

**REPORT OF THE AUDIT OF THE
WOLFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2016**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
WOLFE COUNTY OFFICIALS.....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	5
NOTES TO THE FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES	22
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	35
SCHEDULE OF CAPITAL ASSETS	36
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	38
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	39
COMMENTS AND RECOMMENDATIONS.....	42
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS.....	63

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To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum, III, Secretary
Finance and Administration Cabinet
Honorable Dennis Brooks, Wolfe County Judge/Executive
Members of the Wolfe County Fiscal Court

Independent Auditors' Report

Report on the Financial Statement

We were engaged to audit the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Wolfe County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise Wolfe County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Based on our assessment of fraud risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this fraud risk. The Wolfe County Fiscal Court had serious weaknesses in design and operation of its internal control procedures, accounting functions, and backup of electronic data. Due to these weaknesses, the fraud risk exists for an individual to manipulate, misappropriate, and/or misdirect funds.

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Disclaimer of Opinion on Regulatory Basis of Accounting

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on the Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis of Wolfe County Fiscal Court for the fiscal year ended June 30, 2016. Accordingly, we do not express an opinion on the Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis for the fiscal year ended June 30, 2016.

Other Matters

Supplementary Information

We were engaged for the purpose of forming an opinion on the financial statement taken as a whole of Wolfe County Fiscal Court. The Budgetary Comparison Schedules, and the Capital Assets Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky’s regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules, and the Schedule of Capital Assets are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Due to the unreliability of the underlying financial records, auditors were unable to conduct required procedures to issue an opinion on the Budgetary Comparison Schedules and Schedule of Capital Assets. Accordingly we do not express an opinion on the accompanying Budgetary Comparison Schedules and the Schedule of Capital Assets.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017 on our consideration of Wolfe County Fiscal Court’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wolfe County Fiscal Court’s internal control over financial reporting and compliance.

Based on our engagement to audit, we present the accompanying comments and recommendations included herein, which discuss the following report comments:

- 2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements And Purchase Orders
- 2016-002 The Fiscal Court Lacks Adequate Control Over Coding of Receipts
- 2016-003 The Fiscal Court Did Not Ensure Their Electronic Data is Recoverable In The Event Of A System Failure
- 2016-004 The Fiscal Court Lacks Adequate Internal Controls Over Occupational Taxes
- 2016-005 The Fiscal Court Lacks Adequate Internal Controls And Segregation Of Duties Over The Payroll Process
- 2016-006 The Fiscal Court Lacks Adequate Internal Controls Over The Payroll Revolving Account

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Other Reporting Required by Government Auditing Standards (Continued)

- 2016-007 The Fiscal Court Lacks Adequate Internal Controls Over Interfund Transfers
- 2016-008 The Treasurer Did Not Include All Liabilities On The Fourth Quarter Report
- 2016-009 The County Lacks Adequate Control Over The Lease Agreement With Their Ambulance Service
- 2016-010 The Fiscal Court Lacks Adequate Control Over Transfers Between Bank Accounts
- 2016-011 The Fiscal Court Did Not Adopt A Written Investment Policy
- 2016-012 The Fiscal Court Did Not Fix The Compensation Of Every County Officer And Employee
- 2016-013 The Fiscal Court Sold Gravel To Private Individuals
- 2016-014 The Fiscal Court Lacks Adequate Control Over Their Agreement With JSW Farm, LLC (The Chop Shop)
- 2016-015 The Fiscal Court's Lease Agreement With Arrow-Med Ambulance Does Not Comply With KRS 65.710
- 2016-016 The Jail Fund Owes The Local Government Economic Assistance Fund \$116,717 From Prior and Current Year Misuse Of Restricted Funds
- 2016-017 The Fiscal Court Does Not Have A Corrective Action Plan To Address Prior Year Invoices Provided That Did Not Substantiate Ambulance Reimbursements
- 2016-018 The Fiscal Court Did Not Implement Data Breach Policies And Procedures
- 2016-019 The Fiscal Court Lacks Adequate Internal Controls Over Bid Process
- 2016-020 The Fiscal Court Failed To Prepare A Schedule Of Expenditures Of Federal Awards
- 2016-021 The Fiscal Court Did Not Publish Their Financial Statements In Accordance With KRS 91A.040 (6)
- 2016-022 The Fiscal Court Did Not Comply With Continuing Disclosure Requirements
- 2016-023 The Fiscal Court Lacks Internal Controls Over Budget Amendments
- 2016-024 The Fiscal Court Failed To Remit National Forestry Receipts To The School District In The Fiscal Year 2015

Morgan and Associates, LLC

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West Liberty, Kentucky

June 20, 2017

WOLFE COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Dennis Brooks	County Judge/Executive
Brenden Rose	Magistrate
James Dean	Magistrate
Garrett Denniston	Magistrate

Other Elected Officials:

Stephen Johnson	County Attorney
Greg Banks	Jailer
Steve Oliver	County Clerk
Debbie Sparks	Circuit Court Clerk
Chris Carson	Sheriff
Justina Smith	Property Valuation Administrator
James Frank Porter	Coroner

Appointed Personnel:

Rebecca Long	County Treasurer
Tracy Sparks	Chief Financial Officer

**WOLFE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2016

WOLFE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

	<u>Budgeted Funds</u>			
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Local Government Economic Assistance Fund</u>
RECEIPTS				
Taxes	\$ 679,873	\$	\$	\$
In Lieu Tax Payments	1,413	55,778		
Excess Fees	39,770			
Licenses and Permits	1,044			
Intergovernmental	317,512	1,198,998	108,983	152,112
Miscellaneous	169,251	209,010	2,266	1,235
Interest	90	639	3	39
Total Receipts	<u>1,208,953</u>	<u>1,464,425</u>	<u>111,252</u>	<u>153,386</u>
DISBURSEMENTS				
General Government	732,510			47,549
Protection to Persons and Property	81,283		417,149	259
General Health and Sanitation	35,076			16,154
Social Services	4,297			7,600
Recreation and Culture				37,490
Roads		1,012,277		
Debt Service		228,854		
Capital Projects				
Administration	384,148	189,221	16,290	11,913
Total Disbursements	<u>1,237,314</u>	<u>1,430,352</u>	<u>433,439</u>	<u>120,965</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(28,361)	34,073	(322,187)	32,421
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account Excess	(24,305)			
KACO Lease Proceeds		133,372		
Transfers From Other Funds	197,576		324,000	
Transfers To Other Funds	(229,450)	(197,576)		(94,550)
Total Other Adjustments to Cash (Uses)	<u>(56,179)</u>	<u>(64,204)</u>	<u>324,000</u>	<u>(94,550)</u>
Net Change in Fund Balance	(84,540)	(30,131)	1,813	(62,129)
Fund Balance - Beginning	267,630	942,340	4,905	116,499
Fund Balance - Ending	<u>\$ 183,090</u>	<u>\$ 912,209</u>	<u>\$ 6,718</u>	<u>\$ 54,370</u>
Composition of Fund Balance				
Bank Balance	\$ 186,424	\$ 913,009	\$ 6,722	\$ 54,370
Less: Outstanding Checks	(3,334)	(800)	(4)	
Plus: Certificate of Deposit				
Fund Balance - Ending	<u>\$ 183,090</u>	<u>\$ 912,209</u>	<u>\$ 6,718</u>	<u>\$ 54,370</u>

The accompanying notes are an integral part of the financial statement.

WOLFE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	<u>Budgeted Funds</u>			
	<u>Area Development Fund</u>	<u>Fire Protection Fund</u>	<u>Solid Waste Fund</u>	<u>Search and Rescue Fund</u>
RECEIPTS				
Taxes	\$	\$ 2,199	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental			210,013	1,025
Miscellaneous			7,636	
Interest	1			4
Total Receipts	<u>1</u>	<u>2,199</u>	<u>217,649</u>	<u>1,029</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property		2,316		221
General Health and Sanitation			241,770	
Social Services				
Recreation and Culture				
Roads				
Debt Service				
Capital Projects	1,457			
Administration				
Total Disbursements	<u>1,457</u>	<u>2,316</u>	<u>241,770</u>	<u>221</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	(1,456)	(117)	(24,121)	808
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account Excess				
KACO Lease Proceeds				
Transfers From Other Funds				
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(1,456)	(117)	(24,121)	808
Fund Balance - Beginning	3,452	2,592	55,477	5,567
Fund Balance - Ending	<u>\$ 1,996</u>	<u>\$ 2,475</u>	<u>\$ 31,356</u>	<u>\$ 6,375</u>
Composition of Fund Balance				
Bank Balance	\$ 1,996	\$ 2,475	\$ 67,856	\$ 6,375
Less: Outstanding Checks			(36,500)	
Plus: Certificate of Deposit				
Fund Balance - Ending	<u>\$ 1,996</u>	<u>\$ 2,475</u>	<u>\$ 31,356</u>	<u>\$ 6,375</u>

The accompanying notes are an integral part of the financial statement.

