



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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### **Harmon Releases Audit of Pike County Fiscal Court**

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

In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Pike County Fiscal Court received an unmodified opinion on the compliance requirements that are applicable to Pike County Fiscal Court's major federal program: Disaster Grants - Public Assistance (CFDA #97.036).

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 the internal control over financial operations and reporting.

The audit contains the following comments:

**The fiscal court did not pay invoices presented to the court within 30 days of receipt:** The Pike County Fiscal Court did not pay six invoices out of the selection tested, within 30 days.

According to the county, the fiscal court sometimes has to wait for money to come. They also pay only once a month so some of the invoices could have been presented after the cutoff for one meeting and it may be five or six weeks until the next payment meeting. The fiscal court lacks sufficient oversight and policies and procedures to ensure bills are paid timely. As a result, some vendors were paid outside of the 30-day window.

KRS 65.140 states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.”

We recommend the fiscal court implement sufficient oversight and policies and procedures to ensure invoices are paid timely.

*County Judge/Executive’s Response: We try to pay all bills each month and timely. We pay once a month.*

**The fiscal court did not submit an accurate fourth quarter report to the Department for Local Government within the required timeframe:** The fiscal court did not submit an accurate fourth quarter financial statement timely to the Department for Local Government (DLG). The county treasurer submitted the fourth quarter report to DLG, but it was submitted late on August 27, 2016, and it contained significant errors. Due to the lack of internal controls over bank reconciliations and internal transfers, many material transactions were not captured in the accounting system at the time the fourth quarter financial statement was initially submitted. All but one fund reported incorrect cash balances and, in total, understated expenditures by approximately \$5.48 million.

According to the county treasurer, the fiscal court had problems implementing new accounting software which delayed reporting.

Failure to submit these reports accurately and timely significantly increases the risk of misappropriation of assets and prevents DLG from knowing the financial position of the county. Additionally, when quarterly reporting is not accurate, the fiscal court is not properly informed and cannot manage the county properly.

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* requires officials to submit quarterly reports to the Department for Local Government by the 30th day following the close of each quarter.

We recommend the fiscal court implement sufficient oversight and policies and procedures to ensure the county treasurer prepares and presents accurate quarterly reports for review and to ensure the quarterly reports are submitted timely in the future.

*County Judge/Executive’s Response: Treasurer will make a better effort to submit them timely now that the software is being fully implemented.*

**The fiscal court did not perform bank reconciliations each month:** The Pike County Treasurer did not complete bank reconciliations for Fiscal Year 2016 until October 2017. Additionally, the fiscal court did not perform sufficient oversight or implement internal controls to ensure reconciliations were completed monthly.

According to the county treasurer, the fiscal court had problems implementing new accounting software which delayed the entry of certain transactions. Without these transactions, bank reconciliations could not be completed. Additionally, the fiscal court failed to establish appropriate oversight for the county treasurer's reconciliation activities. The fiscal court did not establish relevant review procedures to determine if the county treasurer was submitting complete and accurate reconciliations on a monthly basis.

The fiscal court's failure to establish a review of the county treasurer's reconciliations resulted in incorrect reporting of the county's financial position for the fiscal year ended June 30, 2016. As a result, the fiscal court also did not have accurate financial information in order to plan for the subsequent fiscal year.

The Department for Local Government has established minimum requirements for officials handling public funds, which include the preparation of monthly bank reconciliations that include the bank balance and a listing of all outstanding reconciling items (deposits in transit, outstanding checks, investments, etc.). Good internal controls dictate sufficient internal control be put into place to ensure accurate and complete financial reconciliations and reporting.

We recommend the fiscal court provide sufficient oversight and implement internal controls to ensure bank reconciliations are prepared by the county treasurer and submitted for review by the second court meeting of each month.

*County Judge/Executive's Response: Treasurer is working on getting them up to date and agrees to submit them by the second court meeting each month. The software is fully implemented.*

**The fiscal court did not record transfers as they occurred in the accounting software:** The Pike County Treasurer did not record interfund transfers as they were approved by the fiscal court for Fiscal Year 2016 until October 2017 and the fiscal court did not exercise appropriate oversight to ensure the execution of transfers.

According to the county treasurer, the fiscal court had problems implementing new accounting software which delayed bank reconciliations and interfund transfers. As a result, the fiscal court did not have a complete set of accounting records during the year. Because transfers were not appropriately recorded in the accounting software, cash balances for all but one fund were incorrect and the fiscal court could not properly manage their budgets and cash flow.

KRS 68.020(4) requires the county treasurer to "keep an accurate detailed account of all money received and disbursed by him for the county" and "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." Additionally, county treasurers are required by the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy*

*Manual* to prepare financial reports that include all receipts, claims allowed, and cash balances. Furthermore, good internal controls require sufficient oversight from the governing body to ensure all financial transactions are recorded correctly and timely.

We recommend the fiscal court implement sufficient oversight and internal controls to ensure financial reports prepared by the county treasurer include all financial activity and that interfund transfers are recorded in the accounting records as they are approved and occur. The fiscal court should require monthly reporting by the county treasurer that is reviewed for accuracy.

*County Judge/Executive's Response: Treasurer is working on getting them up to date and agrees to submit them by the second court meeting each month. The software is now fully implemented.*

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

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