



Auditor of Public Accounts Allison Ball

FOR IMMEDIATE RELEASE

Contact: Joy Pidgorodetska Markland
Joy.Markland@ky.gov
502.352.5216
502.209.2867

Ball Releases Audit of Barren County Fiscal Court

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Barren County Fiscal Court for the fiscal year ended June 30, 2024. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Barren 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.

The audit contains the following findings:

The fiscal court failed to implement adequate internal controls over accounting functions and financial reporting that resulted in material errors and reportable noncompliances: Deficiencies and reporting errors include understated account balances, unprepared financial statements for funds, unbudgeted funds, unreported budget amounts, over expended appropriations, fraudulent checks cleared bank account and were caught by the bank not the county, and unprepared or late bank reconciliations. Please refer to the full report for details.

Due to a lack of strong internal controls over the financial reporting process, material errors that were identified, and the potential for unidentified material errors, we cannot overcome the fraud risks with additional audit procedures; therefore, we are unable to provide the fiscal court with an opinion on whether the financial statement is free from material misstatement. A disclaimer of opinion will be issued.

We recommend the fiscal court implement internal controls and management oversight over the financial reporting process such as incorporating timely and accurate bank reconciliations on all bank accounts, a thorough review of the quarterly financial statements by someone independent of accounting functions, tracing transactions posted to the receipts and disbursements ledger to actual bank statement transactions, agreeing fund balances to quarterly financial statements and monthly bank reconciliations, reviewing ledgers to verify transactions have been recorded, and getting approval from fiscal court for all cash transfers. By implementing these procedures, the fiscal court can strengthen its internal control system, ensure accurate financial reporting, and deter misappropriation of assets. This finding will be referred to the Kentucky Department for Local Government (DLG).

County Judge/Executive's Response: Internal controls have been implemented so that an additional staff member, independent of the accounting function, reviews bank reconciliations and quarterly financial statements in a timely manner to ensure that the book versus bank balances agree with one another. The amendments that were passed by the fiscal court and approved by DLG but did not make it to the fourth quarter financial statement, was due to a lack of knowledge of our accounting software. This issue has been resolved. Cash transfers between different funding bank accounts are now being ran through fiscal court, as it was under the impression that the "approved transfers" ran through court was referring to budgeted line item transfers.

The fiscal court did not prepare an annual settlement or submit the fourth quarter financial statement timely: The fiscal court submitted a late and materially inaccurate fourth quarter financial statement to the State Local Finance Officer (SLFO) for the fiscal year ended June 30, 2024. In addition, the county treasurer did not prepare an annual settlement and submit it to the fiscal court for approval for fiscal year ended June 30, 2024.

We recommend the fiscal court ensure the fourth quarter financial statement is accurate and submitted timely to the SLFO. We also recommend the fiscal court implement a review process to ensure the report is accurate before submitting it. Furthermore, we recommend the county treasurer submit an accurate and complete annual settlement to the fiscal court for the next fiscal year within 30 days after the close of the fiscal year in compliance with KRS 68.020.

County Judge/Executive's Response: The treasurer was unaware that any type of report other than a monthly or quarterly was required to be approved by court. The "annual settlement report" was easily located in the accounting software and will now be ran through and approved in fiscal court within 30 days of the closing of each fiscal year. Also, when a quarterly report shall be submitted, an email will be sent to our representative at DLG to ensure that the report was indeed received with no processing errors of submission.

The fiscal court did not have controls over monthly bank reconciliations: Deficiencies include late monthly reconciliations, incomplete reconciliations for 13 accounts, deposits in transit and outstanding checkers weren't tracked, negative balances in two funds and one account, and unexplained book balance for one account. Fraudulent checks were cashed by an individual in another state without being detected. The bank caught the error several months later.

We recommend the county treasurer reconcile all of the county's bank accounts each month and compare the reconciled bank balance to the book balance to ensure it is accurate. We also recommend the Payroll Revolving Account and Employees Benefit Account be reconciled to zero monthly. The county treasurer should investigate the balance remaining in the Payroll Revolving Account and allocate this balance to the appropriate funds.

County Judge/Executive's Response: Bank reconciliations are being done monthly with an additional staff member reviewing for accuracy of balances. All bank accounts that are not a "budgeted fund", such as our Money Market Account and Payroll Account, are now reconciled to a zero balance monthly.

The fiscal court did not prepare records for the Public Properties Corporation Fund and the Glasgow/Barren County Public Library Corporation Fund: These funds are not required by the DLG to be reported on the quarterly financial reports; however, the county should still maintain financial records for these funds. Although the fiscal court received the bank statements for these accounts, they did not maintain receipt and disbursement ledgers or prepare a financial statement or reconcile the bank account monthly. As a result, receipts, disbursements, and ending cash balances of \$425,256, \$1,215,813, and \$1,731,039, respectively, were not reported. These amounts are material to the financial statement.

