



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Franklin County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Franklin 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 Franklin 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 Franklin County Fiscal Court did not maintain an accurate liability schedule: The Franklin County Fiscal Court’s Liability Schedule include as part of the fourth quarter report presented to the Department for Local Government (DLG) was materially misstated. The fiscal court did not report all debt of the fiscal court. The Public Properties Corporation and Industrial Park building improvements debt were omitted from the liability schedule.

The fiscal court stated that they were not aware that these debt payments and balances should be reported. By not accurately reporting debt, the fiscal court is not in compliance with KRS 68.210. In addition, the fiscal court is not providing a complete overview of their debt by understating it by \$21,475,000 in principal and \$4,612,127 in interest.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, all county money is to be reported on the financial statement whether it is included in the budget or not. Documentation of the county's liabilities must be submitted to the state local finance officer.

We recommend the fiscal court ensure all debt has been disclosed and the balances are accurate when reporting the fiscal court's liabilities on the fourth quarter report submitted to DLG.

County Judge/Executive's Response: The PPC debt is reported on our annual audited financial statements, our local government debt report maintained by DLG as well as disclosed through our annual reports to MSRB. The Industrial Park building is also included on our local government debt report as well as the audited financial statements and budget (see attached) of the Capital Community Economic/Industrial Development Authority established jointly by the county and the city of Frankfort. Neither of these issues require any receipts or disbursements by the county since they are handled by the other respective agencies and therefore have not been included on our county quarterly financial statement form to DLG. No prior comment has been received to identify the omission. Going forward, the county will include the PPC and the Industrial Park debts on the county quarterly financial form.

Auditor's Reply: The attachments mentioned above have not been included in the audit report. These items do not alleviate the county's responsibility to report debt in its fourth quarter report. The fiscal court should report the debt in the liabilities section of the quarterly report as the county judge/executive stated they will do in the future.

The Franklin County Fiscal Court did not maintain proper records for the Public Properties Corporation fund: The fiscal court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2018, for the Public Properties Corporation fund. The bank statements were maintained on file but payments were not traced to debt schedules.

The fiscal court was not aware that they should be performing bank reconciliations and financial reporting for these accounts. Failure to track debt payments and provide adequate oversight of these accounts held in the county's name could lead to undetected errors. The county has no way to ensure debt payments were made per schedules or that all transactions shown on the bank statements were allowable.

The fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation and this entity is reported as an unbudgeted fund of the fiscal court.

We recommend the fiscal court prepare and maintain ledgers for the receipts and disbursements of the Public Properties Corporation fund. We also recommend the fiscal court prepare monthly bank reconciliations and an end-of-the-year financial statement for the Public Properties Corporation fund.

County Judge/Executive's Response: The Fiscal Court (county) formed the PPC for the primary activity and purpose of financing and constructing a Justice Center in cooperation with the Kentucky Administrative Office of the Courts. All records pertaining to the PPC are retained by the fiscal court clerk. Since 2011 when the first debt was issued for the project, the county's annual audits have included and reported the financial activity and position of the PPC. Continuing disclosure documents have been filed regularly with our financial advisors and posted with the Municipal Securities Review Board. The Department for Local Government, our regulatory agency, includes the PPC bond issues with our reported local debt although not stated on the county quarterly reports. Going forward, the PPC debt will be included on the county quarterly reports to DLG, bank reconciliations will be performed, and ledgers maintained during the year.

Auditor's Reply: Although the county included the PPC in its annual audits, reporting alone is not sufficient control. Activity should be accounted for as it occurs in basic ledgers for appropriate oversight and monitoring.

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

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