



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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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, 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 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 116 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: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. During testing of disbursements, auditors noted 14 out of 52 tested invoices were paid without a purchase order being prepared. These exceptions were in the general fund and road fund. It was also noted that 5 out of 52 invoices were not located. These exceptions were in the general fund and jail fund.

The fiscal court lacks strong internal controls and oversight regarding the purchase order process, did not properly document purchases, and failed to follow 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 decisions 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 budget 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 and that all invoices are properly maintained.

County Judge/Executive's Response: At FYE 2020 exit (Sept 2021) it was brought to our attention that all purchases must have a purchase order number. We immediately implemented the procedure into the 2021-22 fiscal year.

The Bourbon County Fiscal Court has not accounted for debt payments made by the Administrative Office of the Courts on their behalf: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. 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 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 JPMorgan Chase Bank and limited the county's payment liability and resultant debt to only those amounts paid by the county's sublessee. The Bourbon County Fiscal Court concurrently subleased this building to the Administrative Office of the Courts (AOC) with AOC making the lease payments directory 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.

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 the liabilities section 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

to account for lease payments of \$377,800 (\$366,641 principal, and \$11,159 interest) as if they were received from AOC and paid to the lessor by the county.

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 the 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: At FYE 2020 exit (Sept 2021) we were made aware that after 18 years of payments there needed to be a change in reporting. Since the 2021-22 fiscal had already began a budget amendment was prepared and adopted to make the requested changes.

The Bourbon County Fiscal Court's fourth quarter financial statement was materially misstated: The Bourbon County Fiscal Court's fourth quarter financial report required adjustments to the general fund. The fiscal court maintains five certificates of deposit for the general fund, and these were not included in the year-end total. There also is a Kentucky Association of Counties (KACo) park lease account for funds borrowed in a prior year but not yet expended that was not included in the general fund year-end total. Internal controls were not in place to ensure the accurate amounts were reported on the fourth quarter financial statement.

The effect of these adjustments on the fourth quarter financial statement is as follows:

- Increase the ending fund balance by \$303,555 to include the five certificates of deposit
- Increase the ending fund balance by \$538,826 to include the park lease funds held in escrow

Overall, a material misstatement of the ending fund balance of the general fund of \$842,381.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Those standards require an accurate financial statement. Furthermore, good internal controls over the processing and review of financial reporting could detect these omissions before the fourth quarter financial statement was finalized and submitted to DLG.

To comply with regulatory reporting requirements, we recommend the fiscal court implement adequate internal controls, oversight, and review procedures to ensure all activity is accurately recorded on the fourth quarter financial statement.

County Judge/Executive's Response: We will comply with regulatory reporting requirements and implement adequate internal controls and review procedure to ensure all activity is accurately recorded on the fourth quarter financial statement.

The Bourbon County Fiscal Court's Educational Trust Funds financial statements were not accurate and required numerous adjustments: The Bourbon County Fiscal Court's Educational Trust Funds have two separate financial statements. One is for the checking accounts that are combined into one unbudgeted fund, and it is prepared by the county treasurer. The other is for the combined private purpose trust investment accounts, also unbudgeted, and it is prepared by an accountant. Neither of these financial statements were accurate and both required adjustments. Internal controls were not in place to ensure the educational trust fund financial statements were accurately reported.

The effect of these adjustments on the educational trust fund financial statement prepared by the treasurer is as follows:

- Interest receipts of \$1,083,834 reclassified to Beginning Balance of \$857,822, Transfers In of \$222,012, and Miscellaneous receipts of \$4,000.
- Miscellaneous receipts of \$2,104 reclassified to Beginning Balance.
- Added Interest receipts of \$223, Transfers In of \$8,122, Beginning Balance of \$56,463 and Ending Balance of \$64,808 to account for an omitted bank account and its activity.
- Added Deposits In-transit/Transfers In of \$38,122 from other private purpose trust funds.
- Added \$100 to Ending Balance for an omitted bank account.
- Subtracted unidentified Interest receipts of \$15,073 and added unidentified Miscellaneous receipts of \$88 and Social Services disbursements of \$750, for a net reduction of \$15,735 to Ending Balance.

The effect of these adjustments on the educational trust fund financial statement prepared by the accountant is as follows:

- Added Interest receipts of \$15 and Beginning Balance of \$22,381 to account for three certificates of deposit for the Talbott Clay Trust Fund, increasing the Ending Balance by \$22,396.

- Added Interest receipts of \$5 and Beginning Balance of \$21,127 to account for three certificates of deposit for the Clifton Gillespie Trust Fund, increasing the Ending Balance by \$21,132.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Those standards require an accurate financial statement. Although these educational trust funds are not required to be budgeted, they still require inclusion on the county's audited financial statement and need to be accurate. Furthermore, good internal controls over the processing and review of financial reporting could detect these errors. We recommend the fiscal court implement adequate internal controls, oversight, and review procedures to ensure all activity is accurately recorded on both educational trust fund financial statements.

County Judge/Executive's Response: We will implement adequate internal controls, oversight, and review procedures to ensure all activity is accurately recorded on the Educational Trust Fund financial statements.

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

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