



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Bath County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Bath 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 Bath 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The treasurer did not prepare an annual settlement: This is a repeat finding and was included in the prior year audit report as Finding 2015-004. The county treasurer did not prepare an annual statement in accordance with KRS 424.220 nor was a settlement presented to the fiscal court for approval as required by KRS 68.020(5). The county did not have policies and procedures in place to ensure the required financial report was completed.

By not preparing an annual settlement, the fiscal court and the general public may not be aware of the county’s financial condition.

KRS 424.220(1) requires the county treasurer to “prepare an itemized, sworn statement of the funds collected received, held, or disbursed by him during the fiscal year[.]” According to KRS 424.220(2), the financial statement is required to show “[t]he total amount of funds collected and received during the fiscal year from each individual source” and “[t]he total amount of funds disbursed during the fiscal year to each individual payee.” KRS 424.220(3) states “[t]he amount of salaries paid to all nonelected county employees shall be shown as lump-sum expenditures by category, including but not limited to road department, jails, solid waste, public safety, and administrative personnel.”

Further, KRS 68.020(5) requires the county treasurer to make a full and complete settlement with the fiscal court within 30 days of the close of the preceding year.

We recommend the county treasurer fully comply with KRS 424.220 and KRS 68.020(5) by properly preparing an annual statement and presenting a settlement to the fiscal court for approval.

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. A timely annual statement was prepared FYE June 30, 2017 and presented to the Fiscal Court in accordance with KRS 424.220 and KRS 68.020(5).

The fiscal court did not prepare a Schedule of Expenditures of Federal Awards: This is a repeat finding and was included in the prior year audit report as Finding 2015-012. The county did not prepare a Schedule of Expenditures of Federal Awards (SEFA). The county did not have policies and procedures in place to ensure compliance with federal requirements.

Without an accurate, complete SEFA, the county may not be aware when a single audit is required. Failure to prepare a SEFA could also adversely affect any federal grants received by the county.

Management is responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the SEFA in accordance with the requirements of *Title 2 U.S. Code of Federal Regulation (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). During fiscal year ended June 30, 2016, a single audit was required if federal expenditures exceeded \$750,000. Uniform Guidance requires the auditee to prepare a SEFA covered by the auditee’s financial statements. At a minimum, the SEFA should include the following, if applicable:

- List individual federal programs by federal agency. For federal programs included in a cluster of programs, list individual federal programs within a cluster of programs. For R&D, total federal awards expended shall be shown either by individual award or by federal agency and major subdivision within the federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

- Provide total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
- Include, in either the schedule or a note to the schedule, the value of the federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

In addition, the Kentucky Department for Local Government (DLG) requires the SEFA to be submitted at the end of the fiscal year when submitting the fourth quarter financial report.

We recommend the county prepare a SEFA to be in compliance with this requirement. The SEFA should also be submitted to DLG with the fourth quarter financial report as required.

County Treasurer's Response: I was not the Treasurer during the timeframe audited. A SEFA was prepared FYE June 30, 2017.

The fiscal court did not annually review the administrative code: This is a repeat finding and was included in the prior year audit report as Finding 2015-010. During our audit, we found no indication in the official minutes that the fiscal court reviewed the administrative code. The county did not have procedures in place to ensure the administrative code was updated as necessary. Without reviewing and then making necessary changes to the administrative code, policies and procedures that are currently being followed may not be included in the administrative code. Without these updated changes the county may be at risk of litigation or other matters that may not have arisen otherwise. According to KRS 68.005(2), “[t]he fiscal court shall review the county administrative code annually during the month of June[.]” We recommend the fiscal court review the administrative code and make changes deemed necessary. The review of the administrative code should be reflected in the minutes of the fiscal court.

County Judge/Executive's Response: The Fiscal Court reviewed and discussed the administrative code on occasion, but did not document the review in the minutes of the meeting. The Fiscal Court was not aware of the documentation requirement. The Fiscal Court is currently reviewing the administrative code and making revisions. The Fiscal Court plans to have the first reading of the revised code in December 2017.

The payroll revolving account was not reconciled to zero monthly: The payroll revolving account was not reconciled monthly. Due to inadequate controls over the payroll revolving account and inadequate oversight by management, we could not find any evidence that monthly reconciliations were completed during the fiscal year ended June 30, 2016. By not reconciling the payroll account, there is no way for the county to know if there is an adequate balance to cover all payroll expenditures.

The payroll revolving account is a clearing account and should be reconciled to a zero balance at the end of each pay period. Therefore, only the exact amount needed to cover payroll expenditures should be transferred to the payroll account. In addition, good internal controls dictate the book balance and the bank balance on the monthly bank reconciliations should agree in order to ensure proper accounting.