WOLFE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	Budgeted Funds			
	Local Government Economic Development Fund	Special Projects Fund	E-911 Fund	Animal Shelter Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
In Lieu Tax Payments				
Excess Fees				
Licenses and Permits				
Intergovernmental	36,712	320,774	91,636	660
Miscellaneous	1,169		3,205	1,125
Interest		490	34	
Total Receipts	<u>37,881</u>	<u>321,264</u>	<u>94,875</u>	<u>1,785</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property			98,572	
General Health and Sanitation				6,791
Social Services				
Recreation and Culture				
Roads				
Debt Service				
Capital Projects	54,733	326,634		
Administration			19,461	
Total Disbursements	<u>54,733</u>	<u>326,634</u>	<u>118,033</u>	<u>6,791</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(16,852)	(5,370)	(23,158)	(5,006)
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account Excess				
KACO Lease Proceeds				
Transfers From Other Funds				
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(16,852)	(5,370)	(23,158)	(5,006)
Fund Balance - Beginning	74,299	351,899	63,037	6,438
Fund Balance - Ending	<u>\$ 57,447</u>	<u>\$ 346,529</u>	<u>\$ 39,879</u>	<u>\$ 1,432</u>
Composition of Fund Balance				
Bank Balance	\$ 57,447	\$ 252,389	\$ 39,879	\$ 1,432
Less Outstanding Checks		(5,860)		
Plus: Certificate of Deposit		100,000		
Ending Fund Balance	<u>\$ 57,447</u>	<u>\$ 346,529</u>	<u>\$ 39,879</u>	<u>\$ 1,432</u>

The accompanying notes are an integral part of the financial statement.

WOLFE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	<u>Unbudgeted Fund</u>	
	Public Properties Corporation Fund	Total Funds
	<u>Fund</u>	<u>Funds</u>
RECEIPTS		
Taxes	\$	\$ 682,072
In Lieu Tax Payments		57,191
Excess Fees		39,770
Licenses and Permits		1,044
Intergovernmental	809,889	3,248,314
Miscellaneous		394,897
Interest		1,300
Total Receipts	<u>809,889</u>	<u>4,424,588</u>
DISBURSEMENTS		
General Government		780,059
Protection to Persons and Property		599,800
General Health and Sanitation		299,791
Social Services		11,897
Recreation and Culture		37,490
Roads		1,012,277
Debt Service	809,880	1,038,734
Capital Projects		382,824
Administration		621,033
Total Disbursements	<u>809,880</u>	<u>4,783,905</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	9	(359,317)
Other Adjustments to Cash (Uses)		
Change in Payroll Revolving Account Excess		(24,305)
KACO Lease Proceeds		133,372
Transfers From Other Funds		521,576
Transfers To Other Funds		(521,576)
Total Other Adjustments to Cash (Uses)		<u>109,067</u>
Net Change in Fund Balance	9	(250,250)
Fund Balance - Beginning	191,423	2,085,558
Fund Balance - Ending	<u>\$ 191,432</u>	<u>\$ 1,835,308</u>
Composition of Fund Balance		
Bank Balance	\$ 191,432	\$ 1,781,806
Less Outstanding Checks		(46,498)
Plus: Certificate of Deposit		100,000
Ending Fund Balance	<u>\$ 191,432</u>	<u>\$ 1,835,308</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	11
NOTE 2.	DEPOSITS.....	15
NOTE 3.	TRANSFERS	15
NOTE 4.	LONG-TERM DEBT.....	16
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM.....	18
NOTE 6.	DEFERRED COMPENSATION	19
NOTE 7.	INSURANCE.....	19
NOTE 8.	SUBSEQUENT EVENTS	19
NOTE 9.	NOTE RECEIVABLE - THE CHOP SHOP	20
NOTE 10.	LEASE	20
NOTE 11.	SUBLEASE.....	21
NOTE 12.	RELATED PARTY TRANSACTIONS	21
NOTE 13.	INTERFUND RECEIVABLES AND LIABILITIES.....	21

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Wolfe County includes all budgeted and unbudgeted funds under the control of the Wolfe County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Area Development Fund - The primary purpose of this fund is to account for grants received for area development related disbursements.

Fire Protection Fund - The primary purpose of this fund is to account for the receipts of fire acres tax paid and disbursements for fire protection due to the state government.

Solid Waste Fund - The primary purpose of this fund is to account for the expenses related to recycling and landfill. The primary sources of receipts for this fund are grants received from the state and federal governments.

Search and Rescue Fund - The primary purpose of this fund is to account for the expenses related to search and rescue. The primary source of receipts for this fund is donations.

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Special Projects Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

E-911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Animal Shelter Fund - The primary purpose of this fund is to account for grants and related disbursements to construct an animal shelter. The primary sources of receipts for this fund are grants from the state and federal governments.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The purpose of this fund is to account for construction and debt service requirements of the Judicial Center building. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Wolfe County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Wolfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Wolfe County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

H. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of Wolfe County Fiscal Court, Lee County Fiscal Court, and Owsley County Fiscal Court: Three Forks Regional Jail. Further, based upon these criteria, the following is considered a joint venture of Wolfe County Fiscal Court and Morgan County Fiscal Court: Wolfe-Morgan Industrial Development Authority.

Three Forks Regional Jail

On October 6, 2000, the Counties of Lee, Owsley and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bond as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Forks Public Property Corporation are comprised of an eight-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County Jailer is a required member of the board.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Ventures (Continued)

Wolfe-Morgan Industrial Development Authority

In April 2011, Morgan and Wolfe Counties entered into an interlocal agreement creating the Wolfe-Morgan Industrial Development Authority. The Authority was developed for the acquisition, development and retention of industry in Wolfe and Morgan counties. The Authority is comprised of a five member board of directors. Morgan and Wolfe counties appoint one member each. Both the Morgan County Judge/Executive and Wolfe County Judge/Executive are members. In addition, the counties jointly appoint the remaining member. The county used Community Block Development Grant funds to construct a meat processing plant at Wolfe-Morgan Industrial Park.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240(4). As of June 30, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 197,576	\$	\$ 197,576
Jail Fund	229,450		94,550	324,000
Total Transfers Out	<u>\$ 229,450</u>	<u>\$ 197,576</u>	<u>\$ 94,550</u>	<u>\$ 521,576</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds - Judicial Building

In April 2010, Wolfe County Public Properties Corporation entered into an agreement for the issuance of \$10,930,000 First Mortgage Revenue Bonds, Series 2010, to finance the costs of a new Justice Center facility. The bonds were issued for a twenty year period, with semi-annual interest payments due May 1 and November 1 of each year beginning November 1, 2010, and principal due upon maturity at May 1, 2030. The ending principal balance at June 30, 2016 was \$8,290,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 470,000	\$ 336,450
2018	485,000	322,350
2019	495,000	307,800
2020	510,000	292,950
2021	530,000	276,375
2022-2026	2,945,000	1,073,425
2027-2030	2,855,000	366,000
Totals	<u>\$ 8,290,000</u>	<u>\$ 2,975,350</u>

B. Kentucky Association of Counties – Black Top

On October 9, 2013, Wolfe County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust to blacktop county roads. The lease is for \$1,000,000 at an interest rate of 3.84% per annum. Interest payments are due by the 20th of each month. The entire principal amount is due on January 20, 2029. The principal balance of the agreement was \$877,083 as of June 30, 2016. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2017	\$ 55,000	\$ 33,830
2018	55,000	32,520
2019	57,084	31,096
2020	62,084	29,451
2021	65,000	27,536
2022-2026	361,250	99,952
2027-2029	221,665	20,195
Totals	<u>\$ 877,083</u>	<u>\$ 274,580</u>

C. Kentucky Association of Counties – Mack Truck

On April 1, 2015, Wolfe County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust to purchase a Mack truck. The lease is for \$131,872 at an interest rate of 3.25%. Interest payments are due by the 20th of each month. The entire principal amount is due on October 20, 2016. The principle balance as of June 30, 2016 was paid in full.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 4. Long-term Debt (Continued)

D. Kentucky Association of Counties – Mack Truck

On April 29, 2016, Wolfe County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust to purchase a Mack truck. The lease is for \$133,372 at an interest rate of 3.25%. Interest payments are due by the 20th of each month. The entire principal amount is due on October 20, 2017. The principle balance as of June 30, 2016 was \$133,372.

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$	\$ 4,335
2018	133,372	1,445
Totals	<u>\$ 133,372</u>	<u>\$ 5,780</u>

E. Long-term Debt in the Aggregate

Fiscal Year Ended June 30	Principal	Scheduled Interest
2017	\$ 525,000	\$ 371,725
2018	673,372	354,870
2019	552,084	338,896
2020	572,084	322,401
2021	595,000	303,911
2022-2026	3,306,250	1,173,377
2027-2030	3,076,665	386,195
Totals	<u>\$ 9,300,455</u>	<u>\$ 3,251,375</u>

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 8,750,000	\$	\$ 460,000	\$ 8,290,000	\$ 470,000
Financing Obligations	1,061,039	133,372	183,956	1,010,455	55,000
Total Long-term Debt	<u>\$ 9,811,039</u>	<u>\$ 133,372</u>	<u>\$ 643,956</u>	<u>\$ 9,300,455</u>	<u>\$ 525,000</u>

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$196,366, FY 2015 was \$183,240, and FY 2016 was \$183,090.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 5. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

The Wolfe County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2016, Wolfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Subsequent Events

On August 24, 2016, Wolfe County Public Properties Corporation (PPC), an agency and instrumentality of Wolfe County Fiscal Court, issued \$5,650,000 in Refunding Revenue Bonds (Justice Center Project), Series 2016. These bonds mature in varying amounts from \$50,000 to \$780,000 on April 1 of each year from 2022 through 2030. Proceeds of the bonds were used to refund the First Mortgage Revenue Bonds, Series 2009, which was for the purpose of acquisition, construction, installation, and equipping of the Wolfe County Justice Center. Interest is payable semi-annually on April 1 and October 1 at rates ranging from 2.0% to 4.0% and principal payments are due annually on October 1 of each year. Subsequent events have been evaluated through June 20, 2017 which is the date the financial statements were available to be issued.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 9. Note Receivable - The Chop Shop

In January 2013, the county entered into a loan agreement of \$475,000 with the J.S.W. Farm, LLC DBA The Chop Shop for the purchase of the land and building pad located in the Morgan Wolfe County Industrial Park. The agreement requires annual payments of \$47,500 beginning January 31, 2014 made payable to the Wolfe County Fiscal Court. The county will forgive the principal and interest payments if the Chop Shop creates and maintains employment at levels equal or greater than fifteen (15) full-time employees for calendar year 2014 and 2015, increasing to thirty (30) full-time employees for the remaining eight (8) years of the agreement. The agreement further defines full-time employee as working 1,820 hours per year and average wage of at least \$14,650 per year, \$8 per hour average.

