



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Simpson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Simpson County Fiscal Court for the fiscal year ended June 30, 2021. 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 Simpson 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 comment:

The Simpson County Fiscal Court did not appropriately account for all debt service activity: The Simpson County Fiscal Court did not include all financial transactions for the issuance of the general obligation refunding bonds, series 2021, on their quarterly financial reports. Instead of including the full figures of the new debt issuance, net figures were used on the financial statements instead of showing the full amount borrowed and the portion of debt defeased from the 2012 bonds as a debt service disbursement and the funds that were given to the industrial authority. This resulted in bond proceeds being understated by \$5,070,000 and total general fund disbursements being understated by \$1,634,165, on their fourth quarter report.

The Simpson County Fiscal Court also did not budget for these additional disbursements. After adjustments for these items were made, the general fund disbursements ledger budget was overspent by a total of \$1,109,433, in addition to two categories being overspent. The liabilities for these debts were also understated on the final quarterly report by \$627,913, which was the remaining payments left on the 2012 bonds for the fiscal court.

These errors were due to a lack of prior experience with partial repayments of debts by the county treasurer. She did not understand that even though the debt is being transferred from one set of bonds to another, all transactions for the issuance of the debt should be shown in full and should not be net with the other items. The treasurer also believed that the new issuance of bonds completely paid off the 2012 bonds which is why she left them off of the liabilities section. Also, the treasurer's quarterly report was within budgeted amount before the noted adjustments for the additional debt. The treasurer would have gotten a budget amendment to account for the additional items if they had recorded them.

By not reporting the debt transactions, receipts and disbursements are materially misstated on the quarterly report, which is a key document used in preparing future budgets and informing taxpayers of current financial standing. By not recording all debt appropriately in the liabilities section of the quarterly report, accurate financial data cannot be obtained to determine the financial standing of the county.

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 (DLG) by the 30th day following the close of each quarter and also prescribe the budgeting processes.

KRS 68.210 states, in part, “[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. . . a uniform system of accounts[.]” Good internal controls dictate that checks be in place to ensure the accuracy of all supporting documentation to the financial statements.

We recommend the Simpson County Fiscal Court ensure that all financial activity be accurately reflected in the ledgers and quarterly reports, which includes making any needed budget amendments. We also recommend the county ensure that all debt is appropriately reported on the liabilities section of the quarterly report.

County Judge/Executive's Response: This debt is a pass through from the county to the FS Industrial Authority. The debt proceeds were to go the FS Industrial Authority once the bonds were refinanced. Per the auditor, debt proceeds should have been receipted by the county then dispersed to the FS Industrial Authority. However, debt proceeds were sent and receipted by the FS Industrial Authority. We were informed that the debt from the 2012 Bonds rolled into the 2021 Bond debt which is why the 2012 Bond debt was not reported on the financial statement. The 2012 Bond debt has already been added back onto the liabilities section of the financial statement.

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

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