



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Grayson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Grayson County Fiscal Court for the fiscal year ended June 30, 2018. 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 Grayson 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 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 comments:

The Grayson County Fiscal Court’s Justice Center Public Properties Corporation Fund financial statement was materially misstated: In the fiscal year ending June 30, 2015, the Grayson County Fiscal Court received revenue in the amount of \$7,512,928 from a refunding bond. These funds were recognized in Fiscal Year 2015 and remained in an escrow account until Fiscal Year 2018. On September 1, 2017, the fiscal court transferred the funds to the Justice Center Public Properties Corporation account and then disbursed the funds. The fiscal court recognized the transfer and payment as intergovernmental receipts and debt service disbursements on their fiscal year ending June 30, 2018 Judicial Center Public Properties Corporation Fund financial statement, requiring material adjustments.

The fiscal court was unaware that reporting the transferred funds in this manner would inadvertently double post these receipts and disbursements to the Judicial Center Public Properties Corporation Fund. Materially misstated financial statements do not provide a complete and accurate overview of the county's financial position and result in noncompliance of KRS 68.210.

According to the Governmental Accounting Standards Board (GASB) statement number 7, paragraph 19, "the Board believes that an advance refunding is a single transaction consisting of two components: issuance of new debt and payment to an escrow agent to defease the old debt." Since this single transaction occurred in 2015, there would not be a transaction to record when the escrow agent issues payments for the old debt.

We recommend the Grayson County Fiscal Court ensure that correct amounts are shown on all financial statements presented to the public and to the Department for Local Government (DLG).

County Judge/Executive's Response: It was our understanding that all activity listed on our bond bank statements had to be included on our bond financial statements. We were unaware that we had double posted the receipts and expenses when we recorded the September 2017 transferring of funds. Since the receipts and disbursements were both overstated by the exact amount, this overstatement resulted in a zero net effect and therefore our totals for 6-30-18 financial statements were correct. In the future, all advance bond refunding will be examined carefully to ensure that they are accurately reported on our bond financial statements.

Auditor's Reply: While cash balances on the financial statements were accurate, total receipts and disbursements were materially overstated.

The Grayson County magistrates were paid an expense allowance for services not rendered: This is a repeat finding and was included in the prior year audit report as Finding 2017-004. Each of Grayson County's magistrates were paid an expense allowance of \$3,600 during the fiscal year ending June 30, 2018. None of the magistrates served on a fiscal court committee, which is a requirement to be eligible to receive the expense allowance. Due to lack of management oversight, the magistrates were not aware of the requirement. As a result, magistrates were paid for services not actually rendered.

KRS 64.530(6) states "[j]ustices of the peace and county commissioners shall not receive any compensation for their services on the fiscal court, other than as provided by this section; provided, however, justices of the peace and county commissioners may receive no more than three thousand six hundred dollars (\$3,600) annually or three hundred dollars (\$300) per month as an expense allowance for serving on committees of the fiscal court."

In Polston v. King, 965 S.W.2d 143, 145 (Ky. 1998), the Kentucky Supreme Court stated "[t]he legislature modified KRS 64.530(6) in 1984 to include the language that the expense allowances were 'for serving on committees of fiscal court.' We agree...This language apparently bars payment for expense allowances absent the required committee service."

We recommend the Grayson County magistrates not be paid an expense allowance unless they serve on working committees of the fiscal court.

County Judge/Executive's Response: At our exit conference for the 6-30-17 audit held on 11-8-18, we were informed that magistrates were required to serve on Fiscal Court committees in order to receive the \$3,600 expense allowance. At our next Fiscal Court meeting held on 11-20-18, magistrates were appointed to Fiscal Court committees.

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

###

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.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

