



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Bourbon County Fiscal Court for the fiscal year ended June 30, 2020. 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 Bourbon 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 Bourbon County Fiscal Court did not have adequate controls over disbursements: During testing of disbursements, auditors noted 15 out of 46 tested invoices were paid without a purchase order being prepared. These invoices were noted in the general fund and road fund. The fiscal court lacks strong internal controls and oversight with regard to the purchase order process, properly documenting purchases, and following the procedures as established by the Department for Local Government (DLG). The lack of internal controls and oversight led to disbursements where funds were encumbered without ensuring that budget appropriation was available and that county officials authorized the purchase. This is neither compliant with purchasing requirements for counties per DLG, nor an effective implementation of internal controls. This could lead to

financial strain on the county due to overspending budgets or making financial decision without adequate information.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. *The County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that (1) purchases shall not be made without approval by the judge/executive (or designee) and/or department head and (2) purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made. Furthermore, per DLG's manual, purchase order systems are required for fiscal courts and should be issued for all goods and services utilized by the fiscal court. This allows for fiscal court to ensure that sufficient budget allocation is available for all expenses and provides a better representation of financial status by reflecting accurate encumbrances.

We recommend the Bourbon County Fiscal Court ensure that purchase orders are obtained prior to all purchases.

County Judge/Executive's Response: We will be more diligent in issuing purchase orders.

The Bourbon County Fiscal Court has not accounted for debt payments made by the Administrative Office of the Courts on their behalf: In 2000, the Bourbon County, Kentucky, Public Properties Corporation (PPC) issued bonds to build a new judicial center in Bourbon County and in 2006, the PPC issued bonds to refinance the 2000 bonds. This financial activity was accounted for on the financial statements of the PPC and was included in the audit report under the PPC column. In April 2016, the Bourbon County Fiscal Court entered into a lease agreement to refinance to the 2006 PPC bonds to realize a cost savings to the county. This refinance put the lease in Bourbon County Fiscal Court's name with lease payments due to the lessor, and limited the county's payment liability and resultant debt to only those amounts paid by the county's sublessee. Bourbon County Fiscal Court concurrently subleased this building to the Administrative Office of the Courts (AOC) with AOC making the lease payments directly to the lessor. These sublease payments and payments to the lessor were not recorded in the county's ledgers or shown on the county's financial statement. Also the refinance was not included in the liabilities section of the quarterly.

The Bourbon County Fiscal Court did not consider the refinancing agreement to be debt of the county due to AOC making the payments on their behalf and the activity was not included in the financial statements or on Part 4 of the quarterly report.

By not including all debt in the county's ledgers, the financial statements do not show the full financial activity of the county. To correct this, adjustments to the county's ledgers were required for the passage of lease payments of \$381,060 (\$364,617 principal, and \$16,443 interest).

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual's* uniform system of accounts requires all county revenue to be accounted for in the county's cash receipts journal, cash receipts ledger, and quarterly financial

statement, as well as requires the treasurer to maintain a liabilities schedule that is to be submitted as part of the quarterly financial statement. Even where funds are remitted directly to a lessor (bank) by a sublessee (AOC), those are funds paid on behalf of the county for a lease where the county is the named leaseholder and the county is textually responsible for the payment of the debt to the extent that payments are made by the sublessee. Additionally, DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* provides requirements and guidance for county government's preparation and presentation of the financial statement and budget. Page 48 of the manual states, "[a]ll borrowed money received and repaid must be reflected in the county budget." Prior DLG trainings have stated that all borrowed money, which includes bond and leases should be reflected in the county budget.

We recommend Bourbon County Fiscal Court present all financial activity in the county's financial statement as required by the regulatory basis of accounting, including activity where payments are made on behalf of the county, and present all debt of the county in Part 4 of the quarterly report as required per the DLG manual. In addition to complying with DLG's financial statement presentation requirements, this will also ensure all debt is properly budgeted and included in the county's ledgers as needed.

County Judge/Executive's Response: Bourbon County Fiscal Court will present a budget amendment to add the debt payment made by the Administrative Office of the Courts for FY 2021-22.

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

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