Note 10. Lease

On December 9, 2014, Wolfe County Fiscal Court (Lessor) entered into an agreement to lease property located at 166 Wolfe County Elementary School Road and considered surplus to the needs of the fiscal court to Wolfe County High School, LLLP (Lessee) for the purpose of creating affordable housing for senior citizens, including a community center within the project. Wolfe County High School, LLLP will lease the property for one (1) dollar per year for fifty (50) years.

The Lessee will improve the property by constructing, rehabilitating and equipping (19) units consisting of sixteen (16) affordable multifamily residential rental housing units and three (3) market rate units, collectively serving senior citizens together with three related facilities. The costs associated with this project will be funded by Kentucky Housing Corporation Home Funds of \$500,000, HTC Equity of \$2,588,047, State Historic Tax Credit Refund of \$199,932, Community Development Block Grant of \$650,000, FAHE contribution of \$1,800,000 and a general partner contribution of \$259.

A \$650,000 Community Development Block Grant was obtained by and passed through the Wolfe County Fiscal Court. The amount expended during the June 30, 2016 fiscal year totaled \$323,367. These expenditures were coded as capital outlay. No value has been included on the fixed asset schedule for this asset.

The Lessee will subsequently sublease back to the Lessor, 6,318 gross square feet of space to be used as a community center.

An amount of one (1) dollar annually shall be paid to Wolfe County Fiscal Court by the annual anniversary of the lease execution date.

The Lessee has agreed that any and all improvements made to the Leased Premises shall become the property of the County upon expiration, cancellation, termination of this Lease Agreement, or upon notice thereof.

Commencing on the first day of the sixth year of the term of this Lease, Lessee shall deposit in a Kentucky bank annually the minimum sum of \$6,175 growing at 3% per annum or the purpose of providing to Lessee a working replacement reserve account. Lessee is entitled to a withdrawal from the Escrow Account at any time that funds are available for maintenance purposes.

**WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2016

Note 11. Sublease

On December 9, 2014, Wolfe County Fiscal Court entered an agreement to sublease the community center from Wolfe County High School, LLLP for a base rent of one (1) dollar per year for twenty (20) years. The fiscal court will be responsible for all community center utility expenses which are metered separate from the housing property. Additional rental costs billed within ten (10) business days after the end of each calendar month by invoice prepared and delivered by Wolfe County High School, LLLP will include the following:

- Garbage: 20%
- Fire Alarm Phone Lines (2) 50%
- Grounds and Snow 40%
- Fire Alarm Monitoring 50%
- Annual Sprinkler Inspection 50%
- Fire Extinguisher Inspections TBD
- Property Insurance TBD

The additional rent is to be paid in full by the fiscal court within thirty (30) days of receipt of the invoice.

Note 12. Related Party Transaction

The county purchased a vehicle from Dennis Brooks, county judge/executive for \$2,000.

Note 13. Interfund Receivables and Liabilities

The table below reflects fund balances after accounting for receivables and liabilities that are not included on the financial statement prepared in accordance with the regulatory basis of accounting.

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
Ending Fund Balance - Regulatory Basis	\$ 183,090	\$ 912,209	\$ 6,718	\$ 54,370
Interfund Receivables		46,786		116,717
Interfund Liabilities	(46,786)		(116,717)	
Fund Balance - Ending	<u>\$ 136,304</u>	<u>\$ 958,995</u>	<u>\$ (109,999)</u>	<u>\$ 171,087</u>

**WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2016

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 555,100	\$ 684,584	\$ 679,873	\$ (4,711)
In Lieu Tax Payments	16,000	16,000	1,413	(14,587)
Excess Fees	23,000	39,770	39,770	0
Licenses and Permits	1,500	1,500	1,044	(456)
Intergovernmental	196,015	521,004	317,512	(203,492)
Charges for Services	100	100		(100)
Miscellaneous	17,000	205,521	169,251	(36,270)
Interest	250	250	90	(160)
Total Receipts	<u>808,965</u>	<u>1,468,729</u>	<u>1,208,953</u>	<u>(259,776)</u>
DISBURSEMENTS				
General Government	776,972	767,549	732,510	35,039
Protection to Persons and Property	13,104	81,385	81,283	102
General Health and Sanitation		35,153	35,076	77
Social Services		4,297	4,297	0
Administration	420,327	981,783	384,148	597,635
Total Disbursements	<u>1,210,403</u>	<u>1,870,167</u>	<u>1,237,314</u>	<u>632,853</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(401,438)	(401,438)	(28,361)	373,077
Other Adjustments to Cash (Uses)				
Change in Payroll Revolving Account Excess			(24,305)	(24,305)
Transfers From Other Funds	197,576	197,576	197,576	0
Transfers To Other Funds	(196,138)	(196,138)	(229,450)	(33,312)
Total Other Adjustments to Cash (Uses)	<u>1,438</u>	<u>1,438</u>	<u>(56,179)</u>	<u>(57,617)</u>
Net Change in Fund Balance	(400,000)	(400,000)	(84,540)	315,460
Fund Balance - Beginning	<u>400,000</u>	<u>400,000</u>	<u>267,630</u>	<u>(132,370)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 183,090</u>	<u>\$ 183,090</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu of Taxes	\$ 50,000	\$ 55,778	\$ 55,778	\$ 0
Intergovernmental	926,645	1,167,046	1,198,998	31,952
Miscellaneous	135,000	195,468	209,010	13,542
Interest	500	500	639	139
Total Receipts	<u>1,112,145</u>	<u>1,418,792</u>	<u>1,464,425</u>	<u>45,633</u>
DISBURSEMENTS				
Roads	1,059,647	1,115,483	1,012,277	103,206
Debt Service	229,500	231,456	228,854	2,602
Capital Projects	25,000	25,000		25,000
Administration	200,422	769,126	189,221	579,905
Total Disbursements	<u>1,514,569</u>	<u>2,141,065</u>	<u>1,430,352</u>	<u>710,713</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(402,424)	(722,273)	34,073	756,346
Other Adjustments to Cash (Uses)				
Lease Proceeds			133,372	133,372
Transfers To Other Funds	(197,576)	(197,576)	(197,576)	0
Total Other Adjustments to Cash (Uses)	<u>(197,576)</u>	<u>(197,576)</u>	<u>(64,204)</u>	<u>133,372</u>
Net Change in Fund Balance	(600,000)	(919,849)	(30,131)	889,718
Fund Balance - Beginning	600,000	942,340	942,340	0
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 22,491</u>	<u>\$ 912,209</u>	<u>\$ 889,718</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 83,400	\$ 110,541	\$ 108,983	\$ (1,558)
Miscellaneous	200	200	2,266	2,066
Interest	5		3	3
Total Receipts	<u>83,605</u>	<u>110,741</u>	<u>111,252</u>	<u>511</u>
DISBURSEMENTS				
Protection to Persons and Property	378,150	427,668	417,149	10,519
Administration	17,300	20,319	16,290	4,029
Total Disbursements	<u>395,450</u>	<u>447,987</u>	<u>433,439</u>	<u>14,548</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(311,845)	(337,246)	(322,187)	15,059
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	309,845	309,845	324,000	14,155
Total Other Adjustments to Cash (Uses)	<u>309,845</u>	<u>309,845</u>	<u>324,000</u>	<u>14,155</u>
Net Change in Fund Balance	(2,000)	(27,401)	1,813	29,214
Fund Balance - Beginning	2,000	4,905	4,905	0
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (22,496)</u>	<u>\$ 6,718</u>	<u>\$ 29,214</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 225,000	\$ 225,000	\$ 152,112	\$ (72,888)
Miscellaneous			1,235	1,235
Interest	50	50	39	(11)
Total Receipts	225,050	225,050	153,386	(71,664)
DISBURSEMENTS				
General Government	48,200	49,760	47,549	2,211
Protection to Persons and Property	3,000	3,000	259	2,741
General Health and Sanitation	20,300	20,300	16,154	4,146
Social Services	7,700	7,700	7,600	100
Recreation and Culture	18,500	37,490	37,490	0
Roads	100,243	79,893		79,893
Administration	13,400	29,699	11,913	17,786
Total Disbursements	211,343	227,842	120,965	106,877
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	13,707	(2,792)	32,421	35,213
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(113,707)	(113,707)	(94,550)	19,157
Total Other Adjustments to Cash (Uses)	(113,707)	(113,707)	(94,550)	19,157
Net Change in Fund Balance	(100,000)	(116,499)	(62,129)	54,370
Fund Balance - Beginning	100,000	116,499	116,499	0
Fund Balance - Ending	\$ 0	\$ 0	\$ 54,370	\$ 54,370

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

AREA DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,258	\$ 3,258	\$	\$ (3,258)
Interest	2	2	1	(1)
Total Receipts	3,260	3,260	1	(3,259)
DISBURSEMENTS				
Capital Outlay	6,710	6,710	1,457	5,253
Total Disbursements	6,710	6,710	1,457	5,253
Net Change in Fund Balance	(3,450)	(3,450)	(1,456)	1,994
Fund Balance - Beginning	3,450	3,450	3,452	2
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,996	\$ 1,996