We recommend the county reconcile the payroll revolving account monthly to ensure adequate deposits are made to cover payroll expenditures.

County Treasurer's Response: I was not the Treasurer during the timeframe audited. Effective June 30, 2017, the Fiscal Court approved opening a new payroll revolving account. Beginning July 31, 2017, the new payroll revolving account is being reconciled to zero on a monthly basis.

The fourth quarter liabilities journal was misstated: This is a repeat finding and was included in the prior year audit report as Finding 2015-008. The Fourth Quarter Report Liabilities Journal contained misstatements for each outstanding debt issue. The county did not have adequate controls in place to ensure the Fourth Quarter Report Liabilities Journal was being reconciled to the debt amortization schedules. As a result, debt payment activity was not always posted to the liabilities journal; the total principal outstanding balance was overstated by \$11,838 and the total interest outstanding balance was overstated \$4,576; liabilities information was not accurately presented to the fiscal court, Department for Local Government, and any other individuals interested in the county's financial condition. Auditors compared debt payments and ending balances confirmed by debt holders to the County's Liabilities Journal and noted the variances listed above. Good internal controls require that liabilities be reported accurately. We recommend that the county treasurer prepare and maintain an accurate liabilities journal.

County Treasurer's Response: I was not the Treasurer during the timeframe audited. The prior Treasurer did not update the liabilities journal each quarter. The liabilities journal is being updated every quarter, beginning June 30, 2017, to ensure it accurately reflects the liabilities of the Bath County Fiscal Court.

The fiscal court lacks controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. Proper procedures over disbursements dictate adequate supporting documentation and original invoices. Auditors tested a randomly selected sample of disbursements and found the following:

- Two disbursements totaling \$20,501 did not include the original invoice or sufficient documentation.
- Thirteen credit card purchases totaling \$2,160 did not have receipts or support.
- One monthly credit card statement was missing.
- Late fees of \$29 were incurred and paid.

Insufficient records and lack of management oversight resulted in noncompliance with state regulations over disbursements. Weak controls over disbursements increase the risk of misstatements of financial activity. Payments could be paid to vendors that may not be a true

liability to the fiscal court. Funds could be misused as intended or invoices could go unaccounted for, resulting in late fees being incurred.

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 performances or improper invoicing by the vendor or by the vendor’s subcontractor.” KRS 65.140(3) states, “[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the purchaser.” In addition, good internal controls require that supporting documentation such as original invoices be maintained for all purchases.

We recommend the fiscal court implement controls over disbursements that would prevent the county from purchasing items not needed for a public purpose and pay invoices within 30 days.

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. A complete bill/invoice must be timely submitted and approved by the Fiscal Court prior to any disbursement.

The Finance Officer receives and documents all bills/invoices. As Treasurer, I then review all bills/invoices for accuracy. This documentation is then presented to the Fiscal Court for approval.

All credit card purchases require submission of a receipt prior to approval and payment.

A request to change the due date on the credit cards was made after it came to our attention that the prior due date did not allow enough time for processing and mailing of the payment following approval by the Fiscal Court.

Every effort is being made to ensure invoices are paid within 30 days.

The county did not report encumbrances on the fourth quarter report and did not have a complete purchase order system: This is a repeat finding and was included in the prior year audit report as Finding 2015-009. The county is not reporting encumbrances on the Fourth Quarter Report and does not have a complete purchase order (PO) system. This is due to a lack of management oversight. By not reporting encumbrances and having a complete PO system, the county is not in compliance with reporting requirements per the Department for Local Government (DLG) manual. In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

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* requires the county to disclose encumbrances on the face of the Fourth Quarter Financial Report. The manual states, “[e]nter the total dollar amount of unpaid purchase orders from the purchase order journal.” Furthermore, KRS 68.360(2) states, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund,

the unencumbered balance for the fund, and any transfers made to or from the fund.” In addition, the DLG manual requires certain purchasing procedures as required by the State Local Finance Officer.

We recommend the county follow the prescribed guidelines for purchasing procedures as described on page 57 of the *County Budget Preparation and State Local Finance Officer Policy Manual*. We also recommend that the county report outstanding purchase orders as encumbrances on the Fourth Quarter Report and that the list should be maintained by fund.

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. The prior Treasurer was not aware of the requirement to report encumbrances on the fourth quarter report. The Treasurer’s office is now utilizing accounting software to generate purchase orders.

