



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Morgan County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Morgan County Fiscal Court for the fiscal year ended June 30, 2014. 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 Morgan 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 General Fund and Jail Fund have deficit balances totaling \$27,329.** The county's General Fund and Jail Fund have deficit balances of \$14,762 and \$12,567, respectively, as of June 30, 2014. The General Fund owes the Road Fund \$138,775 due to transfer station disbursements being paid from the Road Fund. The Jail Fund owes the Road Fund \$26,390 due to Local Government Economic Assistance (LGEA) funds being transferred to the Jail Fund that should have been used for transportation. Due to this, the Road Fund's ending cash balance was reduced by a total of \$165,165. Road monies are restricted by KRS 177.320 and KRS 177.360. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement. The unpaid liabilities and deficit balances are as follows:

	<u>General Fund</u>	<u>Jail Fund</u>	<u>Totals</u>
Fund Balance - Ending	\$ 124,013	\$ 13,823	\$ 137,836
Interfund Liabilities	<u>(138,775)</u>	<u>(26,390)</u>	<u>(165,165)</u>
Fund Balance - Ending	<u>\$ (14,762)</u>	<u>\$ (12,567)</u>	<u>\$ (27,329)</u>

We recommend the county ensure that restricted monies are spent properly in the future and avoid having deficit balances.

*County Judge/Executive Stanley Franklin's response: We agree with the auditors' finding and recommendation. This issue came to our attention during our 2015-2016 budget process. Transfer station expenses are now budgeted and paid from the general fund. The jail fund deficit was caused by the change in the county's coal severance status from a coal producing county to a coal impact county during the fiscal year. The prior treasurer was unaware of this change and inadvertently transferred seventy percent of coal severance receipts to the road fund when one hundred percent of the receipts should have been transferred to the road fund.*

**Transfer station disbursements should not be paid from the Road Fund.** Disbursements totaling \$138,775 for operations of the county's solid waste transfer station were made from the Road Fund. Solid waste transfer station employee salaries are budgeted and paid from the same account code as road workers' salaries. By doing this, the county has reduced the amount of funds available to spend on road repairs and maintenance. KRS 177.320 and 177.360 restrict disbursements from the Road Fund to be used for secondary and rural road maintenance, repairs, and related activities. We recommend the fiscal court ensure that only proper payments for allowable activities are made from restricted Road Fund monies. Further, we recommend the General Fund pay the Road Fund \$138,775.

*County Judge/Executive Stanley Franklin's response: We agree with the auditors' finding and recommendation. See response to 2014-001. Furthermore, we plan to implement a payment plan to pay the \$138,775 owed from the general fund to the road fund. This repayment is expected to begin in the 2016-2017 fiscal year and will be addressed in the 2016-2017 budget.*

**The Morgan County Fiscal Court did not comply with regulations for local government economic assistance coal-impact funds.** The county did not comply with KRS 42.455 and KRS 42.470(1)(c) regarding coal-impact funds received through the Local Government Economic Assistance (LGEA) program. KRS 42.470(1)(c) requires that coal-impact counties must expend 100percent of LGEA funds in the transportation category. The county transferred \$26,390 of coal-impact funds to the Jail Fund. This resulted in coal-impact funds being used for jail activities instead of transportation as required. We recommend the fiscal court monitor the amounts received and expended in the LGEA fund to ensure compliance with LGEA regulations in the future. Further, we recommend the Jail Fund pay the Road Fund \$26,390.

*County Judge/Executive Stanley Franklin's response: We agree with the auditors' finding and recommendation. See response to 2014-001. Furthermore, we plan to implement a payment plan to pay the \$26,390 owed from the jail fund to the road fund. The repayment is expected to begin in the 2016-2017 fiscal year and will be addressed in the 2016-2017 budget.*

**Public properties corporation disbursements were not approved by the project development board.** Documentation could not be found of approval of \$1,922,590 of public properties corporation disbursements for the judicial center. All disbursements are required to be approved by the project development board before payment is made. All payments were signed off by the former county judge/executive and a representative of the Administrative Office of the Courts, but the project development board members may not have been aware of the disbursements being paid. We recommend all disbursements be approved in the official minutes of the project development board with a listing of each vendor and amount to be paid.