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

FIRE PROTECTION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,300	\$ 2,300	\$ 2,199	\$ (101)
Total Receipts	2,300	2,300	2,199	(101)
DISBURSEMENTS				
Protection to Persons and Property	4,800	4,800	2,316	2,484
Total Disbursements	4,800	4,800	2,316	2,484
Net Change in Fund Balance	(2,500)	(2,500)	(117)	2,383
Fund Balance - Beginning	2,500	2,500	2,592	92
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,475	\$ 2,475

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 379,545	\$ 379,545	\$ 210,013	\$ (169,532)
Miscellaneous	15,000	16,025	7,636	(8,389)
Total Receipts	394,545	395,570	217,649	(177,921)
DISBURSEMENTS				
General Health and Sanitation	434,545	451,047	241,770	209,277
Total Disbursements	434,545	451,047	241,770	209,277
Net Change in Fund Balance	(40,000)	(55,477)	(24,121)	31,356
Fund Balance - Beginning	40,000	55,477	55,477	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,356</u>	<u>\$ 31,356</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

SEARCH AND RESCUE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,500	\$ 2,500	\$ 1,025	\$ (1,475)
Interest	5	5	4	(1)
Total Receipts	2,505	2,505	1,029	(1,476)
DISBURSEMENTS				
Protection to Persons and Property	7,505	7,505	221	7,284
Total Disbursements	7,505	7,505	221	7,284
Net Change in Fund Balance	(5,000)	(5,000)	808	5,808
Fund Balance - Beginning	5,000	5,000	5,567	567
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,375	\$ 6,375

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 36,712	\$ (163,288)
Miscellaneous		1,169	1,169	0
Total Receipts	<u>200,000</u>	<u>201,169</u>	<u>37,881</u>	<u>(163,288)</u>
DISBURSEMENTS				
Capital Projects	300,000	301,169	54,733	246,436
Administration				0
Total Disbursements	<u>300,000</u>	<u>301,169</u>	<u>54,733</u>	<u>246,436</u>
Net Change in Fund Balance	(100,000)	(100,000)	(16,852)	83,148
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>74,299</u>	<u>(25,701)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 57,447</u>	<u>\$ 57,447</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

SPECIAL PROJECTS FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$	\$ 320,774	\$ 320,774	\$
Miscellaneous				0
Interest	450	838	490	(348)
Total Receipts	<u>450</u>	<u>321,612</u>	<u>321,264</u>	<u>(348)</u>
DISBURSEMENTS				
Capital Projects	<u>350,450</u>	<u>673,511</u>	<u>326,634</u>	<u>346,877</u>
Total Disbursements	<u>350,450</u>	<u>673,511</u>	<u>326,634</u>	<u>346,877</u>
Net Change in Fund Balance	(350,000)	(351,899)	(5,370)	346,529
Fund Balance - Beginning	<u>350,000</u>	<u>351,899</u>	<u>351,899</u>	<u>0</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 346,529</u>	<u>\$ 346,529</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

E-911 FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 70,000	\$ 91,636	\$ 91,636	\$ 0
Miscellaneous		618	3,205	2,587
Interest	25	25	34	9
Total Receipts	<u>70,025</u>	<u>92,279</u>	<u>94,875</u>	<u>2,596</u>
DISBURSEMENTS				
Protection to Persons and Property	98,500	99,891	98,572	1,319
Administration	10,500	55,425	19,461	35,964
Total Disbursements	<u>109,000</u>	<u>155,316</u>	<u>118,033</u>	<u>37,283</u>
Net Change in Fund Balance	(38,975)	(63,037)	(23,158)	39,879
Fund Balance - Beginning	<u>38,975</u>	<u>63,037</u>	<u>63,037</u>	<u>0</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,879</u>	<u>\$ 39,879</u>

WOLFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

ANIMAL SHELTER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 11,000	\$ 11,000	\$ 660	\$ (10,340)
Miscellaneous		1,125	1,125	0
Total Receipts	11,000	12,125	1,785	(10,340)
DISBURSEMENTS				
General Health and Sanitation	18,350	19,475	6,791	12,684
Total Disbursements	18,350	19,475	6,791	12,684
Net Change in Fund Balance	(7,350)	(7,350)	(5,006)	2,344
Fund Balance - Beginning	7,350	7,350	6,438	(912)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,432	\$ 1,432

WOLFE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**WOLFE COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016**

WOLFE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,483,946	\$ 29,493	\$	\$ 1,513,439
Buildings	12,640,338			12,640,338
Vehicles (Restated)	1,127,477	82,475	69,136	1,140,816
Equipment (Restated)	476,527	184,305	3,125	657,707
Infrastructure	4,233,306	178,862		4,412,168
Total Capital Assets	\$ 19,961,594	\$ 475,135	\$ 72,261	\$ 20,364,468

WOLFE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2016

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

Note 2. Prior Period Adjustments

The beginning balance of vehicles was reduced by \$82,970 and the beginning balance of equipment was increased by \$82,970 to reclass two tractors from vehicles to equipment.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

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The Honorable Dennis Brooks, Wolfe County Judge/Executive
Members of the Wolfe County Fiscal Court

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With *Government Auditing Standards*

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Wolfe County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise Wolfe County Fiscal Court's financial statement and have issued our report thereon dated June 20, 2017, wherein we disclaimed an opinion on the Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis. Because we were unable to place reliance on the accuracy, validity, and completeness on Wolfe County Fiscal Court's Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statement, we considered Wolfe County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Wolfe County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of Wolfe County Fiscal Court's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying comments and recommendations as items 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, and 2016-009 we consider to be material weaknesses.

Independent Auditors' Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

In connection with our engagement to audit the financial statement of Wolfe County Fiscal Court, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-010, 2015-011, 2015-012, 2015-013, 2015-014, 2015-015, 2016-016, 2016-017, 2016-018, 2016-019, 2016-020, 2016-021, 2016-022, 2016-023, and 2016-024. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Wolfe County Judge/Executive's Responses to Findings

The Wolfe County Judge/Executive's responses to the findings identified in our engagement are described in the accompanying comments and recommendations. The County Judge/Executive's responses were not subjected to the auditing procedures applied in the engagement to audit the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Morgan and Associates, LLC
West Liberty, Kentucky

June 20, 2017

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES

2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements And Purchase Orders

Condition: During our audit, we tested twenty-five disbursements and noted the following:

- Two (2) instances in which invoices were miscoded.
- Two (2) instances in which there was no invoice, and one of which there was only an advertisement for bids.
- One (1) instance where no approval was found in the minutes.
- The County's purchase order file does not record the amount of the purchase order nor an approval signature.
- Three (3) instances where invoices were not paid within 30 days with one (1) instance resulting in a late charge.
- The fiscal court entered into a state contract price purchase; however, we were not provided with evidence that the item purchased met the specification in the state price contract.

While testing bank reconciliations, we noted a check outstanding since November 2015 for \$15,036. Upon inquiry, we were informed the check was returned because it was a duplicate payment. We noted the amount was posted only once to the appropriations ledger and asked to view the invoice. It appears payment was made from an estimate rather than an invoice. The check was payment for work that was not completed by the vendor who returned the check (envelope postdated February 2017). The treasurer had the returned check on her desk at the time of on-site fieldwork. She voided the check while the auditors were completing field work in May 2017.

While reading the minutes, we noted that the sheriff requested the fiscal court return excess fees in the amount of \$12,868. The fiscal court approved and returned the excess fees requested. This is a lump sum payment and is not allowed.

Criteria:

- All invoices should be coded according to the Uniform System of Accounts required by the Department for Local Government.
- Good internal controls dictate proper supporting documentation is maintained.
- All disbursements require approval. Such approval should be documented in the official minutes.
- The County Budget Preparation and State Local Finance Officer Policy Manual requires fiscal courts to use a purchase order system. At a minimum, this system should adhere to the following: 1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. 2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted. 3. 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. 4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-001 The Fiscal Court Lacks Adequate Internal Controls Over Disbursements And Purchase Orders (Continued)

Criteria (Continued):

- Per KRS 65.140, unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty working days of receipt of a vendor's invoice except when payment is delayed because the purchaser had made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty days which followed receipt of vendor's invoice by the purchaser.
- Documentation should be maintained that proves the item purchased was the item included in the state price contract.

Pursuant to KRS 64.710 which states, "No public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly."

Effect: Disbursements were miscoded and may be paid without proper approval. Disbursements may be made without consideration of budget or cash availability. The fiscal court may be purchasing items that are not the items included in the state price contract resulting in noncompliance with bid laws.

Cause: Lack of adequate internal controls over disbursements and lack of a purchase order process.

Recommendation: We recommend the fiscal court determine appropriate internal controls to address the conditions identified in the condition section of this finding. The fiscal court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

County Judge/Executive's Response: Better internal controls are being developed over disbursements and purchase orders.

2016-002 The Fiscal Court Lacks Adequate Control Over Coding of Receipts

Condition: During our audit, we noted the following:

- A bank franchise receipt of \$4,744 was posted to a 4500 account code rather than a 4100 account code.
- A franchise receipt of \$8,963 was posted to a wrong 4100 account code rather than where it should be posted.
- A payment in lieu of taxes receipt of \$16,582 was posted to the road fund rather than the general fund.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-002 The Fiscal Court Lacks Adequate Control Over Coding of Receipts (Continued)

Criteria: The Department for Local Government (DLG) requires all fiscal courts to use the Uniform System of Accounts. Good internal controls dictate accurate account coding for accurate fund information.

