



Auditor of Public Accounts
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Harmon Releases Audit of Monroe County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Monroe County Fiscal Court for the fiscal year ended June 30, 2020. 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 Monroe 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 Monroe County Fiscal Court did not accurately report financial information: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The following reporting errors were noted on the fourth quarter financial statement for June 30, 2020, for the Monroe County Fiscal Court:

- The former county treasurer did not properly budget or record borrowed money to the fourth quarter financial statement as receipts of \$472,850 to borrowed money and disbursements of \$42,650 to sheriff supplement under general government and \$430,200 to community park under other capital projects. These amounts were added to line items

listed above in the general fund. On July 30, 2019, the fiscal court entered into a promissory note with a local financial institution in the amount of \$42,650 which was paid to the sheriff's office for the purchase of three vehicles. Additionally, on May 8, 2020, the fiscal court entered into a promissory note with a local financial institution in the amount of \$430,200 for the purchase of property on Columbia Avenue to be used for a community park.

- The former county treasurer did not include activity of bank account totaling \$27,545 held by the fiscal court in the general fund on the fourth quarter financial statement. The fiscal court is temporarily holding funds of \$27,545 for the Monroe County Industrial Development Board in a separate bank account. These funds were received from Monroe County/Tompkinsville Industrial Development when it dissolved during Fiscal Year 2019. This amount was added to the beginning fund balance line item of the general fund which also increased the ending fund balance of the general fund.
- The former county treasurer did not include activity of bank account totaling \$10,886 held in the fiscal court's name on the fourth quarter financial statement. The Kentucky Association of Counties (KACo) has a bank account in the fiscal court's name in the amount of \$10,886. These funds are unused loan proceeds of \$10,756 on money borrowed for road equipment during Fiscal Year 2019 and interest earned of \$130 on these funds. These amounts were added to the beginning fund balance and interest earned line items of the road fund, \$10,756 and \$130, respectively, which also increased the ending fund balance of the road fund.
- The fourth quarter liabilities page on the fourth quarter financial statement was materially inaccurate. The former county treasurer did not reduce ending balances for the unrefunded portion of the first mortgage revenue bonds, series 2009, and first mortgage revenue refunding bonds, series 2016, by principal and interest payments made during the fiscal year.

According to the county treasurer and former interim county treasurer, the former county treasurer was not aware loan proceeds from a local bank should be recorded as borrowed money since this was the first time she had handled a loan from a bank. In addition, the former county treasurer did not realize she should include those bank accounts and forgot to reduce principal and interest payments by payments made in Fiscal Year 2020.

This deficiency resulted in inaccurate financial reporting to the fiscal court and Department for Local Government (DLG). Material misstatements of receipts and disbursements were noted due to errors requiring adjustments on the fourth quarter financial statement as noted above. Misstatements of the beginning fund balance and ending fund balance were also noted due to errors requiring adjustments on the fourth quarter financial statement as noted above. In addition, by not including all payments made during the year, the outstanding debt of the Monroe County Public Properties Corporation on the fourth quarter financial statement liabilities page, principal and interest were materially overstated by \$530,000 and \$194,063, respectively.

Strong internal controls over the reporting process are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court.

KRS 68.020(4) states, in part, the county treasurer “shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.”

KRS 68.280 states, “[t]he 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 fund 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.” KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires all borrowed money received and repaid to be reflected in the county budget and be properly reflected on the financial report as a receipt as well as an “expenditure” for repayment of borrowed funds. Furthermore, all funds disbursed on the fiscal court’s behalf by third parties should be recorded in receipts and appropriations ledgers. DLG’s manual also requires the liabilities section of the quarter financial statement to be utilized for reporting current long-term debt.

We recommend the fiscal court implement stronger internal controls over the reporting process to ensure receipts, disbursements, and cash balances from all bank accounts along with all loan and lease activity is properly recorded to the fiscal court’s ledgers and to the financial statements submitted to the Department for Local Government.

County Judge/Executive’s Response: Former County Treasurer has since been terminated. New county treasurer is being trained.

Auditor’s Reply: As recommended the fiscal court should implement strong internal controls to ensure the financial reports prepared by the treasurer accurately reflect the financial activity of the county.

The Monroe County Fiscal Court did not obtain appraisal on property purchased: On May 8, 2020, the Monroe County Judge/Executive, on behalf of the Monroe County Fiscal Court, signed the deed to purchase property on Columbia Avenue which includes a house, two barns, and 50 acres for \$430,000. The property was financed with a promissory note from a local financial institution. The property was not appraised before the purchase was made. On February 24, 2020, fiscal court approved “the purchase land from individuals in the amount of \$430,000 on Columbia Avenue, this is to be financed for 15 year with KACO” and approved appointing “the County Attorney Wes Stephens to handle all negotiation and closing on the purchase of land.”

On April 30, 2020, the fiscal court voted to approve “to borrow the money to purchase land on Columbia Ave from the Edmonton State Bank due to KACO not being able to lend at the current time due to COVID-19 crisis. Once operations begin in KACO the Fiscal Court will precede with the loan with KACO and payoff the Edmonton State Bank loan.”

The county treasurer and former interim county treasurer stated the former county treasurer was not aware of the state statute requiring an appraisal before purchasing property. By failing to obtain an appraisal before purchasing property, the fiscal court cannot determine if they are paying above fair market value for the property.

KRS 67.080(1)(b) states the fiscal court may “buy land for the use of the county, when necessary, for the lawful purposes of the county as provided for in this section and KRS 67.083. The fiscal court may appoint one (1) or more commissioners to sell or buy real estate under this subsection, subject to the approval of the fiscal court, and convey it to the purchaser, under the direction of the court, or have it conveyed to the court, by deed properly executed and recorded.” Furthermore, KRS 67.080(1)(b)1. states “[w]hen real property is purchased, the county shall pay no more than the highest appraised value, as determined by a Kentucky certified real property appraiser as defined in KRS 324A.010, or the price determined through exercising the power of eminent domain, if that power is used. A valuation of the real property shall not be required if the purchase price is forty thousand dollars (\$40,000) or less....”

We recommend the fiscal court obtain appraisals before purchasing any property.

County Judge/Executive’s Response: Former County Treasurer was unaware.

Auditor’s Reply: The Monroe County Fiscal Court should have controls in place to ensure they follow all requirements when purchasing property.

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

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