*County Judge/Executive Stanley Franklin's response: We agree with the auditors that all expenditures of the Project Development Board should be approved by the Board and documented in the official minutes of the Board. Any future disbursements will be approved by the Board and recorded in the official minutes of the meetings.*

**The Morgan County Fiscal Court did not properly withhold employees' health insurance premiums.** We found that the county paid the entire health insurance premium for a family plan for an employee of the Morgan County Attorney's office. The administrative code says the county should provide single coverage for health insurance as prescribed in the group insurance contract. Officers or employees who wish to purchase additional coverage for family members shall pay the full costs for the optional insurance. For the fiscal year ending June 30, 2014, the single plan for this employee would have cost \$599 a month. However, the county was paying \$1,001 each month for a plan to add a dependent. The additional \$402 should have been withheld from the employee's paycheck, totaling \$4,824 for the fiscal year. This employee started receiving health insurance benefits in 2011. We recommend the county calculate the total amount of health insurance premiums that were paid in excess of the single plan for this employee since her employment began to determine the total amount due back to the county. We recommend the county ensure health insurance premiums are properly withheld from employees' paychecks in the future.

*County Judge/Executive Stanley Franklin's response: The fiscal court was informed of this issue and voted not to request reimbursement from the individual. This is an ongoing issue that the current treasurer is in the process of correcting.*

**The Morgan County Fiscal Court did not pay invoices within 30 working days.** The county did not have procedures in place to ensure that health insurance invoices were paid timely. Per KRS 65.140(2), all bills for goods and services shall be paid within 30 working days of the vendor's invoice except when payment is delayed because the purchaser has made a written disapproval. If payment of an invoice exceeds 30 days, a 1% interest payment should be added. We recommend the county comply with KRS 65.140 by paying invoices within 30 working days.

*County Judge/Executive Stanley Franklin's response: We are aware of the 30 working day requirement of KRS 65.140 and agree with the auditors' finding. We are not familiar with the circumstances of this particular instance because it occurred prior to my tenure as Judge/Executive. Due to our current financial hardships, we may have similar issues in the future and will have to determine how to handle them on a case by case basis. There will be times to avoid violating other KRSs, we will be required to violate this one. For instance, KRS 68.110(1) requires that the fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for the year or levied, collected or appropriated for any special purpose. In order to avoid violating this KRS, we may have to postpone payments longer than 30 working days to some vendors.*

**The Morgan County Fiscal Court did not approve a salary schedule.** A salary schedule was included in the minutes of the fiscal court; however, we could not find where it was approved by the fiscal court. KRS 64.530 says the fiscal court of each county shall fix the reasonable compensation of every county officer and employee. The county did not have procedures in place to ensure a salary schedule was approved. Employees could be paid an incorrect amount without a properly approved schedule. We recommend the county list all employees and each salary or hourly pay rate for each specific job duty. The county should also include the starting pay rates for entry-level positions. The county should revise this list as increases in pay are approved by the fiscal court.

*County Judge/Executive Stanley Franklin's response: The fiscal court approved a salary schedule in January 2015 in accordance with KRS 64.530.*

**Timesheets were not properly maintained.** We found that two out of 13 employees tested did not have timesheets. KRS 337.320 says every employer shall keep record of the hours worked each day and each week by each employee to be kept on file for at least one year. The county did not have procedures in place to ensure all employees maintained timesheets. Without proper timesheets, there is no documentation that employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance, and there is no record of leave time used. The employee and the appropriate supervisor should sign all timesheets to verify the accuracy of time worked and leave used. We recommend all employees maintain timesheets in the future.

*County Judge/Executive Stanley Franklin's response: We agree that all employees should maintain timesheets as required by KRS 337.320. One of the individuals was a part time employee and is no longer an employee of the county. The other individual is an employee of the County Attorney's office and we are currently attempting to rectify the timesheet issue with the County Attorney.*

**The Morgan County Fiscal Court does not have adequate controls over bank reconciliations.** The monthly bank reconciliations are not reviewed by a person that is independent of receipts and disbursements. The county treasurer prepares the monthly bank reconciliations and is also involved in the receipt and disbursement of cash. Good internal controls dictate the bank reconciliation should be prepared or reviewed by someone not involved in the receipt and disbursement of cash. This reduces the risk of errors and misstatements to the

financial statement. Typically when one person is in charge of these functions, strong compensating controls are needed. We recommend the following procedures be implemented to strengthen internal controls:

- An independent person should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person can document this by initialing the bank statement.
- An independent person should review the treasurer's bank reconciliations for accuracy and agree them to book balances for all funds. The person completing this review should initial the bank reconciliation to document that a review was performed.

*County Judge/Executive Stanley Franklin's response: We agree with the auditors' finding and recommendation. Efforts will be made in the future to implement the compensating controls recommended.*

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

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