Effect: Informed financial decisions cannot be made with inaccurate information.

Cause: Failure of the Treasurer to code receipts properly.

Recommendations: We recommend the treasurer ensure that receipts are coded according to the Uniform System of Accounts required by the DLG.

County Judge/Executive's Response: Treasurer has taken action to make sure more adequate control is implemented over coding of receipts. An error was made in the deposit of the PILT money. The check was deposited in to the Road fund instead of the General fund. A check in the amount of \$16,582 will be written from the Road fund to the General fund to correct this error.

2016-003 The Fiscal Court Did Not Ensure Their Electronic Data is Recoverable In The Event Of A System Failure

Condition: The treasurer uses QuickBooks to prepare and maintain her payroll records. We were informed that the treasurer's QuickBooks payroll data for the fiscal year was destroyed when her computer crashed. She could, however, provide hard copies of some of the information requested.

The computer system crashed during October 2015. The treasurer could not provide payroll summaries from the accounting software. Because of this issue, we were unable to perform some payroll procedures we considered to be necessary to form an opinion on the financial statement as a whole.

Criteria: Data should be backed up on a regular basis and stored in a secure off-site location and regular tests should be conducted to make sure the data can be restored in the system. Preparation of backup data, preferably on a daily or at least weekly basis, provides reasonable assurance data could be recovered if necessary. By testing the data backups, the county increases the assurance that backup systems will work properly when needed.

Effect: Important financial data may be lost and may not be easily recreated.

Cause: Failure to implement an offsite backup policy

Recommendation: We recommend the fiscal court implement adequate off-site backup procedures to ensure the lost data could be recovered if necessary.

County Judge/Executive's Response: The payroll data is being backed up on an external hard drive, a thumb drive, and is now being backed up in the cloud via QuickBooks. This information is also being tested frequently to make sure that the information is being recoverable. In the event that the treasurer's computer were to crash again, all the payroll and accounting software information would be recoverable.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-004 The Fiscal Court Lacks Adequate Internal Controls Over Occupational Taxes

Condition: While conducting our audit, we requested tax returns for ten (10) businesses conducting operations in the County. All ten (10) businesses were selected haphazardly from the 2015-2016 local telephone directory.

- The occupational tax collector could not provide us with a return for four (4) of the businesses selected.
- No spreadsheet or other manner of tracking returns paid or unpaid was provided.

Criteria: The Wolfe County Occupational Tax Ordinance dated 05-11-01, effective 11/22/2005 states in part:

- Section 2. (1) “Every person or business entity engaged in any trade, occupation, or profession...shall be required to complete and execute the questionnaire prescribed by the Occupational Tax Office.”
- Section 3. (1) “ Every person or employer that is required to make a filing with the IRS or the Kentucky Revenue Cabinet shall be required to file and pay to the county an occupational license tax for the privilege of engaging in such activities within the county.”
- Section 5. (4) “Every employer who fails to withhold or pay to the county any sums required by this ordinance to be withheld and paid shall be personally and individually liable to the county for any sums withheld or required to be withheld...”
- Section 5. (10) “... Every employee receiving compensation in the county...shall be personally liable for any amount due. In all cases where the employer does not withhold the tax...employee or employees shall be responsible for filing with the county each quarter in the same manner as if they were the employer...” “Employers not required to withhold, report or pay the license fee must annually during the month of January each year, make a return to the Wolfe County Fiscal Court, in which is set forth the name and social security number of each employee of the employer during the preceding calendar year...”

The occupational tax collector should have internal controls in place that would detect if a business is paying occupational taxes on a timely basis or if an existing business needs to be added to the tax system.

Effect: Potential loss or delay in the collection of occupational tax revenue.

Cause: The Fiscal Court lacks adequate controls over occupational tax collections.

Recommendation: We recommend that the occupational tax collector maintain a listing of all businesses in the County and check each business off as they pay their tax bill. If a business does not remit the occupational tax report timely, the tax collector should begin collection efforts and document such efforts. We further recommend that the occupational tax administrator review the current Occupational Tax Ordinance and ensure all employers and businesses are in compliance.

County Judge/Executive's Response: Steps are being taken to develop better internal controls over occupational taxes. We are looking at a program that will help us better manager our occupational taxes.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-005 The Fiscal Court Lacks Adequate Internal Controls And Segregation Of Duties Over The Payroll Process

Condition: During our audit, we tested payroll of seventeen (17) employees for one (1) pay period and noted the following:

- We noted that there appeared to be no independent review of payroll by anyone other than the preparer.
- Two (2) invoices for elective withholdings were not provided when requested. Because the invoices were not provided, auditors could not determine if elective deductions were correct.
- All payroll checks are signed by only one (1) individual, either the judge/executive or the treasurer but not both.
- One (1) instance where no timesheet is being provided by an employee.
- One (1) instance where a timesheet indicated sick hours had been taken. However, the pay stub did not report these hours used independently of regular hours worked.
- Three (3) employees, listed on the health insurance invoices tested, showed a billing for an administration fee but no charge for health insurance.
- Three (3) instances in which dental insurance withholdings were not being withheld in the correct amount.
- The Treasurer's withholding for elective insurance coverage is \$63 less per pay than the actual cost. The Treasurer is responsible for withholding and remitting these payments; therefore, should have been aware of this error.
- One (1) instance in which an employee did not sign their time sheet.
- We noted that payroll checks were issued as of March 1, 2016; however, it appears that the match check was not transferred to the payroll account to cover the payroll checks until March 10, 2016.
- When payroll checks are posted to the appropriations ledger, we noted that employee names are not included in the description/memo column. Because the check number in the appropriation ledger corresponds to the match check only, it makes it difficult to determine to whom the actual check was written.
- One (1) instance in which an employee was paid two hours more overtime than he actually worked, resulting in an overpayment of \$11.25 for the particular pay period.
- One (1) instance in which an employee was paid two hours he didn't actually work and two hours in which he was paid at his overtime rate when he should have been paid at his straight time rate. These errors resulted in overpayment for this pay period of \$45.01.
- It appears the judge/executive's W-2 did not include his training incentive payment.
- One (1) instance in which a supervisor's signature was not noted on an employee's time sheet.

While performing other payroll testing, we noted the following:

- The September and October 2015 health insurance invoices were not paid until 11/25/2015. The February and March health insurance invoices were not paid until 4/8/2016. The June health insurance invoice was not paid until 7/7/2016. Each month's invoice is due by the end of the month for that month's coverage.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-005 The Fiscal Court Lacks Adequate Internal Controls And Segregation Of Duties Over The Payroll Process (Continued)

Condition (Continued):

- Salaries and wages for the quarter ended 12/31/2015 per Form 941 did not agree to salaries and wages per the October, November, and December retirement report. The CERS report gross wages were \$12,072 greater than the gross wages per Form 941.
- We were unable to agree the 2015 W-2s to the county's payroll register because the treasurer informed us that her payroll system crashed during the fiscal year ending 6/30/2016.

Criteria:

- One (1) individual should not have control over preparation and reconciliation of payroll.
- All invoices for employee deductions should be maintained and accessible.
- Good internal controls dictate dual signatures on all checks.
- Under The Fair Labor Standards Act, 29 CFR Part 16, all employees are required to keep timesheets. KRS 337.320 (1)(b) states "Every employer shall keep a record of the hours worked each day and each week by each employee.
- Employee pay stubs should indicate sick and vacation hours earned and used.
- Health insurance invoices should be reviewed against payroll reports to ensure all employees had the proper deduction from paychecks and accurate payment of health insurance invoices.
- All other deductions from payroll should be checked to ensure the correct rates are utilized.
- Good internal controls dictate timesheets be signed by the employee indicating accuracy of hours claimed and their supervisor to show approval to pay for hours claimed.
- Money for payroll liabilities should be transferred timely to ensure the payroll account does not become overdrawn.
- Good internal controls dictate that hours worked and overtime be calculated accurately.

Effect: Employee pay checks may not have the correct deductions withheld. Deductions from checks could also be made without the employees' authorizations. Employees may be paid for time they didn't actually work or at the wrong rate.

Cause: Lack of adequate internal controls and segregation of duties over the payroll process.

Recommendation: We recommend the following:

- The fiscal court has more than one employee reconcile each payroll to ensure the proper deductions and withholdings are being made.
- The fiscal court put in place procedures to ensure all deductions have been verified as correct and not be made without signed authorization from the employee and supervisor.
- That each check issued from the payroll fund be signed by more than one (1) authorized employee.
- Sick and vacation accrued balances be tracked automatically through the payroll software and be documented on each pay stub.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-005 The Fiscal Court Lacks Adequate Internal Controls And Segregation Of Duties Over The Payroll Process (Continued)

County Judge/Executive's Response: Our staff is limited to the County Treasurer and the Finance Officer. Because of this limitation, we are developing steps to correct this situation to have better internal control over payroll and segregation of duties over the payroll process. The County Attorney employees have been notified to start turning in timesheets. The county is billed an administration fee on all eligible, full time employees, whether they elect health insurance or not. If they do not elect insurance through the county, we are still billed an admin. fee. The County is responsible for paying that fee, not the employee. The dental insurance error has been identified and is being corrected. The Treasurer's elective insurance withholding error has been identified and is being corrected. Steps are being taken to make sure that all employees sign their time sheets. The CT was off Wednesday and part of the day Thursday and Friday of the pay week and was not able to get the match checks done until the following week. All of our employees have their own appropriation code that they are paid from and the paychecks are identified by that code number. In calculating an employee's overtime, thirty-eight regular working hours were used instead of forty. In calculating an employee's time, hours worked were added up wrong. The CT is checking on the Judge's training incentive payment to see why it was not included in his W2 wages. Health insurance invoices are being paid on a timely basis. The 2015 salaries and wages are being revisited. The CT's computer crashed in September of 2015 and the 2015 W2's were worked on by several people to get them done by the deadline. The CT is looking over all of the payroll reports to check again for errors. Steps are being taken to make sure employees and supervisors are signing all time sheets.

