



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Johnson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Johnson 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 Johnson 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:

Disbursements exceeded approved budget appropriations: The Johnson County Fiscal Court’s disbursements exceeded the approved budget in the following funds:

- Road Fund - The road disbursements exceeded the approved budget appropriations by \$247,578.
- Justice Center Corporation Fund - The debt service disbursements exceeded budget appropriations by \$683,013.

- Johnson County Employee Flexible Spending Account (FSA) and Health Reimbursement Account (HRA) Insurance Fund - The administration disbursements exceeded appropriations by \$2,942.

Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. This was due to an oversight by management. Johnson County is in violation of KRS 68.300. KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void.” KRS 68.300 further states, “[n]o member of the fiscal court shall vote for any such illegal appropriation or claim.” We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county’s budget or transfer necessary appropriations in order to prevent the county from exceeding the budget.

County Judge/Executive’s Response: We concur and have made the recommended changes in accounting policy.

The fiscal court did not establish adequate controls over the Justice Center Corporation Fund: The fiscal court did not maintain adequate controls over the Justice Center Corporation Fund. No financial statements were prepared for these funds and no information regarding the activity in these funds was submitted to the fiscal court for review. Also, the county’s debt schedule presented with the fourth quarter report (which serves as the year-end financial statement) did not report debt obligations of the Johnson County Justice Center Bonds, resulting in an understatement of debt of \$4,385,000.

The former treasurer was unaware she had to prepare a financial statement for the Justice Center Corporation Fund and said she sent the debt schedule to the Department for Local Government (DLG) when submitting the fourth quarter report, but DLG had no record of it being submitted. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds. This could result in undetected fraud, errors, and misstatements. Also, not presenting all debt that the county has outstanding does not give users of the county’s financial information a true picture of the county’s financial well-being. The fiscal court is financially accountable and legally obligated for the Justice Center Corporation Fund.

The fiscal court should establish adequate controls over these funds so that proper records are maintained and complete and accurate information is available for review. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts, set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all county debt be reflected properly on the quarterly financial statement. We recommend the county treasurer reconcile these accounts and prepare a financial statement for the Justice Center Corporation Fund and include all debt of the county on the quarterly financial statement as required.

County Judge/Executive’s Response: We concur and recommendations have been implemented.

The former county treasurer did not properly account for, and did not properly reconcile and report the financial activity of the county: The former county treasurer did not properly account, reconcile, and report the financial activity of the county. The following issues have been noted:

- The fourth quarter report included several misclassifications which caused it to be materially misstated. Some examples of these posting errors include the following:

\$246,898 - General Fund - Sheriff Excess Fees posted in Real Property Account

\$221,181 - General Fund - various incorrect postings to the Reimbursement Account

\$353,029 - Road Fund - various incorrect postings to the Reimbursement Account

\$385,581 - Justice Center Corporation Fund - prior year carryover posted as a current year receipt

Due to these misstatements, the auditor proposed material audit adjustments to management in order to properly reflect accurate information on the county's financial statement.

- Bank reconciliations provided for the audit included inaccurate balances because they did not include all necessary information. Inaccuracies included incorrect beginning balances, voided outstanding checks included on outstanding check listings, and actual outstanding checks omitted from the list.
- The former county treasurer did not properly prepare an annual statement in accordance with KRS 424.220 nor was a settlement presented to the fiscal court for approval as required by KRS 68.020(5) and 68.030. The settlement presented to auditors was a list of bank account balances only.

The fiscal court did not have controls in place to establish appropriate oversight of the former county treasurer's activities. The fiscal court did not have procedures in place to detect the material misclassifications and errors made by the former treasurer. The former treasurer appeared to not understand how to record these transactions.

As a result, these misclassifications and failure to have a properly prepared treasurer's settlement could impact the fiscal court's ability to make sound financial decisions during the course of a fiscal year. 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* lists the duties of the county treasurer based on KRS 68.020, 68.300, and 68.360(1). This manual requires the county treasurer to maintain the financial records, to receive and disburse money, to invest funds, to prepare monthly bank reconciliations, to prepare financial reports monthly, and to settle accounts within 30 days after the close of each fiscal year. We recommend the fiscal court ensure there are proper training procedures for the financial staff and implement oversight and review procedures to ensure financial transactions are recorded, reconciled, and reported properly.

County Judge/Executive's Response: We concur and will implement recommendations.

The payroll revolving account had a cash surplus of \$133,798 and was not reconciled to zero on a monthly basis: The former treasurer did not have reconciling procedures in place to ensure the payroll revolving account was not overpaid from other funds of the county. In addition, the former treasurer did not reconcile this account to zero on a monthly basis. As a result, the overpayments from other funds of the county to the payroll revolving account have accumulated over the years and caused the other funds to have reduced cash resources available for the needs of the county. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. We recommend the fiscal court reconcile the payroll revolving account monthly to a zero balance in order to prevent large surpluses accumulating in this revolving account that actually belong to other funds. We further recommend the fiscal court return the surplus stated above to the proper funds.

County Judge/Executive's Response: We concur and recommendations have been implemented.

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

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