



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Letcher County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Letcher 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 Letcher 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 Letcher County Fiscal Court’s disbursements exceeded budgeted appropriations for the jail fund: The Letcher County Fiscal Court exceeded budgeted appropriations in the jail fund. The fiscal court had budgeted appropriations of \$1,142,996 for the jail fund and incurred actual disbursements totaling \$1,342,574 for the fund. The fiscal court overspent the jail fund in the amount of \$199,578. Fiscal courts are required to maintain disbursements within budgeted appropriations in all operating funds.

The treasurer was unaware that she could budget additional receipts to the jail fund for transfers from other funds to account for additional expenditures in the jail fund that were not included in the total budgeted appropriations.

A portion of disbursements of the Letcher County Fiscal Court's jail fund were made without sufficient budget appropriations.

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." Strong internal controls over financial reporting are vital in ensuring the fiscal court's actual disbursements do not exceed the budgeted disbursements in each fund.

We recommend the Letcher County Fiscal Court implement controls to ensure that actual disbursements are within budget appropriations as required by statute.

County Judge/Executive's Response: The county had to transfer more money into the Jail Fund to cover expenses than we budgeted. We were not aware a budget amendment needed to be made for those additional transfers.

The Letcher County Fiscal Court did not have adequate procedures for reporting county liabilities: The Letcher County Fiscal Court did not report outstanding interest balances related to debt service payments. Of the five debts listed, the principal balance for one of the debts was not reported correctly, resulting in a difference of \$13,333. The interest balances on all five debts were not reported, resulting in liabilities of \$3,382,699 for interest balances due as of June 30, 2020, not reported on the fourth quarter financial report.

The fiscal court does not have controls in place to ensure balances were reported properly. Some of the differences in the principal and interest balances are likely due to posting errors in prior years. The software used by the fiscal court calculates the balances for principal and interest based upon when debt service payments are issued. If the debt service payments were misclassified when issued, then the balances would not calculate properly. This has resulted in the misstatement of county liabilities, making it difficult for management to easily determine where the county's debt balances stand.

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 officials to report all liabilities of the county, even when related to unbudgeted funds. The schedules should be reported with correct balances. Internal control procedures should be in place with the fiscal court to ensure that all liabilities held at fiscal yearend are reported on the liabilities schedule and have accurate ending balances.

We recommend the county improve procedures to ensure proper reporting of all county liabilities on the financial statement.

County Judge/Executive's Response: Liabilities are reported per the amortization schedules received from KACO. KACO sends out monthly invoices per the amortization schedules and we

pay according to the invoices. Principal and interest are also reported according to the amortization schedules on the quarterly reports.

Auditor's Reply: Liabilities for outstanding interest and principal amounts due according to the amortizations schedules were not reported correctly on the fourth quarter financial report.

The Letcher County Fiscal Court did not present all debt activity on the financial statement: The Letcher County Fiscal Court's fourth quarter financial report did not include the financial activity for a loan for a truck that was later refinanced and an additional truck was also purchased with the refinanced loan. The Letcher County Fiscal Court had financing proceeds that went directly from lessor to the vendor and were not reported on the financial statement. Since these transactions did not run through the fiscal court's bank accounts, they were not included in the fiscal court's budget process or reflected on the fiscal court's financial report. The fiscal court was not aware the proceeds needed to be reported.

Failure to include all debt activity on the financial statement caused the financial statement to be understated by \$289,844.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget," page 72 of the manual states, "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not," and page 74 of the manual states, "[a]ny borrowed money that is not reflected in the original budget estimate must be **amended** into the budget and be properly reflected on the financial report as a receipt as well as an "expenditure" for repayment of borrowed funds."

We recommend the Letcher County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting. In addition to complying with the Department for Local Government's financial statement presentation requirements, this will also ensure all line items are properly budgeted or amended as needed.

County Judge/Executive's Response: Debt for the [name redacted] Truck leases through KACO are listed in short term liabilities and reported quarterly to DLG. Debt and lease proceeds are also budgeted each year as well as payments for principal and interest for the [name redacted] Trucks which are approved yearly by DLG. It is our understanding that we must also book the receipt of funds at the time of purchase even though we do not receive those funds in the road department receipts only. The funds are paid directly to the bank from KACO.

The Letcher County Fiscal Court and the Letcher County Recreation Center does not have adequate segregation of duties over receipts: The county treasurer is responsible for receiving receipts, preparing deposits, taking deposits to the bank, posting receipts to ledgers, preparation of financial reports, and reconciling bank accounts. The recreation center director collects receipts, prepares daily checkout sheets, prepares deposits, and takes deposits to the bank. The director

takes the daily checkout sheet to the treasurer. There is no documented review of these processes. These incompatible duties create a lack of adequate segregation of duties.

According to the county, this is the result of a limited budget, which restricts the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities

We recommend the fiscal court and the recreation center separate the duties involving receipt processing. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that is not currently performing any of those functions and this oversight should be documented by dating, signing, or initialing the documentation.

County Judge/Executive's Response: The Recreation Center follows the same procedures for collecting funds as our sanitation department. Daily reports are written up by each person operating a cash register. The cash register is programmed for each type of transaction. Cash register tapes, money and daily reports must all balance and be signed off on by the operator. The director or assistant director checks all reports, counts the money and signs off on each daily report by each operator. A total end of day report is prepared by the director or assistant director, all monies are totaled and balanced. Deposits are made by the director or assistant director. All daily reports, copies of deposit slips, etc. are given to the treasurer in addition to a detailed end of month spread sheet. The treasurer checks all reports with deposits and must key in all receipts into FCAS to balance with the bank statement for the LGEA account for the deposits for the Recreation Center.

Auditor's Reply: Sufficient compensating controls were not documented at the recreation center to offset the lack of segregation of duties.

The Letcher County Fiscal Court accepted two bids for gravel: The Letcher County Fiscal Court advertises bids for gravel each year. In calendar years 2019 and 2020, two bids for gravel were accepted with one provider for the majority of the county and another for a smaller portion of the county.

According to the county, they were unaware that bids cannot be awarded to two vendors unless it is advertised as such. As a result the county is not in compliance with KRS requirements and the Letcher County Administrative Code.

KRS 178.140(1) states, “[a]ll bids for construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced.” KRS 178.140(2) states, in part, “[t]he contract shall be awarded to the lowest and best bidder...”

Section 421.5 of the Letcher County Administrative Code states, “Judge/Executive shall open all bids publicly at the time and place stated in the advertisement; and shall select the lowest and best bid by a qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be stated in writing.”

We recommend the Letcher County Fiscal Court comply with KRS 178.140 and the county administrative code as it relates to bids on construction or maintenance of county roads and bridges.

County Judge/Executive’s Response: The fiscal court follows the direction of the county attorney. We have accepted two bids for gravel for several year for the reason that it saves time and money for the county to be able to get gravel on the end of the county that the road department is working at on any given day. When a motion is made to accept those gravel bids, wording is put in the motion that we accept two bids and will get gravel from the location that best serves the road department on the day of the work. It is our understanding that we must also put that wording in the bid specs for gravel at the time of advertisement. We will do so when advertisement for bids are done for CY 2022.

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

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