



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, 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 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.

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 fiscal court did not perform bank reconciliations each month:** This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The former Pike County Treasurer did not complete bank reconciliations monthly before her resignation. The former treasurer resigned on June 12, 2018, and a new treasurer was appointed as of June 13, 2018. The new treasurer performed all bank reconciliations for the entire fiscal year ended June 30, 2018, and submitted a timely fourth quarter report to the Department for Local Government (DLG).

The fiscal court did not have sufficient oversight or implement controls to ensure reconciliations were completed monthly. The fiscal court's failure to establish a review of the county treasurer's

reconciliations could result in incorrect reporting of the county's financial position for the fiscal year and lead to improper decision making.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation And State Local Finance Officer Policy Manual* requires that monthly bank reconciliations be performed. Strong internal controls require timely reconciliation of all accounts so that accurate balances are reported and so any mistakes or errors can be detected and corrected timely.

We recommend the fiscal court implement controls in order to ensure that monthly reconciliations are performed each month.

*County Judge/Executive's Response: The former treasurer had not completed any monthly bank reconciliations prior to the current treasurer's appointment. All of the bank reconciliations were completed by June 30, 2019 by the current treasurer. This has been corrected in the 2018-2019 fiscal year, as all bank reconciliations are current.*

**The fourth quarter financial statement reflected budget amounts that did not agree to the original budget approved by the Department for Local Government and budget amendments were recorded that were not approved:** The fourth quarter financial statement reflected budget amounts that did not agree to the original budget approved by the Department for Local Government (DLG) for two account codes in the road fund and two in the forestry fund. Also, a budget amendment was recorded that was not approved per KRS 68.280.

The former treasurer made changes to the original budget in the accounting system the current treasurer wasn't aware of. The current treasurer did not have enough time to go through the process of getting an approved budget amendment once he was appointed by June 30.

The fiscal court relies on information in the quarterly reports to make financial decisions for the county. If this information is inaccurate, it can lead to improper decision making.

KRS 68.210 states, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." *The County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states "[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280."

We recommend the county treasurer ensure the amounts reported on the quarterly financial reports as budgeted amounts reflect the amounts approved by the fiscal court and DLG in the original budget and to only record properly approved budget amendments.

*County Judge/Executive's Response: This was done by the former treasurer. There was not enough time when the current treasurer took the position to get a budget amendment done; He was not aware that she had made changes to the original budget. This has been corrected in the 2018-2019 fiscal year.*

**The Pike County Fiscal Court is not reporting certificates of deposit on their fourth quarter financial report:** The Pike County Fiscal Court holds three certificates of deposits totaling \$3,711,600 as of June 30, 2018. These certificate of deposits are restricted for the use of post-closure costs for the Ford's Branch Landfill.

Since the funds are restricted, the treasurer did not report them on the fourth quarter report. Failure to record the activity of the certificates of deposit can result in inaccurate or misleading financial statements.

County treasurers are required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* to prepare financial reports that include all receipts, claims allowed, and cash balances.

We recommend financial reports prepared by the Pike County Treasurer include the certificate of deposit balances for the restricted post-closure costs of the Ford Branch Landfill.

*County Judge/Executive's Response: This has never been required on any of our prior financial statements before. We took the recommendation of the State Auditor's office to report the CD's, and as of the March 2019 Quarterly financial statement, they are being reported.*

**The fiscal court did not accurately report debt on their fourth quarter financial report:** The debt schedule presented with the fourth quarter financial report (which serves as the year-end financial statement) inaccurately reported debt obligations. In total, the county overstated principal debt obligation by \$2,604,522 and interest by \$1,483,351.

The county treasurer made an undetected error due to former treasurer resigning in June 2018.

Due to these errors and the omissions, long-term and short-term debt were overstated by a total of \$4,087,873, which is material to the financial statement as a whole and could impact the fiscal court's ability to make sound financial decisions.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement.