Auditor Response: During testing of payroll, in addition to the (3) three employees without insurance that had a corresponding administration fee, we noted (2) two full time employees without insurance, which the County was not charged an administration fee by the insurance company. We recommend the County contact the insurance carrier to be sure all charges are proper.

2016-006 The Fiscal Court Lacks Adequate Internal Controls Over The Payroll Revolving Account

Condition: During our audit, we noted that the payroll revolving account is not being reconciled to zero each month. The treasurer paid the April 12, 2016 payroll checks from the payroll bank account without transferring funds to cover such payroll checks. The amount that was necessary to be transferred to cover the payroll checks and related payroll expenses was \$55,668. This amount was not transferred through June 30, 2016; however, the account never became overdrawn. This could occur if deposits were made in excess of amounts required to pay payroll expenses or if expenses required to be paid had not been paid.

While performing other payroll procedures, we determined that \$820 was transferred in excess of amounts required to cover health insurance costs for the month of June 2016. Errors such as this contribute to a surplus or deficit in the payroll revolving account.

The June 30, 2016 payroll bank reconciliation was not presented to the auditors at the same time as June 30, 2016 bank reconciliations for all other accounts. We noted during on-site fieldwork that bank reconciliations for the payroll account had been completed through February 2016. Upon inquiry of the Treasurer about the March through June 2016 bank reconciliations, we were informed the bank reconciliations were at her mother's (former Treasurer) residence who helps her with the payroll bank reconciliations.

Even though the former Treasurer was responsible for this information during her tenure, once she is no longer an employee of the fiscal court, it is inappropriate that she have access to confidential information.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-006 The Fiscal Court Lacks Adequate Internal Controls Over The Payroll Revolving Account (Continued)

Criteria: The payroll account is a revolving account. All amounts deposited should be disbursed. The account should reconcile to zero monthly when all receivables and liabilities are taken into account.

Good internal controls dictate bank reconciliations should be completed timely.

Best practices would suggest that original documents not be removed from the courthouse. Confidential information should not be available to non-employees.

Effect: The revolving account is not being maintained properly. There may be a balance in the payroll bank account that should be reimbursed to the funds. There may be amounts due from the funds not recorded in the fund financial statements.

Cause: Failure of the treasurer to reconcile the payroll bank account to zero on a monthly basis.

Recommendations: We recommend that the treasurer maintain the payroll revolving account correctly and obtain training to do so as the fiscal court determines is necessary. We further recommend the fiscal court implement internal controls for the revolving account. For instance, require that the finance officer review the revolving account transfers and bank reconciliations monthly for accuracy.

County Judge/Executive's Response: To the CT's knowledge, the payroll account has never been zeroed out. Neither of the former FO/CT's ever zeroed their payroll accounts out; if \$5,264.85 was needed to be transferred then they would round the amount up to \$6,000.00 to make sure there was plenty of money to cover everything and then made their transfer. That is the reason for the overage of money in the payroll account. Also, the County Court Clerk's health insurance contribution was figured too high so the difference between the county match amount and what the Court Clerk was paying was accounting for the transfer overage of \$820.00. The former FO/CT is still being used when an extra hand is needed and the CT needed help getting the payroll account reconciled.

Auditor Response: When the amounts needed to be transferred to the payroll account are calculated correctly and all payroll taxes and related expenses are timely paid, the payroll revolving account will zero out. By transferring more than needed from the various funds to meet payroll liabilities expenses are overstated within the funds, therefore distorting the county's financial condition.

2016-007 The Fiscal Court Lacks Adequate Internal Controls Over Interfund Transfers

Condition: While conducting our audit, we noted that although the fiscal court minutes indicate transfers are presented to the court monthly, we could find no evidence that individual transfers and amounts were presented or approved. The fiscal court appears to do a blanket approval for transfers each month.

We also noted the following related to interfund transfers:

- A transfer of \$46,786 was made from the road fund to the general fund in excess of the amount allowed because of an incorrect calculation on the road cost allocation worksheet.
- LGEA funds are not being spent in compliance with KRS requirements. (See finding 2016-016.)

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-007 The Fiscal Court Lacks Adequate Internal Controls Over Interfund Transfers (Continued)

Criteria: The Department for Local Government requires that the dollar value of each transfer be recorded in the official minutes of the fiscal court.

The road and LGEA funds are restricted funds and are required to be expended for specific purposes. The funds are not permitted to be used for general government purposes. The fiscal court should determine the reason for any transfers from restricted funds prior to approving these transfers.

Effect: Monies from restricted funds may have been transferred and utilized inappropriately.

Cause: The Fiscal Court lacks adequate controls over the transfer process.

Recommendation: We recommend the fiscal court determine appropriate internal controls to address the condition identified in this finding.

County Judge/Executive's Response: DLG is being contacted to clarify if "Other funds" amount has to be used in the calculation of the road fund allocation worksheet to determine the correct amount that can be transferred from the road fund to the general fund. We did not realize that our coal severance status had gone from coal producing to coal impact. Steps will be taken to correct the amount of funds wrongly transferred out to the Jail fund from the LGEA fund. This will be monitored closer in future fiscal years.

2016-008 The Treasurer Did Not Include All Liabilities On The Fourth Quarter Report

Condition: The Treasurer did not include the following on the liabilities schedule submitted with the fourth quarter report:

- Public Properties Corporation Revenue Bond with a principal balance at 6/30/2016 of \$8,290,000.

Criteria: Counties are required to include a complete and accurate liabilities schedule with their Quarterly Reports submitted to the Department for Local Government (DLG).

Effect: The Fiscal Court, the State Local Debt Officer and DLG may not be aware of the correct amount of debt outstanding at 6/30/2016.

Cause: Failure to maintain an accurate liabilities schedule with the Quarterly Report submitted to DLG.

Recommendation: We recommend the Fiscal Court review and determine the accuracy of the current liabilities schedule to ensure that it is accurate at all times.

County Judge/Executive's Response: We have never been told that the Public Properties Corporation Revenue Bond needed to be included on our budget. This bond will be included in our future long term liabilities section on our budget and on our quarterly reports.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

MATERIAL WEAKNESSES (Continued)

2016-009 The County Lacks Adequate Control Over The Lease Agreement With Their Ambulance Service.

Condition: During the course of our audit we noted the following:

- Nine (9) ambulances are listed on the current insurance policy (4/11/2017). However, only six (6) ambulances are on the fixed asset schedule. Only three (3) of the ambulances listed on the fixed asset schedule are listed on the insurance policy.
- We could find no payments by the county for the purchase of four (4) ambulances added to the fixed asset schedule in the prior year.
- Per the Ambulance Lease Agreement, Arrow-Med is given use of the ambulances owned by the county provided they are used solely in Wolfe County. We noted documentation provided by the county that ambulances now owned 50% by the county are being used in other counties.
- We found no reimbursement by Arrow-Med for any costs.

Criteria: The County should follow KRS 67.082 for the disposition of property.

The county should not pay 100% of costs for vehicles owned jointly and not used in the county.

Effect: The County may not be in compliance with KRS 67.082 for disposition of county property. County funds are potentially being used to subsidize a private company.

Cause: Lack of knowledge of Kentucky Revised Statutes with regards to disposition of county property and agreement with private persons, partnerships, or corporations for the provision of an ambulance service for the county.

Recommendation: We recommend the County review their agreement with the contracted ambulance service and follow the guidelines of KRS 65.710 and also review the decision to share ownership of ambulance vehicles with their contracted ambulance service.

County Judge/Executive's Response: A new lease agreement has been signed.

NONCOMPLIANCES

2016-010 The Fiscal Court Lacks Adequate Control Over Transfers Between Bank Accounts

Condition: During our audit, we noted that the Treasurer maintains a savings account and a checking account for each fund. All receipts are deposited into the appropriate fund savings account. When the treasurer determines the amount needed to pay disbursements, she transfers money from the fund savings account to the corresponding fund checking account by internet without documentation of approval. Interfund transfers are also made through the internet without dual signatures.

Criteria: Pursuant to KRS 68.020 (1) "...All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive."

Effect: Bank transfers are occurring in a manner that is circumventing the dual signature requirements.

Cause: Noncompliance with Kentucky Revised Statutes.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-010 The Fiscal Court Lacks Adequate Control Over Transfers Between Bank Accounts (Continued)

Recommendation: We recommend the fiscal court implement controls to ensure compliance with KRS 68.020 (1). This may be accomplished by creating a document for each transfer which requires the signature of both the judge/executive and treasurer prior to the transfer occurring.

County Judge/Executive's Response: The CT prints confirmation sheets for every electronic transfer made online. The CT will start co-signing these confirmation sheets with the CJE every time an electronic transfer is made.

2016-011 The Fiscal Court Did Not Adopt A Written Investment Policy

Condition: The fiscal court has not adopted a written investment policy to govern the investment of public funds.

Criteria: KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy.

Effect: It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include.

Cause: Failure to address previous year audit finding.

We recommend the fiscal court adopt a written investment policy per KRS 66.480(3). If needed, the fiscal court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive's Response: A written investment policy has since been adopted.

