



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Owsley County Fiscal Court for the fiscal year ended June 30, 2016. 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 Owsley 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 fiscal court overspent the general fund budget in fiscal year 2016. The fourth quarter financial report did not accurately reflect the appropriation amount approved in the original budget for the general fund. The fourth quarter report included \$69,960 more in appropriations than the budget, which may have contributed to the overspending. The budgetary comparison schedule for the general fund reflects that actual disbursements exceeded budgeted appropriations by \$67,615.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidance regarding annual budgets adopted on a regulatory basis of accounting. The budget is prepared by fund, and disbursements may not exceed budgeted appropriations.

We recommend the fiscal court review the budget for completeness and limit disbursements to what is budgeted.

County Judge/Executive's Response: In the past, the county clerk prepared their own payroll, whereas now, the county treasurer of the fiscal court prepares it – it was an oversight [to not budget] due to the county clerk reimbursing the county for the clerk's and the county clerk deputies. We will do a budget amendment to accommodate for clerk's salary and county clerk deputy for 2016-2017. From here on out, we will put in place the county clerk and county clerk deputies [payroll] in line items for budget reflecting budgeted amount for year.

The fiscal court did not follow LGEA coal producing funds disbursement requirements.

The fiscal court did not follow disbursement requirements for coal producing funds received through the Local Government Economic Assistance (LGEA) program. The fiscal court did not spend the required amount of coal producing funds on the coal haul road system. The county received \$140,244 in coal producing funds, of which, \$42,073 was required to be spent on the coal haul road system. Only \$10,000 of LGEA coal producing funds were transferred to the road fund to be spent on road repairs/maintenance.

Not spending the LGEA coal producing funds as required, means that adequate infrastructure may not be available for the coal industry. LGEA coal producing funds play a fundamental part in maintaining roads that are used for the transportation of coal. This money is set aside by statute to ensure certain roads are in good condition to provide an efficient mode of transportation for the coal industry.

KRS 42.455(2) states that 30% of all coal producing funds received must be spent on the county coal haul road system.

We recommend the fiscal court monitor the LGEA coal producing funds received and expended to ensure compliance with statute.

County Judge/Executive's Response: I will try to monitor more closely the LGEA Funds to make sure that 30% of Coal Severance monies are used for road improvements on coal haul roads, either by transferring when received 30% of the monies or by paying for road improvements directly out of the LGEA Fund.

The fiscal court did not approve a salary schedule for county employees. The fiscal court did not approve a salary schedule for county employees for fiscal year 2016. The compensation for all hourly and salaried employees was not approved by the fiscal court. An approved salary schedule gives the county treasurer authority to pay employees. Without an approved salary schedule, the county may incorrectly compensate employees. KRS 64.530(1) states the fiscal

court of each county shall fix the reasonable compensation of every county officer and employee.

We recommend the fiscal court adopt an annual salary schedule. The list should include the salary or hourly pay rate for all employees. The list should be revised as the fiscal court authorizes pay increases.

County Judge/Executive's Response: As of 2016-2017 Budget, we do have a salary schedule for county employees and will continue to have one enclosed in forthcoming budgets.

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

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