We recommend the fiscal court ensure that the correct amounts are shown all financial statements presented to the public and the Department for Local Government (DLG). We further recommend the fiscal court review all aspects of the quarterly reports before signing and submitting.

*County Judge/Executive's Response: Due to the time the current treasurer had to correct the financial statements, he did not have time to adjust the Liabilities Section of the June 30, 2018 financial statements. This has been corrected in the 2018-2019 fiscal year, and the Liabilities Register has been adjusted to accurately reflect current debt.*

**The fiscal court did not properly budget for and record all debt related disbursements:** The fiscal court entered into a lease purchase agreement in the amounts of \$189,121 and a short-term lease in the amount of \$1,427,076 for the purchase of trucks.

The current treasurer was not aware that these transactions had not been budgeted and recorded by the former treasurer. As a result, the fiscal court failed to properly budget and record \$1,616,197 in debt related receipts and disbursements for the fiscal year.

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 68.280 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 funds that are to be increased thereby.”

Because the fiscal court failed to amend the budget according to KRS 68.280, they were not in compliance with statutes. We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all county disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements including those handled by a third-party lender.

*County Judge/Executive's Response: The current treasurer did not have time to do any budget amendments since taking the county treasurer position on June 13, 2019. However, for the 2018-2019 fiscal year, this has been corrected and all debt related disbursements are properly budgeted.*

**The Pike County Treasurer reported debt service payments as operating expenditures:** The Pike County Treasurer reported debt service payments as operating expenditures resulting in a material reclassification. Reclassifications were necessary in the general fund, road fund, and the solid waste fund as noted below:

- General fund - general health and sanitation to debt service of \$37,413
- Road fund - roads to debt service of \$888,264
- Solid waste fund - general health and sanitation to debt service of \$1,028,310

The treasurer believed that posting these payments as operating expenditures was correct and was not aware that they needed to be posted to the debt service line item. Amounts reported in the county's quarterly report submitted to the Department for Local Government (DLG) were inaccurate due to the misclassifications.

Good internal controls over the processing and review of financial reporting could eliminate these errors. It is important to separate debt payments (which are ongoing obligations) from operating expenditures in order to properly budget, plan, and allocate resources in accordance with the needs of the county. It is easier to ensure debt payments are being made timely, and it is easier to ensure the county doesn't over-extend financial resources when all expenditures are properly classified.

We recommend the fiscal court ensure that all debt service payments are posted to their correct line item.

*County Judge/Executive's Response: This has never been asked of us to recode these transactions on any of our prior financial statements. We took the recommendation of the State Auditor's office to report debt services payments in the proper account code, and as of the March 2019 Quarterly financial statement, all of the debt service payments have been recoded to new account numbers in the debt service account codes.*

**Disbursements exceeded approved budget appropriations for the Road Fund:** Disbursements in the road fund exceeded approved budget appropriations. The former county treasurer did not have a debt addition budgeted nor added to the fourth quarter report as discussed in Finding 2018-005 causing the road fund line item listed below to be over budget.

Road Fund - roads disbursements exceeded the budget by \$1,057,034

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *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. Furthermore, 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."

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

*County Judge/Executive's Response: The current treasurer did not have time to amend the Road Fund budget by June 30, 2019; I think this falls back on the prior treasurer for failure to do a timely budget amendment. However, for the 2018-2019 fiscal year, disbursements in all funds have been properly budgeted.*

**The fiscal court did not pay invoices within 30 days as required:** This is a repeat finding and was included in the prior year audit report as finding 2017-003. The Pike County Fiscal Court did not pay invoices within 30 days of receipt of invoice. Kentucky Association of Counties (KACo) payments were late, which resulted in \$11,809 being charged and paid in finances charges.

Management was aware the invoices were not being paid timely, but chose to delay payment due to cash flow issues. As a result, the fiscal court is in violation of statute and paid finance charges, which are an inefficient use of taxpayer resources.

