Auditor of Public Accounts Allison Ball

Whitley County Fiscal Court

Audit

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Whitley 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 Whitley 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.

Finding: The Whitley County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service

This is a repeat finding and was included in the prior year audit report as finding 2023-001. The June 30, 2024, outstanding principal balances reported on the fourth quarter financial report were misstated when compared to actual principal payments and amortizations schedules. The following issues were noted:

- The 2009 bond series debt was overstated by $965,000. The fiscal court reported debt of $965,000 when the actual principal balance was $0. This loan has been paid in full.
- The 2013 bond series debt was reported correctly on the fourth quarter financial report; however, the outstanding principal balance was not properly recorded on the debt report for the Department of Local Government. The fiscal court reported debt of $2,985,000 on the fourth quarter report and $2,800,000 on the local government debt report.
- The 2017 bond series debt was overstated by $1,154,795. The fiscal court reported debt of $6,946,499 when the actual principal balance was $5,791,654.
- The road equipment loan #22 debt was overstated by $57,708. The fiscal court reported debt of $57,708 when the actual principal balance was $0. This loan has been paid in full.
- The sanitation truck debt was overstated by $29,309. The fiscal court reported debt of $38,729 when the actual principal balance was $9,420.
- The sanitation equipment debt was overstated by $3,251. The fiscal court reported debt of $78,851 when the actual principal balance was $75,600. This debt was not reported on the local government debt report.
- The sanitation land debt was overstated by $7. The fiscal court reported debt of $87,609 when actual principal balance was $87,602. This debt was not reported on the local government debt report.

Recommendations

We recommend the fiscal court, when submitting its proposed budget and quarterly reports to the state local finance officer, accurately report and include all their financial obligations within the liabilities section, and ensure all quarterly reports are reviewed and verified as correct before submitting to the Department for Local Government.

County Officials Response

County Judge/Executive's Response: The County's financial software has the capability to automatically update liabilities as payments entered. However, the prior Treasurer preferred to manually enter transactions on an as-needed basis and did not provide sufficient instruction or context to the Deputy Treasurer regarding this practice. To correct this going forward, the current Treasurer will ensure that all liabilities are properly updated at the time of their occurrence. The Court was well aware of the debt position of the county but the report when generated did not match that position. Additionally, all previously held debts will be reviewed and updated on a quarterly basis to maintain accuracy and consistency.

Finding: The Whitley County Fiscal Court Did Not Include Interfund Transfers Within Fiscal Court Orders

The Whitley County Fiscal Court routinely makes necessary transfers between its budgeted funds to ensure that sufficient amounts are available for expenditures. There was no evidence of fiscal court approval in the fiscal court order books for interfund transfers for the audit period.

Recommendations

We recommend all cash transfers between funds be approved by the fiscal court and approved prior to the transfer being made.

County Officials Response

County Judge/Executive's Response: Historically the county has scheduled all transfers within the annual budget, however, going forward at the direction of the auditors office we will include transfers on the monthly court meeting to increase transparency for movement of money.

Finding: The Whitley County Payroll Account Was Not Properly Reconciled

The Whitley County Fiscal Court uses a revolving payroll account for payroll processing. Deposits are made into the bank account from the fiscal court funds to pay for salaries and payroll related items. As of June 30, 2024, the payroll account had a balance of $93,753 after accounting for all receivables and liabilities related to the June 2024 payroll. According to the county treasurer, he ensures transfers to the payroll account agree to the payroll register reports. The payroll clerk stated that the unexplained balance in the payroll account has been an issue for years. As a result of not properly reconciling the payroll account, the fiscal court runs the risk of incurring fees if the account is overdrawn.

Recommendations

We recommend the county treasurer ensure the payroll revolving account reconciles to a zero-ending balance at the end of each month after accounting for all receivables and liabilities.

County Officials Response

County Judge/Executive's Response: The county will start reviewing all insurance payments at the end of third quarter to see how they line up with turnover in order to help zero out the balance of the account going forward.

Finding: The Whitley County Payroll Account Was Not Properly Reconciled

The Whitley County Fiscal Court lacks adequate controls over disbursement processes. Auditors tested 103 expenditures and noted the following exceptions:

• Forty-five instances in which purchase orders were issued after the invoice date.

• Seven of those expenditures were paid after the due date.

• The Whitley County Fiscal Court did not properly bid food services at the Whitley County Detention Center.

Recommendations

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively. We also recommend the fiscal court comply with the state local finance officer's requirements by creating a purchase order for all disbursements. Additionally, we recommend the fiscal court monitor disbursements to ensure procurement procedures are followed properly for all purchases and contracts in the future.

County Officials Response

County Judge/Executive's Response: The county will have a discussion with all department heads to re-outline the importance of getting the PO ahead of acquisition on all purchases to make the disbursement schedule more time effective as originally intended.

The audit report can be found on the auditor's website.

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