2016-012 The Fiscal Court Did Not Fix The Compensation Of Every County Officer And Employee

Condition: Although we were given a salary schedule dated July 1, 2015, it was not approved by the fiscal court and included as part of the official minutes.

Criteria: KRS 64.530 states the fiscal court of each county shall fix the compensation of every county officer and employee. No salary increases should be allowed that are not included in a salary schedule approved by the county.

Effect: Salary increases may have been allowed without approval of the fiscal court.

Cause: Failure to comply with KRS 64.530.

Recommendation: We recommend the fiscal court list all employees and each salary or hourly pay rate. The fiscal court should also include the starting pay rates for entry-level positions. The list should be revised as increases are approved by the fiscal court.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-012 The Fiscal Court Did Not Fix The Compensation Of Every County Officer And Employee (Continued)

County Judge/Executive's Response: The Fiscal Court passed the minimum and maximum salary schedule that applied to each position but was not aware that we had to pass individual pay rates. This has since been corrected and will be passed at the July 11, 2017, meeting for the 17-18 fiscal year.

2016-013 The Fiscal Court Sold Gravel To Private Individuals

Condition: The fiscal court has been purchasing gravel in excess of the county's needs and selling it to private individuals. Gravel sales of \$24,975 for the fiscal year 2015-16 were posted to the general ledger.

We noted that no sales tax is charged to the private individuals and no sales tax is remitted to the Kentucky State Treasury.

We also noted the following:

- Two (2) receipts did not have a signature.
- Ten (10) receipts in which the amount charged did not calculate correctly for a net difference of \$165.
- Seven (7) receipts in which there was not enough information to recalculate the amount charged.
- Eight (8) receipts were written out of consecutive order.

Criteria: It is not the responsibility of the county government to provide gravel for purchase for private individuals.

KRS 67.0802 states "...Real or personal property may be sold at public auction or sold by electronic auction following publication of the auction in accordance with KRS 424.130(1) (b); Sold by sealed bids in accordance with the procedure for sealed bids under KRS 45A.365 (3) and (4)... Any compensation resulting from the disposal of this real or personal property shall be transferred to the general fund of the county"

The county is exempt from sales tax when items purchased are used for the county's exempt purpose. When items are sold to another end user for a non-exempt purpose, the individual should be charged sales tax and the county should report and remit the sales tax to the Kentucky State Treasury.

KRS 139.200 states in part, "A tax is hereby imposed upon all retailers at the rate of six percent (6%) of the gross receipts derived from: (1) Retail sales of: (a) Tangible personal property, regardless of the method of delivery, made within this Commonwealth

Effect: By not having proper controls and records over gravel sales there is an increased risk of fraud and misuse.

Cause: Lack of internal control over the purchase and sale of gravel.

Recommendation: We recommend the fiscal court review gravel expenditures and be mindful of the amount of purchases they are making and ensure all county assets are used for the intended purpose of maintaining the county road system. We recommend the county cease the practice of selling the county's gravel surplus and only use county funds for the maintenance of county property. Further, we recommend the fiscal court consult with the County Attorney about the legality of selling county property to private individuals.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-013 The Fiscal Court Sold Gravel To Private Individuals (Continued)

County Judge/Executive's Response: The road department stopped selling gravel to private individuals on January 1, 2017.

2016-014 The Fiscal Court Lacks Adequate Control Over Their Agreement With JSW Farm, LLC (The Chop Shop)

Condition: In January 2013, the County entered into an agreement with JSW Farm LLC DBA The Chop Shop for the purchase of the land and building pad located in the Morgan-Wolfe County Industrial Park. The agreement requires annual payments of \$47,500 beginning January 31, 2014 made payable to the Wolfe County Fiscal Court. The County will forgive the principal and interest payments if the Chop Shop creates and maintains employment at levels equal or greater than fifteen (15) full-time employees for calendar year 2014 and 2015, increasing to thirty (30) full-time employees for the remaining eight (8) years of the agreement. The agreement further defines a full-time employee as working 1,820 hours per year and average wage of at least \$14,650 per year, \$8 per hour average.

The fiscal court has not determined if The Chop Shop has created and maintained the required employment levels. The Fiscal Court may be owed principal and interest.

Criteria: The fiscal court should be requesting payroll information at least annually to determine compliance with the agreement.

Effect: The fiscal court is not monitoring the compliance of The Chop Shop with the terms of the signed agreement.

Cause: Lack of internal controls over the terms of the loan agreement with JSW Farm, LLC

Recommendation: We recommend the fiscal court review their agreement with JSW Farm, LLC DBA The Chop Shop and put in place a process to ensure compliance with the terms of the agreement. We further recommend the fiscal court determine if The Chop Shop is in compliance for the calendar year 2015 and if principal and interest is owed to the fiscal court.

County Judge/Executive's Response: The agreement with JSW Farm is being reviewed and a process is being put in place to ensure compliance with the terms of this agreement. We will also be looking in to calendar year 2015 to see if principal and interest is owed to the Fiscal Court due to non-compliance on JSW Farm's part.

2016-015 The Fiscal Court's Lease Agreement With Arrow-Med Ambulance Does Not Comply With KRS 65.710

Condition: In June 2015, the County signed a lease agreement with Arrow-Med Ambulance for the consideration of \$1 and in further consideration of the service and benefits that an ambulance service provides for the people of Wolfe County. The agreement indicates Arrow-Med will be granted "...full use of the ambulances (and equipment in those ambulances) which are currently 100% owned by the County of Wolfe so long as those ambulances are only used to provide services to emergencies or runs that originate in the boundaries of Wolfe County..."

The agreement did not include requirements of KRS 65.710 (2)(3)(4).

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-015 The Fiscal Court's Lease Agreement With Arrow-Med Ambulance Does Not Comply With KRS 65.710 (Continued)

Criteria: KRS 65.710 (2) states "No contract shall be made with an ambulance service...unless the contract shall stipulate that at least one (1) person on each ambulance run shall possess currently valid emergency medical technician certification."

KRS 65.710 (3) states "All contracts made with an ambulance service...shall stipulate that all vehicles used for operation of the service comply with vehicle and equipment administrative regulations issued by the Cabinet for Health and Family Services."

KRS 65.710 (4) states "All contracts shall include the stipulation that at least two (2) trained persons, one (1) driver and one (1) attendant, shall be carried on each ambulance for each ambulance call which is covered by the contract."

Effect: The lease agreement does not comply with KRS 65.710.

Cause: Lack of knowledge of Kentucky Revised Statutes.

Recommendation: We recommend the County consult with the County Attorney and draft a new lease agreement that includes the provisions of KRS 65.710.

County Judge/Executive's Response: The County Attorney has drafted a new lease agreement.

2016-016 The Jail Fund Owes The Local Government Economic Assistance Fund \$116,717 From Prior and Current Year Misuse Of Restricted Funds

Condition: The jail fund owes the local government economic assistance (LGEA) fund \$28,469 from prior year misuse of restricted funds and \$88,248 from current year misuse of restricted funds. In fiscal year 2015 and 2016, restricted LGEA funds were transferred to the jail fund in excess of the amount allowed. The jail fund has a cumulative liability to the LGEA fund of \$117,717. The LGEA fund, in turn, has a receivable from the jail fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement; however, the liability is still owed.

Criteria: KRS 42.455(2)(3)(4) specifically prohibits the expenditure of LGEA funds for the administration of government and states "Coal impact counties must expend one hundred percent (100%) of funds in the transportation category." Some LGEA funds can be used for categories in the jail fund; however, in this case LGEA funds that were restricted to roads were transferred to the jail fund and spent.

Effect: Coal severance monies were not one hundred percent (100%) spent on coal haul roads.

Cause: Lack of compliance with Kentucky Revised Statutes.

Recommendation: We recommend the jail fund liability be repaid to the LGEA fund as soon as money becomes available in order to ensure restricted LGEA funds continue to be made available to the county.

County Judge/Executive's Response: This error occurred because we did not know that our coal severance status had gone from coal producing to coal impact. We are working on a payment plan to refund \$116,717.00 back to the LGEA fund. This reimbursement will have to come from our General fund because our Jail fund receives very little money.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-017 The Fiscal Court Does Not Have A Corrective Action Plan To Address Prior Year Invoices Provided That Did Not Substantiate Ambulance Reimbursements

Prior year Audit finding #2014-005 and #2015-017:

Condition: In fiscal year 2013, the county provided auditors with two (2) invoices totaling \$26,950 for ambulances purchased by their new ambulance service. The county reimbursed the new ambulance service \$22,105 for the purchase from the KBEMS grant funds. The invoices provided listed the make, model, vehicle identification number (VIN) of the ambulances the ambulance service was requesting reimbursement for. Auditors testing of the VIN of the vehicles listed revealed they could not be located in the county clerk's registration system, AVIS, which registers and tracks all vehicles registered in Kentucky. The county provides insurance on the ambulances, however, these ambulances could not be found on the insurance list. Also, the ambulances noted on the invoice would not have been allowable expenditures of the grant funds because they were older than three (3) model years based on the KBEMS regulations and 202 KAR 7:250.

As of June 30, 2016, auditors could find no evidence that the ambulance service had reimbursed the fiscal court for this expenditure.

Criteria: Reimbursement for ambulances was not allowable per KBEMS regulations and KAR 7:250.

Effect: The new ambulance service received county funds based on false documentation that was not accurate and did not substantiate the reimbursement made.

Cause: Lack of knowledge of KBEMS regulations and KAR 7:250.

Recommendation: We recommend the County consult with County Attorney and prepare a corrective action plan to address this prior year issue and determine if the ambulance service should reimburse the County the amount of \$22,105.