We recommend the fiscal court prepare financial records including receipt and disbursements ledgers, monthly bank reconciliations, and financial statements for all unbudgeted funds. Someone other than the preparer should review the records for accuracy and reliability.

County Judge/Executive's Response: We were unaware that the fiscal court was responsible for preparing these records since we are just a pass through and the above mentioned offices receive the bank statements for said funds, not our office. These funds are now being reconciled monthly along with other unbudgeted funds.

The fiscal court did not properly disclose debt information on the quarter financial report: Two debt principal and interest obligations were omitted from the quarterly and four debt obligations were reported incorrectly. In addition, the county treasurer records lease information on the liabilities section of the quarterly report with long term debt. During fiscal year 2024, the fiscal court entered into a new vehicle lease; however, it was not reported.

We recommend the fiscal court properly disclose all debt and leases on the liability section of the quarterly financial reports.

County Judge/Executive's Response: All current debts and leases shall be reviewed and updated monthly so that the liability section of the quarterly financial report remains accurate.

The fiscal court lacks adequate controls over disbursements: Deficiencies include lack of purchase order, purchase orders dated after the invoice date, late payments, duplicate payments, unapproved purchases, overspent line-item budgets, incorrect classification or account, late fee payments, missing invoices, and payments made from incorrect funds.

We recommend the fiscal court ensure that purchase orders are issued prior to all purchases, all invoices are properly reviewed to ensure the disbursement is allowable and recorded properly, duplicate payments are avoided, all invoices are paid timely, and all claims are approved before the check is written. We further recommend all supporting documentation be maintained for all purchases.

County Judge/Executive's Response: Purchase orders will be issued prior to, or at least the day of, purchases going forward. If a good or service is approved in court but we do not receive the good or service until a later date along with the invoice, the claim shall be ran through the next court meeting's paid claims list, not paid the date the invoice is received. Also, we now know the amount of time it takes for a payment to be processed, such as a credit card payment, to ensure that the date of the payment submission and the date the payment is actually applied to the account falls within the due date of the payment.

The fiscal court did not follow proper procurement procedures for purchases over \$40,000: The fiscal court paid for fuel (\$265,731), inmate food service (\$430,439), vehicles (\$134,125), and e-cigs for inmates (\$86,832) without a proper bid advertisement. In addition, the fiscal court did not maintain proper documentation for several transactions.

We recommend the fiscal court monitor disbursements to ensure procurement procedures are followed properly for all purchases and contracts in the future.

County Judge/Executive's Response: We are now bidding the fuel out with the road department bid package yearly and will be for entire county. We had the understanding that state bid vehicles were procured appropriately but we will now bid those our properly.

County Jailer's Response: No Response

The fiscal court did not properly account for encumbrances at year end: The fiscal court reported encumbrances on the fourth quarter financial report; however, they did not maintain a list to support the amounts reported. Failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

We recommend the fiscal court maintain a list of encumbrances to support the amounts reported.

County Judge/Executive's Response: Currently, an excel spreadsheet is kept of all outstanding Purchase Orders and the amounts. This amount will be manually entered into our accounting software until we can make the transition from invoice entry to purchase order entry into our accounting software.

The fiscal court lacks adequate controls over building inspection fees: Auditors were unable to reconcile the building inspector's reports to the receipt ledger or to the General Fund bank deposits. There is no comparison of the receipt log entry for these funds to ensure timely and accurate processing. Deficiencies include cash and checks reported on ledger but not deposited, cash and checks not reported on ledger but deposited, cash not reported on ledger and couldn't be traced to bank deposit, and cash nor reported on ledger or deposited.

We recommend the fiscal court establish controls to ensure timely and accurate posting and depositing of all funds received. We also recommend the fiscal court segregate duties, and when not possible implement necessary compensating internal controls over receipts such as recording a log of all funds received daily by a person who does not have access to accounting systems or bank accounts, and comparison of reports to amount deposited and amount posted. The review should be documented by signature or initials.

County Judge/Executive's Response: When our office receives funds from the building inspector, the personnel accepting the funds from our office along with staff member from the building inspector's office that delivers those funds, signs and dates the sheet brought to us from the building inspector reflecting funds collected that day. Funds are brought to our office daily, instead of collecting multiple day's funds before submission. Cash will no longer be accepted as a form of payment for building inspection fees.

The fiscal court lacks adequate segregation of duties over cash, receipts, and reconciliations: The county treasurer handles cash, records receipts, prepares deposits, and reconciles the bank accounts. Bank reconciliations had not been properly performed upon audit engagement. During fieldwork, auditors noted stacks of cash and checks awaiting processing left unattended on the treasurer's desk. Fraudulent or erroneous checks were processed through the bank accounts unnoticed for several months, which left bank balances in error. The checks, written by an unknown third party, were detected by the bank, not county personnel.