The fiscal court did not bid the cost associated with hauling gravel, stone, and concrete: The fiscal court contracted with a vendor to provide services related to hauling gravel, stone, and concrete which in the aggregate exceeded \$20,000, without first advertising for bids. The fiscal court believed that the bids met the requirements of KRS 424.260(1) because they bid for the cost per ton of gravel, stone and concrete. As a result, by not advertising for bids the fiscal court may not be getting the lowest price for hauling gravel, stone, and concrete.

Pursuant to KRS 424.260(1), “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board, or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend that the fiscal court bid the cost related to the hauling of concrete, stone, and gravel when they estimate that in any given fiscal year the cost of such service will exceed \$20,000 in aggregate.

County Judge/Executive’s Response: When this issue came to the attention of the Fiscal Court, the Fiscal Court immediately notified all current and potential (via bid advertisement) vendors and is now requiring all vendors to include delivery cost in the initial bids.

Timesheets were not always signed and approved prior to payment: During our test of payroll, we noted that eight timesheets during the test period did not have supervisory signatures. This was due to the lack of management oversight. Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. Actual hours worked cannot be verified without timesheets and employees may not be compensated for overtime hours worked. If timesheets are maintained and not signed by the employee and supervisor, the validity of the time could also be in question should an issue arise.

KRS 337.320 requires, “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” All county employees, with the

exception of elected officials, should submit timesheets to document their time worked and leave time used.

We recommend the fiscal court designate an employee or employees to review timesheets prior to payment for hours worked, accuracy of calculations, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

County Judge/Executive and Treasurer's Response: I was not the Treasurer during the timeframe audited. Timesheets are required to be signed and approved by a supervisor prior to payment. Any timesheet submitted that is not signed is addressed immediately, and the issue resolved prior to payment.

The county did not maintain complete and accurate capital asset schedules to comply with regulatory requirements and did not inventory capital assets periodically: This is a repeat finding and was included in the prior year audit report as Finding 2015-006. The county did not maintain an accurate and complete capital asset schedule for the fiscal year ended June 30, 2016. The county did not have adequate controls in place to track, monitor, and compile capital asset information. When capital asset records are not maintained adequately and consistently, including being inventoried regularly, this increases the risk that the county's assets could be reported incorrectly due to errors or theft and that assets may be improperly insured. Failure to maintain a complete and accurate listing of capital assets could lead to capital assets being over or understated. Also, by not performing period inventories for capital assets, there is an increased risk that capital assets may not be insured or that the county could be paying insurance for assets they no longer own.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property placement.

We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate.

County Judge/Executive and Treasurer's Response: County officials were not aware of the requirement to inventory capital assets and maintain separate schedules. The county maintains accurate and complete asset listings for insurance purposes, and was under the impression this was sufficient to meet this requirement. The County is now reviewing records to update capital asset schedules. The County will review these schedules at the end of each quarter, prospectively.

Disbursements exceeded approved budget appropriations for the general, road, jail, local government economic assistance, occupational tax, 911, and building commission funds: Disbursements exceeded approved budget appropriations for the general, road, jail, local government economic assistance (LGEA), occupational tax, 911, and building commission funds. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. The Bath County Fiscal Court did not monitor the budget or quarterly reports to prevent

disbursements from exceeding the approved budget appropriations. Disbursements exceeded budget appropriations on the fourth quarter financial report as shown below:

	<u>Disbursements</u> <u>Exceeded Budget</u>
<u>General Fund</u>	
Protection to Persons and Property	\$ 59,334
Debt Service	1,018
<u>Road Fund</u>	
General Government	464
Roads	1,017,422
Debt Service	8,146
<u>Jail Fund</u>	
Protection to Persons and Property	69,798
<u>LGEA Fund</u>	
Bus Services	1,886
<u>Occupational Tax Fund</u>	
Administration	17,961
<u>911 Fund</u>	
General Government	437
Protection to Persons and Property	8,798
<u>Building Commission Fund</u>	
General Government	45

KRS 68.300 states that “[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. No member of the fiscal court shall vote for any such illegal appropriation or claim.” We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county’s budget or transfer necessary appropriations in order to prevent the county from exceeding the budget. We also recommend the county treasurer and the county judge/executive not approve purchase orders for claims that exceed the budget appropriations. We further recommend the fiscal court not vote to approve payment of claims that would cause a line item to exceed the budget.

County Treasurer’s Response: I was not the Treasurer during the timeframe audited. The prior Treasurer(s) did not perform the proper transfers in the accounting software. The disbursements are now being monitored regularly to prevent disbursements from exceeding approved budget appropriations.

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

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