County Judge/Executive's Response: The CJE is consulting with the County Attorney to prepare a corrective action plan to address this prior year issue. The Fiscal Court will then determine if the ambulance service should reimburse the County the amount of \$22,105.00

2016-018 The Fiscal Court Did Not Implement Data Breach Policies And Procedures

Condition: While performing our audit, we noted the Fiscal Court had not implemented data breach policies and procedures as required by statute.

Criteria: Pursuant to KRS 61.932, An agency or nonaffiliated third part that maintains or otherwise possesses personal information regardless of the form in which the personal information is maintained, shall implement, maintain and update security procedures and practices, including taking any appropriate corrective action to protect and safeguard against security breaches.

Effect: Personal information may be at risk for disclosure to unauthorized individuals.

Cause: Failure to implement data breach policies and procedures.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-018 The Fiscal Court Did Not Implement Data Breach Policies And Procedures (Continued)

Recommendation: We recommend the Fiscal Court implement data breach policies and procedures that comply with KRS 61.932. We further recommend the Fiscal Court review “Protection of Personal Information” effective January 1, 2015 issued by the Department for Local Government, which provides guidance to Local Governmental Units regarding implementing data breach policies and procedures.

County Judge/Executive’s Response: The Fiscal Court is working with DLG and the County Attorney to implement data breach policies and procedures that comply with KRS 61.932. The County will also make sure personnel files are housed in a locked file cabinet.

2016-019 The Fiscal Court Lacks Adequate Internal Controls Over Bid Process

Condition: We noted that the fiscal court paid \$178,862 to a vendor for road repair involving steel drilling. When the auditors asked for a bid file on this work, we were informed that the work was not advertised for bidding because a state of emergency had been declared due to a winter storm. On April 3, 2015, the county judge/executive, pursuant to KRS 39A.100(2), declared a local state of emergency due to a major severe thunderstorm event for the period of March 4, 2015 through the end of the projected severe winter storm. Under this declaration, the county judge/executive waived procedures and formalities otherwise required by the law pertaining to: a) performance of public work, b) entering into contracts, c) incurring obligations, d) employment of permanent and temporary workers, e) utilization of volunteer workers, f) rental of equipment, g) appropriation and expenditure of public funds. It is not apparent by the declaration when the emergency ended. However since the emergency declaration was dated April 3, 2015 for a winter storm beginning on March 3, 2015, and the repair work was invoiced on August 2, 2015, it appears there was enough time from the end of the emergency until work commenced to implement the bid process.

Criteria: Pursuant to KRS 67.078 (3), “All county ordinances and other official actions shall state the effective date thereof.”

The fiscal court should have limited the time frame and scope of the local emergency order by resuming its regular oversight functions after the emergency order expired, and should have required special meetings as necessary to have more control and oversight of the county’s activities.

Effect: The appearance that a declaration of the state of emergency was used as a means to circumvent the bid process.

Cause: Inappropriate use a Kentucky Revised Statute.

Recommend: We recommend the fiscal court determine appropriate internal controls to address the conditions identified in the condition section of this finding. The fiscal court may determine the controls listed above under the criteria section are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

County Judge/Executive’s Response: The Fiscal Court was trying to get the work completed before school started.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-020 The Fiscal Court Failed To Prepare A Schedule Of Expenditures Of Federal Awards

Condition: The auditors were not presented with a Schedule of Expenditures of Federal Awards when requested.

Criteria: The Office of Management and Budget (OMB) Uniform Guidance documents the county's responsibilities for presenting a Schedule of Expenditures of Federal Awards (SEFA) and includes the following:

(b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program.

(5) For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

(6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

Effect: An audit in accordance with the Office of Management and Budget (OMB) Uniform Guidance may have been required and not performed.

Cause: Failure to follow the requirements of the OMB Uniform Guidance.

Recommendation: It is recommended that the county maintain accurate financial information with regard to federal expenditures and accurately compile a SEFA in accordance with OMB Uniform Guidance for the fiscal year.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-020 The Fiscal Court Failed To Prepare A Schedule Of Expenditures Of Federal (Continued)

County Judge/Executive's Response: Schedule of expenditures of federal awards is attached.

Auditor Response: The Schedule of Expenditures of Federal Awards was only provided after completion of the audit and was not submitted to DLG as required.

2016-021 The Fiscal Court Did Not Publish Their Financial Statements In Accordance With KRS 91A.040 (6)

Condition: During our audit, we requested documentary evidence of the publication of the Fiscal Court's audit for the prior year ending June 30, 2015. No documentation was presented.

Criteria: KRS 91A.040(6), states each county shall, within thirty days after the presentation of an audit to the county legislative body, publish an advertisement in accordance with KRS Chapter 424 containing:

(a) The auditor's opinion letter; (b) The Budgetary Comparison Schedules – Major Funds (c) A statement that a copy of the complete audit report, including financial statements and supplemental information, is on file at the fiscal court and is available for public inspection during normal business hours; (d) A statement that any citizen may obtain from the county a copy of the complete audit report, including financial statements and supplemental information, for his personal use; (e) A statement which notifies citizens requesting a personal copy of the county audit report that they will be charged for duplication costs at a rate that shall not exceed twenty-five cents per page; and (f) A statement that copies of the financial statements prepared in accordance with KRS 424.220 are available to the public at no cost at the business address of the officer responsible for preparation of the statement.

Effect: Financial information is not made public in the required manner.

Cause: Failure to comply with Kentucky Revised Statutes.

Recommendation: We recommend that the fiscal court publish their financial statements in accordance with KRS 91A.040 (6).

County Judge/Executive's Response: All future financial statements will be published in accordance with KRS 91A.040 (6).

2016-022 The Fiscal Court Did Not Comply With Continuing Disclosure Requirements

Condition: During our audit, we noted the fiscal court did not comply with the continuing disclosure requirements in relation to the Electronic Municipal Market Access website. This website lists all bond issues in a county. The fiscal court, as issuer of bonds, has agreed to provide certain financial information.

Criteria: The issuer of bonds is to provide certain annual financial information, including audited financial statements 180 days following the fiscal year ending on the preceding June 30, or as soon as it is made available to the Office of the State Auditor of the Commonwealth of Kentucky (APA) to the Municipal Securities Rulemaking Board.

Effect: Failure to file an audited financial statement timely with the Municipal Securities Rulemaking Board.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-022 The Fiscal Court Did Not Comply With Continuing Disclosure Requirements (Continued)

Cause: Failure to comply with Continuing Disclosure Requirements.

Recommendation: We recommend the fiscal court file their audited information as soon as it is made available by the APA.

County Judge/Executive's Response: The fiscal court was not aware of these disclosure requirements and was not aware of the Electronic Municipal Market Access website. This will be looked in to and corrected.

2016-023 The Fiscal Court Lacks Internal Controls Over Budget Amendments

Condition: During our audit, we noted the fiscal court called a special meeting on June 28, 2016 to pass an emergency budget amendment to amend in unanticipated monies into the FY 15/16 budget.

Criteria: KRS 67.078(2) states "A majority of the fiscal court may declare an emergency to exist by naming and describing the emergency, and thereafter may adopt a county ordinance to address that emergency without regard to the requirements of KRS 67.077.

KRS 68.280 states "The 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

According to correspondence with the Department for Local Government (DLG), emergency amendments are allowed; however, KRS statutes prohibit those 'emergencies' being of the county's own making (i.e. waiting until the end of the year to call an emergency and clean up with one large massive amendment). Emergency amendments do not require a signature or approval from the State Local Finance Officer. They do require minutes from the fiscal court meeting where the emergency was declared and the reason for that emergency.

Effect: Budget amendments should be made as unanticipated funds come into the county.

Cause: Noncompliance with Kentucky Revised Statutes.

Recommendation: We recommend the fiscal court implement controls to ensure unanticipated funds are amended into the budget as the funds are received.

County Judge/Executive's Response: There was money that came in to the Fiscal Court, at the last minute, to reimbursement one of our accounts. The money had to go in to our budget for the next year and was needed in the current year and there was not time to go through proper procedures.

2016-024 The Fiscal Court Failed To Remit National Forestry Receipts To The School District In The Fiscal Year 2015

Condition: During our disbursements testing, we noted that it did not appear that the fiscal court had remitted one-half of the national forestry receipts in the amount of \$20,697 to the school district in the 2015 fiscal year. A payment of \$19,598 was remitted for the one-half payment in 2016.

**WOLFE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

NONCOMPLIANCES (Continued)

2016-024 The Fiscal Court Failed To Remit National Forestry Receipts To The School District In The Fiscal Year 2015 (Continued)

Criteria: Per KRS 149.130 (3), "The county treasurer shall place one -half (1/2) of the funds to the credit of the public roads of his county and the other half (1/2) shall be distributed among the school districts in the county according to the area of the reserve in each school District.

Effect: The fiscal court could overspend their portion of the national forestry receipts.

Cause: Noncompliance with Kentucky Revised Statutes.

Recommendation: We recommend the fiscal court remit the 2015 national forestry receipts owed to the school district.

County Judge/Executive's Response: I am not sure why the former CO did not remit 1/2 of the National Forestry Receipts to the school district. This will be correct in FY 17/18.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

WOLFE COUNTY

**For The Fiscal Year Ended
June 30, 2016**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

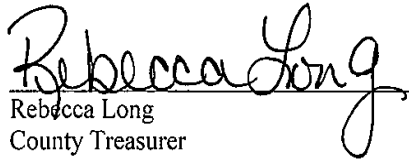
WOLFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Wolfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Dennis Brooks
County Judge/Executive



Rebecca Long
County Treasurer