



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Gallatin County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Gallatin County Fiscal Court for the fiscal year ended June 30, 2015. 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 Gallatin County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court’s financial statement did not follow this format. However, the fiscal court’s financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

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

The audit contains the following comments:

The county understated the schedule of expenditures of federal awards causing it to be materially misstated. Controls were not in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The county did not report spending any federal money on their SEFA, however, they expended \$251,887 during Fiscal Year 2015, resulting in a materially understated Schedule of Expenditure of Federal Awards.

OMB Circular A-133, Subpart C, section .300 states in part: “The auditee shall:...(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310.” OMB Circular A-133, Subpart C, section.310(b) states:

Schedule of expenditures of federal awards. The auditee shall also prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statement.

At a minimum, the schedule should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
- Include, in either the schedule or a note to the schedule, the value of the federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

Controls over receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.

We recommended the fiscal court improve controls over financial statement reporting to ensure that the Schedule of Expenditures of Federal Awards is reported accurately.

County Judge/Executive's Response: We will note in the future any FEMA reimbursements expected.

The county did not maintain an accurate capital assets listing. Controls were not in place to prevent or detect errors on the county's capital assets listing. The county's capital asset listing was materially understated by \$1,034,890. The county's capital asset listing did not provide amounts for infrastructure, other equipment, and vehicles. There was also an item on the capital asset listing that was below the capitalization threshold, and two items that were omitted from the county's insurance policy.

Per the Department for Local Government, each county office should maintain a current capital assets listing summarizing the following:

- Description of asset (include quantity where applicable).
- Historical cost of the asset (use FMV at date of donation for assets acquired via donation).
- Date of acquisition.
- Date of capital improvement (capitalize costs which significantly improve the asset by extending life or greatly improving performance).

- Date of disposal.
- Useful life of asset.
- Salvage value, if any (or guaranteed residual value if applicable per lease agreement).
- Copies of all lease agreements (note: lease agreements must include terms in writing and signed by all responsible parties).
- Proceeds from sale or disposal of assets (maintain documentation for trade-in allowances, or assets deemed obsolete).

Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Strong controls reduce the risk of asset misappropriation. A lack of controls over capital asset reporting led to assets being understated, assets being omitted from insurance policies, and assets that should not have been capitalized being on the capital asset listing.

We recommend the county prepare and maintain a complete and accurate master capital assets listing with all required information in order to ensure that assets are valued accurately and that gains and/or losses are calculated correctly. We further recommend they annually review asset addition and disposal records reconciling them to the master capital asset listing to verify accuracy. Further, we recommend that the county reviews the asset listing periodically and add any newly acquired assets to the county's insurance policy.

County Judge/Executive's Response: We have added a new feature in our software that allows for pictures of our assets. We also have all office personnel checking asset listing and updating as needed.

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

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

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