KRS 65.140(2) states, “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 performance or improper invoicing by the vendor or by the vendor’s subcontractor.”

We recommend the county comply with KRS 65.140(2) by paying invoices within 30 working days.

*County Judge/Executive’s Response: The only invoice that was not paid within 30 days of receipt was the KACO invoice for property and liability insurance. We paid interest after October 31<sup>st</sup>, 2017 on the invoice until cash flow from property taxes in January 2018, because it was cheaper to pay the invoice late and pay 1/2% interest monthly than it was to borrow money from the bank on a short-term note and pay the invoice. KACO also does not consider our payment late, as long as all payments are made within that fiscal year; they give the counties discretion on when and how they wish to make the payments.*

**The fiscal court did not maintain detailed reports of all receivables due from component units:** The Pike County Fiscal Court pays the Interlocal 911 Board and Pike County/Pikeville Airport Board’s salaries, matching social security, retirement, health insurance and life insurance and the boards are to reimburse the fiscal court for all these expenses. Both entities owe the Pike County Fiscal Court a substantial amount as of June 30, 2018, for unreimbursed expenses.

The former county treasurer failed to request reimbursements from the Interlocal 911 and Pike County/Pikeville Airport Board. Failure to attempt to collect receivables to due to the county could cause cash flow problems for the county.

The Pike County/Pikeville Airport Board and the Interlocal 911 Board owe reimbursement to the Pike County Fiscal Court as follows:

<u>Interlocal 911 Board</u>	<u>Amount</u>	<u>Pike County/Pikeville Airport Board</u>	<u>Amount</u>
Balance Due as of 6/30/17	\$ 358,624	Balance Due as of 6/30/17	\$ 276,855
FY 2017-2018 Expenses	<u>\$ 426,201</u>	FY 2017-2018 Expenses	<u>\$ 115,511</u>
Total Due as of 6/30/18	\$ 784,825	Total Due as of 6/30/18	\$ 392,366
Amount Paid on 12/6/18	<u>\$ (358,624)</u>		
Remainder Due	\$ 426,201		

Strong internal controls require that expenses paid on behalf of other entities be tracked, totaled, and billed timely. It is essential that the county seek reimbursement for payments made on behalf of other entities in order to ensure adequate funds are available for county operations.

We recommend the fiscal court request reimbursement from the Interlocal 911 Board and Pike County/Pikeville Airport Board for payroll expenses paid by the county. Furthermore, we recommend the county implement procedures to track these receivables and collect the amounts due timely.

*County Judge/Executive's Response: The prior treasurer had failed to bill the 911 Board and the Airport Board for the prior two fiscal years. As of today, the Airport Board and the 911 Board have reimbursed all expenses to the Fiscal Court through June 30, 2018.*

**The fiscal court was not in compliance with continuing debt disclosure requirements:** The Pike County Fiscal Court did not comply with continuing debt disclosure requirements. Our review of the county's debt agreements revealed the General Obligation Refunding Bond Series 2012, the General Obligation Refunding and Improvement Bonds Series 2013, and the Public Properties Corporation First Mortgage Revenue Bonds (Justice Center Project) Series 2010 required continuing debt disclosures that were not completed in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12.

Management failed to implement proper controls over financial reporting for fiscal year ended June 30, 2017, resulting in a disclaimer of opinion for that fiscal year due to incomplete financial records and inaccurate cash balances reported in the financial statement. Part of the compliance with continuing debt disclosures requires audited financial statements to be reported to the Municipal Securities Rulemaking Board (MSRB) on the Electronic Municipal Market Access (EMMA) website timely.

The Pike County Fiscal Court bond rating was withdrawn in June 2018 due to a lack of sufficient financial information to maintain the rating. This impacts the county's ability to borrow money at favorable interest rates.

