



Auditor of Public Accounts  
Mike Harmon

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Elliott County Fiscal Court for the fiscal year ended June 30, 2023. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Elliott County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court’s financial statement did not follow this format. However, the fiscal court’s financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 116 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following findings:

**The Elliott County Fiscal Court did not have controls in place to prevent an error in financial reporting:** A posting mistake was made and not detected prior to the submission of the quarterly report. A budget transfer was posted to the federal grant fund in the amount of \$1,532,934 which was double the correct amount of \$766,467.

According to the treasurer, it was a posting error on the quarterly report, but does not affect the financial statement, only the appearance of the budget and no funds were misspent. As a result, the final budget columns from the budget to actual reports in the audit report do not net to zero, as the federal fund has an excess budget of \$766,467.

Inadequate controls over the posting process resulted in the undetected errors noted above. The fiscal court relies on information presented in the quarterly financial reports and inaccurate information could lead to improper decision making. In addition, KRS 68.210 states, “[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures. The fourth quarter financial report must agree to the original budget and budget amendments submitted to and approved by DLG.

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all amounts reflected on the fourth quarter financial report are complete and accurate.

*County Judge/Executive’s Response: The county had an excess of budgeted funds in the reserve for transfer account (07-9200-999) and the treasurer was trying to move those budgeted funds over to the transfers out account (07-4909) in order to keep the transfers out actual amount from being over budget. This was the first time we have performed a budget transfer between an expense account and a revenue account in the same fund. In the future we will ensure transfers are not overstated.*

**The Elliott County Fiscal Court did not accurately report debt liabilities:** The Elliott County Fiscal Court did not accurately report debt liabilities on their fourth quarter report. They reported principal debt balance of \$1,590,711 on the liabilities section of the June 30, 2023 quarterly financial statement. However, the confirmed principal balance of the Elliott County Fiscal Court debt was \$1,374,838.

According to the treasurer, this occurred due to the county electing to record the outstanding principal balance of four leased vehicles on the debt liabilities, even though they are classified as GASB 87 leases. As a result, the liabilities section of the June 30, 2023 quarterly financial statement was overstated by \$215,873.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial records be maintained, which includes the schedule of liabilities. In addition, good internal controls require accurate information be presented in order for the fiscal court to make informed financial decisions, such as budget preparation or making large purchases.

GASB 87 Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of the statement apply to financial statements of all state and local governments. For purposes of applying this statement, a lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

We recommend the Elliott County Fiscal Court review debt schedules and the debt liabilities section of the quarterly financial statements to ensure outstanding principal and interest are reported accurately. Additionally, we recommend the county refrain from disclosing GASB 87 leases as outstanding liabilities in the liabilities section of the 4<sup>th</sup> quarter financial report.

*County Judge/Executive's Response: Due to the fact the debt schedule is presented quarterly to the magistrates the treasurer felt it was more transparent and informative to present the leased vehicles on the debt schedule. This was the first time the county has had leased vehicles. In the future leases will not be included on the debt schedule, we will only include them on the GASB 87 disclosure.*

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

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