately reconcile bank accounts:** This is a repeat finding and was included in the prior year audit report as Finding 2019-002. Bank reconciliations for the general fund and road fund as of June 30, 2020, were inaccurate. Ending bank balances on reconciliations did not agree to bank statements due to outstanding checks on the general fund reconciliation being understated by \$48,789 and outstanding checks on the road fund reconciliation being overstated by \$12,357. Also, the payroll account did not reconcile to zero. The reconciled book balance of the payroll account as of June 30, 2020, was \$17,963.

The fiscal court has not established oversight procedures to ensure bank reconciliations are prepared accurately. According to the county treasurer, outstanding checks related to the payroll account were included on the general fund and road fund reconciliations by mistake. The county treasurer does not know what caused this to occur. By not accurately reconciling accounts, the fiscal court cannot ensure county funds are properly safeguarded and available for county use. Also, the fiscal court is not aware of the current financial status of the county.

Good internal controls dictate that procedures be in place to ensure bank reconciliation are prepared accurately and reflect the amount currently available to conduct county business. Bank reconciliations should be reviewed for accuracy by an individual outside the recording and reporting process. Additionally, the payroll account is a revolving account, as such, should reconcile to zero. Good internal controls dictate that procedures be in place to ensure amounts transferred to the payroll account agree to payroll obligations each pay period.

We recommend the fiscal court establish control procedures to ensure bank reconciliations are accurate. We also 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.

*County Judge/Executive's Response: Bank Accounts will maintain proper reconciliation. Due to an unknown error, these amounts did not match up. The amount in the Payroll Account is a result of several years of keeping extra funds in there to ensure no overdrafts.*

**The Trigg County Fiscal Court does not have adequate controls over the health reimbursement account program:** The fiscal court does not have adequate control procedures over the health reimbursement account program (HRA). The HRA is currently set up so that the fiscal court periodically transfers funds into the insurance account. Throughout the plan year, the fiscal court allows the service organization that handles this program to draw lump sum amounts from the insurance account. The service organization sends an email requesting an amount to be withdrawn. There is no documentation as to which employee the draws are for or the balances in each employee's accounts.

According to the Benefit Plan Report as of June 30, 2020, the HRA balance was \$23,151. However, the fiscal court's insurance account had a reconciled book balance of \$46,466. This means that the HRA was overfunded by \$23,315. The fiscal court did not realize that they should have oversight procedures over the health reimbursement account program. Good internal controls dictate that procedures be in place to ensure the HRA is adequately funded and employees' accounts balances are being maintained.

We recommend the fiscal court establish oversight procedures for HRA and maintain documentation on employees' balances to ensure the appropriate amounts are provided to the HRA.

*County Judge/Executive's Response: Trigg County receives monthly reports from our HRA to show the amounts remaining for each individual. We set aside several thousand dollars at the beginning of the year and BMS requests draws throughout the year for the individuals.*

**The Trigg County Fiscal Court did not maintain adequate internal controls for alcohol beverage control receipts:** The Trigg County Fiscal Court imposed a regulatory license fee to be assessed on all alcohol sales within the county. The payment of the fee shall accompany a tax return. During testing of alcohol beverage control (ABC) receipts, the county treasurer realized that the ABC tax returns could not be located. The county treasurer explained that the records are kept together in a folder on her desk during the year and then filed away. The ABC tax returns could not be located for the year under audit.

If supporting documentation is not maintained it is not possible to ensure receipts reported are complete and accurate. This lack of internal controls could lead to inaccurate financial reporting, misappropriation, or even fraud without being detected.



According to County Ordinance 10-0-01, “A Comprehensive Regulatory Ordinance For The Sale And Distribution Of Alcohol Beverages Within The County of Trigg, Kentucky”, the fiscal court imposed a regulatory license fee to be assessed on all alcohol sales within the county. Section 5:02 of the ordinance addresses payments of regulatory fees and states, “Payment of regulatory license fee shall accompany tax returns approved by the Administrator and the County Treasurer. The return shall be submitted to the Administrator by the 15<sup>th</sup> day of each month for the preceding month’s sales.”

Good internal controls dictate that procedures be in place to ensure that documentation submitted (tax returns) along with regulatory fees be maintained by the administrator (county) to support receipts of these fees.

We recommend the fiscal court maintain documentation (tax returns) to support all fees collected during the fiscal year.

*County Judge/Executive’s Response: The current fiscal year Alcohol receipts are maintained. The receipts for 2019-2020 were misplaced.*

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

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