SEC Rule 15c2-12 requires governmental entities that issue bonds to provide certain financial information, referred to as continuing debt disclosures, on an ongoing basis to promote transparency and informed decision making for investors. Continuing disclosure requirements ensure an entity is properly reporting financial statements and offering a fair presentation of financial and operating conditions. The bond issuance documents outline the requirements for continuing debt disclosures. This is a contractual obligation of the fiscal court.

We recommended the fiscal court review all continuing debt disclosure requirements and ensure the county is compliance with those requirements. Further, we recommend the county ensure proper controls and procedures are in place over financial reporting.

*County Judge/Executive's Response: This was due to the lack of financial statements that were not completed by the former treasurer; it was based a lot on a disclaimed opinion for the June 30, 2017 audit. For the June 30, 2018 fiscal year, as soon as the audit is available for release, it will be reported to the EMMA website pursuant to SEC Rule 15c2-12.*

**The jailer did not implement adequate segregation of duties and oversight for receipts, disbursements and reconciliations:** The jailer did not maintain adequate segregation of duties

over receipts, disbursements, and reconciliations. The bookkeeper prepares deposits, takes the deposit to the bank, prepares checks, posts these disbursements and receipts, and performs the monthly bank reconciliation.

Due to the limited number of employees, the jailer was unable to maintain adequate segregation of duties over receipts, disbursements, and reconciliations. Failure to maintain adequate segregation of duties or implement compensating controls, such as strong oversight, increases the risk for fraud or theft.

Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. Without proper segregation of duties, inaccurate financial reporting and misappropriation of assets can occur.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements posted to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

*Jailer's Response: The Jail Finance Officer was in charge of receipts and reconciliations; however, she could not sign checks. Only the Jailer, [jail employee 3], and [jail employee 1] could sign checks. For adequate internal controls, the Jailer will leave [jail employee 2] on oversight of receipts and move [jail employee 3] to reconciliation of the bank accounts.*

**The jailer failed to maintain sufficient records or prepare an accurate annual report for the jail commissary fund, and failed to remit inmate fees to the fiscal court timely:** During our review and testing of the jail commissary fund, we noted the following deficiencies:

- Receipts and disbursements ledgers were not properly maintained.
- Accurate bank reconciliations were not prepared and agreed to book balances.
- The year-end financial report presented to the county treasurer lacked detail and contained inaccuracies.
- Items purchased from commissary account did not have supporting documentation.

We also noted the jailer is not remitting fees collected from inmates for booking, housing, medical fees, and home incarceration fees to the fiscal court in a timely manner. The last payment given to



the county was March 2018 for February fees collected. All other payments were not remitted until Fiscal Year 2019.

The jailer failed to implement adequate procedures and controls to ensure the financial activity of the jail commissary and inmate account is completely and accurately documented, recorded, reported, and reconciled.

The failure to maintain accurate, detailed reports does not provide a true picture of the activities within the jailer's accounts. It also increases the risk of errors, fraud, misstatements, or omissions. Not remitting fees to the fiscal court overstates the jail's inmate account balance and prevents the fiscal court from utilizing these funds for the intended purposes.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines the following minimum accounting and reporting requirements pursuant to the authority to prescribe a system of uniform accounts for all counties and county officials given to the State Local Finance Officer by KRS 68.210:

- Receipts Journal
- Disbursements Journal
- Jail Commissary Summary and Reconciliation

As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual - Jail Commissary Fund Instructions for Disbursements Journal*, "Each check written must be posted to the proper category listed on the form."

According to KRS 441.135(2):

All profits from the canteen shall be used:

- (a) for the benefit and to enhance the well-being of the prisoners; or
- (b) To enhance safety and security within the jail.

The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.

We recommend the jailer review the jail operations and ensure compliance with DLG's manual and applicable statutes.

*Jailer's Response: All of this was done by the prior finance officer, [name redacted], who left prior to June 30, 2018 without completing all of his duties. A new finance officer, [name redacted], was placed into his position and caught up all of the financial reports and remittance of inmate fees to Fiscal Court.*

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

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