We recommend the fiscal court separate duties over handling cash, processing receipts, and reconciliations. If these duties cannot be separated due to limited staff or limited budget, then strong oversight over those areas should occur by an employee not currently performing any of those functions. The individuals providing this oversight should initial source documents.

County Judge/Executive's Response: Checks are now approved daily through the bank website before the bank will process the payments, to ensure that unknown third party checks are not incorrectly processed through our bank account. Three staff members currently review the cash/checks that are received in the office, with all three employees initialing receipt of the funds. If an employee is in the process of counting funds and has to leave the area of the funds, funds shall be placed in the safe until the continuation of the county process resumes.

The fiscal court lacks adequate segregation of duties over payroll: Deficiencies include unreconciled accounts, transfer amounts to the Payroll Account didn't agree to the payroll register, transfer from General Fund to Payroll Revolving Account for unknown shortage, unsigned timesheets, missing time on timesheets but full pay was paid out, incorrect or inappropriate health insurance payments, and incorrect leave balance amounts.

We recommend the fiscal court segregate duties for the payroll process. If this is not feasible, compensating controls should be implemented. We recommend the fiscal court reconcile accounts timely, ensure appropriate and timely transfers, ensure all withholdings are paid in a timely manner, all timesheets are signed by the employee and supervisor, ensure all employees follow the administrative code, ensure accurate salary payments, ensure accurate leave balances, and ensure monthly health insurance amount is documented and approved in fiscal court meeting minutes.

County Judge/Executive's Response: An additional staff member reviews and initials the payroll transfers before submission of the pay run. Unbudgeted funds, such as the revolving payroll account, are being reconciled monthly. Department heads are to notify the treasurer in a timely manner if an employee has been terminated or quit voluntarily, to ensure that the employee shall be removed from any type of benefit the county provides before the next billing cycle. Our policy and procedure manual states that "a timecard must reflect whatever leave is used to make up time not worked up to 34 hours..", therefore, an employee does not have to have worked a full 40 hours to be considered a full time employee nor do they have to use their leave time to supplement any hours more than 34. Compensatory balances are checked frequently to ensure that employees are not having an ending balance more than 160 hours.

Auditor's Reply: As stated above, the Barren County Fiscal Court Administrative Code section 33.01(H)(4)(1) states, "Normally, wage earners will be required to work an eight-hour day and a five-day week. A lunch break will be allowed without compensation." All employees should comply with the administration code and no discrimination among the employees.

The fiscal court did not properly reconcile retirement reports with payroll reports: One retirement report from the County Employees Retirement System (CERS) was compared to the county's payroll register. The fiscal court did not have adequate controls implemented to ensure the retirement reports were reconciled to the payroll reports. The fiscal court's CERS retirement benefits had deficiencies such as lack of maintaining documentation, unreconciled amounts between the payroll register and the retirement report, inaccurate withholdings, inaccurate wages, and paying retirement out of the correct funds but recording it under incorrect funds.

We recommend an individual independent of the payroll process reconciles the monthly retirement reports to monthly payroll summaries. This reconciliation should include tying all wage and retirement amounts on the retirement report to the payroll summary and be reviewed by the county judge/executive of fiscal court. Any invoices or adjustments obtained each month should also be documented and kept with the monthly report to explain any differences. Furthermore, all employees' retirement withholdings need to be checked for accuracy. This finding is being referred to the Kentucky Retirement System.

County Judge/Executive's Response: Proper documentation shall be kept with the retirement invoice/report for any discrepancies in the monthly payroll report versus the monthly retirement report to ensure that the monthly reports balance (such as, an employee being on the monthly payroll report but not being able to be added to the retirement report until a later date). An additional staff member shall confirm that the reporting amounts balance.

The fiscal court did not pay tax liabilities and retirement withholdings timely resulting in penalties and interest: During fiscal year 2024, federal tax withholdings and employer contributions were not properly turned over to the Internal Revenue Service (IRS) timely. Thirty of 50 federal payments were late, eight of 23 state payments were late, and ten of 12 retirement payments made to the Kentucky Retirement System were late.

We recommend the fiscal court implement internal controls over tax liabilities to ensure timely payments.

County Judge/Executive's Response: If an employee record is unable to be added to the monthly retirement report before the due date, the report shall be submitted to avoid late fees and said employee added back on to the report for the following month, instead of waiting for the record to be unlocked and added after the reporting due date and incurring a late fee. Pay runs shall not be processed for the day of, if said employer payroll tax liabilities will be not processed the same days as well, this will ensure that no late fees are charged and no interest accrues. Timecards are to be turned in in a more timely manner to eliminate late pay runs.

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

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