



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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

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

**Fund transfers were not approved by the fiscal court in advance:** This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The Knott County Fiscal Court did not have all fund transfers approved by the fiscal court before executing the transfer. The lack of oversight over cash transfers resulted in unauthorized transfers. Without proper oversight and approval from the fiscal court, undetected misappropriation and fraud could occur. When cash transfers are made without approval of the fiscal court, money can be moved between funds to cover disbursements without the knowledge of the fiscal court. The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states “[a]ll transfers require a court order.” We recommend the fiscal court require all cash transfers be approved by the fiscal court prior to the transfer being made.

*County Judge/Executive's Response: Fiscal Court now approves transfers in advance.*

**The Knott County Fiscal Court does not have adequate controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The Knott County Fiscal Court does not have adequate controls over disbursements. Of the 80 items tested, eight invoices were not paid within 30 days and four invoices did not have a purchase order issued. The lack of available funds caused invoices to be paid late, and a lack of internal controls over the purchase orders system allowed invoices to be paid that had not went through the purchase order system. Weak controls over disbursements increase the risk of misstatements of financial activity. Payments could be paid to vendors that may not be a true liability to the fiscal court. Funds could be misused as intended or invoices could go unaccounted for, resulting in late fees being incurred.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, are presented to the fiscal court, include proper supporting documentation, and are paid within 30 days. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

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 within the budget appropriation, shall be void." KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

*County Judge/Executive's Response: The Knott Fiscal Court lacks adequate funds to pay all bills at due date. We will continue to work toward fixing this problem.*

**Credit card expenditures could not be appropriately validated and were not properly documented or recorded:** This is a repeat finding and was included in the prior year audit report at finding 2019-003. The Knott County Fiscal Court had credit card expenditures that could not be properly validated and were not properly supported or recorded. Of the credit card statements tested there were 70 transactions, of which, 4 receipts were not attached and there were finance charges of \$853. Of these 70 transactions 54 were not recorded in their proper line item on the financial statement and 16 could not be determined whether they were properly recorded due to not having a receipt or explanation of use. Also, process of purchase orders is not being using for credit card purchases.

The fiscal court has lax oversight over credit card use and is not reconciling card statements to receipts to ensure that all receipts are accounted for and are properly recorded. The lack of

oversight by the fiscal court over the use of credit cards could allow charges that do not meet a public purpose for the county. Strong internal controls dictate that there be procedures in place that reconcile monthly credit card receipts submitted to the credit card statement. All receipts for credit card transactions should be attached to the statement and filed. An explanation should be maintained to support expenses to ensure that expenses are proper use of county funds.

We recommend that the fiscal court have more control of credit card usage, ensure that receipts are attached to credit card statement and require documentation of the reason the card was used. Also, we recommend that each expenditure is recorded in its proper financial statement line and purchase orders are issued for all transactions.

*County Judge/Executive's Response: All documentation for credit card charges are required to be turned in to [name redacted] each week.*

**The fiscal court does not have adequate internal controls at the Knott County Sportsplex:**

This is a repeat finding and was included in the prior year audit report as Finding 2019-004. Our review of the receipts and disbursement process for the Knott County Sportsplex revealed weaknesses in internal controls that should be addressed. The Knott County Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. During basketball season, referees are paid out of the front door cash receipts. The sportsplex director calculates the sales report and deposit, faxes the daily checkout sheet to the county treasurer, and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business.

The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, "disbursements by check only." Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

Due to the high volume of cash transactions and not accounting for significant amounts of revenue, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This accounts for front desk, concession stand, and the driving range.
- All checks should be copied and detailed on the deposit ticket with a name to identify collections.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected.
- All disbursements paid to referees should be made by check only.

*County Judge/Executive's Response: The Fiscal Court is working to implement all of the Auditors Recommendations. We understand better controls will be to the Fiscal Courts benefit.*

**The fiscal court does not have adequate internal controls at the Knott County Mine Made Adventure Park And Campground:** Our review of the receipts process for the Knott County Mine Made Adventure Park and Campground revealed weaknesses in internal controls that should be addressed. The park and campground collects money for campsite and cabin rentals, RV storage rentals, parking fees for ATV rides, and they also sale shirts, ice, and firewood. One employee is in charge of the operations which involves collecting, reconciling, and depositing money into the bank on a weekly basis instead of daily.

The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, "disbursements by check only." Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

Due to the high volume of cash transaction, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This accounts for all rentals and sales.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected and deposited daily.

*County Judge/Executive's Response: The Fiscal Court is working to implement all of the Auditors Recommendations. We understand better controls will be to the Fiscal Courts benefit.*

**Disbursements exceeded approved budget appropriations:** The fiscal court's disbursements exceeded the approved budget. The road line item in the state grants fund exceeded the appropriations by \$61,500. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. This was due to an oversight by management. Also, due to the fiscal court not recording the borrowing and expending of \$61,500, they were unaware they had overspent the budgeted appropriations. The disbursements exceeded budgeted appropriations by \$61,500 after the recording of the expenditure payment.

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." Further, KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The

amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget.”

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary.

*County Judge/Executive’s Response: This piece of equipment was purchased with a RTP grant. The funding was approved and due to COVID-19 the funds were held up and delayed. The estimate on the piece of machinery was only due for a limited time and we went ahead and signed the agreement on the excavator, locking us in at the estimated price. We received the equipment in April and were never billed until July, which was three months later, April, May and June, and we did not make a payment on this machine in the 2019-2020 fiscal year. The money has since been received and the machine has been paid in full. The reason it was not listed is because we had not paid any funds on the machine and no money was spent on it in that fiscal year.*

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

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