



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Magoffin County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Magoffin County Fiscal Court for the fiscal year ended June 30, 2015. 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 Magoffin 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 non-compliance 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 county did not maintain capital asset schedules in accordance with regulatory requirements.** The fiscal court did not maintain a complete and accurate capital asset schedule for the fiscal year ending June 30, 2015. The Department for Local Government (DLG) requires fiscal courts to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.) and maintain a listing of capital assets to be provided to auditors for inclusion in the audit report. This list should include all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded.

We recommend the fiscal court implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate. Additionally, we recommend the fiscal court perform physical inventories periodically to further ensure the accuracy and completeness of capital asset schedules.

*County Judge/Executive's Response: Recommendation Accepted.*

**The county's administrative code does not address commuting mileage or the personal use of a county vehicle.** Fiscal court employees' personal use (e.g. commuting mileage) of a county vehicle is not being reported as compensation to the employees. Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee. The fiscal court's administrative code does not address the use of a county vehicle, therefore, it is unclear as to whether personal use of the vehicles is authorized by the fiscal court. Personal use of public resources is permitted if the fiscal court has approved such use and should be reported as compensation to employees.

We recommend the fiscal court establish internal controls over vehicles by implementing the following:

- Report personal use and commuting mileage for vehicles as compensation/employee benefit on W-2 wage and tax statements in accordance with IRS regulations.
- Every employee and every department that has vehicles should maintain vehicle logs. The logs should include, at a minimum, the date, destination, purpose, and mileage for all use of the vehicle.
- The fiscal court should amend the current administrative code to include a policy on the authorization and use of vehicles. In addition, it should address the tax implications of using a vehicle for personal use or commuting travel.

*County Judge/Executive's Response: Recommendation Accepted.*

**The fiscal court did not prepare a schedule of expenditures of federal awards.** The fiscal court did not prepare a Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2015 in accordance with OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. By not preparing a Schedule of Expenditures of Federal Awards, the fiscal court creates the risk of a single audit not being performed, if needed, which could affect the fiscal court's ability to receive federal funding. OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations, Section 310(B)* requires the fiscal court to prepare a SEFA from its financial records. At a minimum, the SEFA should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

- Notes that describe the significant accounting policies used in preparing the SEFA.
- Total amount provided to subrecipients from each federal program.
- 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 SEFA.

*County Judge/Executive's Response: Recommendation Accepted.*

**The fiscal court did not have insurance on a 2013 Mack truck that could not be found during a physical inventory test.** The fiscal court did not have adequate internal control procedures to ensure all assets are properly tracked and insured. A 2013 Mack truck could not be found and was determined to be missing. The fiscal court's fixed asset records list the truck as having a historical value of \$35,000. The truck was not listed as being on the fiscal court's list of insured assets. The lack of insurance has created a financial loss to the fiscal court equal to the value of the truck. This missing asset was reported to the Kentucky State Police and is currently being investigated.

In fiscal year 2016, the fiscal court implemented procedures to ensure all acquired assets get added to the fiscal court's insurance policy.

*County Judge/Executive's Response: Unable to comment due to ongoing investigation.*

**The fiscal court lacks adequate segregation of duties over payroll.** A strong internal control system does not allow one person to perform processing, documentation, and reporting functions. The county treasurer is responsible for maintaining timesheets, entering payroll information into the computer system for processing, posting to the payroll ledgers, transferring funds to the revolving payroll account, administering health reimbursement and flex spending programs, preparing pay checks, preparing state and local withholding reports, and reconciling the payroll account. By delegating all these duties to the same individual, there is a risk that fraud or errors will occur and go undetected.

We recommend the fiscal court adequately segregate duties related to payroll or implement other controls to compensate for the weaknesses identified. For example, designating an individual to review the receipts and payroll ledgers, reconciliations, and reports. This individual can document their review by initialing the documents that were reviewed.

*County Judge/Executive's Response: Recommendation Accepted.*

**The fiscal court does not have adequate internal controls over gravel inventory.** The fiscal court does not have adequate internal controls over gravel purchased and stored at the Road Department. The fiscal court maintains a log for gravel transported out to county roads, however, the log is not updated consistently. In addition, the log does not track the gravel hauled to the Road Department from the rock quarry. During our procedures relating to disbursements, we noted gravel purchases for Fiscal Year 2015 were \$169,235. The fiscal court's lack of internal controls has created an opportunity for misappropriation of the assets to occur.

We recommend the fiscal court maintain a log that tracks the gravel being hauled to the Road Department and also tracks the gravel hauled from the Road Department. This would allow an estimate of the gravel on hand. The gravel inventory should be periodically counted to determine if a shortage exists.

*County Judge/Executive's Response: Recommendation Accepted.*

**The fiscal court does not have adequate controls over health reimbursement accounts and flexible spending accounts.** The fiscal court did not adequately track health reimbursement account and flexible spending account contributions. The amounts contributed to these accounts were not maintained separately from regular fiscal court funds and payroll funds and could not be easily identified in the accounting records. These funds do not belong to the fiscal court and should be maintained and tracked separately in the accounting system. Failure to track these accounts separately increases the risk that the monies could be misappropriated.

During Fiscal Year 2017, the fiscal court opened a separate bank account in order to track and identify health reimbursement and flexible spending accounts for all employees who participate in the program.

*County Judge/Executive's Response: A new bank account was opened for the Flex Spending account as we said would be after the June 30, 2013 audit.*

**The fiscal court does not have adequate controls over notes receivable.** The fiscal court does not have proper oversight and controls over notes receivable. In August 2008, the fiscal court loaned the Magoffin County Water District \$20,000 for a water project. The water district has not made any payments to date and the entire amount is still outstanding. In September 2011, the fiscal court loaned \$50,000 to the Magoffin County Water District, who then loaned the money to the Salyersville Water District for water projects. The fiscal court minutes indicate this was a loan, but it has not been repaid. Failure to follow up on notes receivable, establishment of payment plans, and having notes receivable outstanding for significant time periods deprives the fiscal court of needed funds.

We recommend the fiscal court review the terms of all notes receivable to determine if the fiscal court will pursue collection or alternate disposition (i.e. loan forgiveness) and document those decisions in the fiscal court minutes.

*County Judge/Executive's Response: With respect to the \$50,000 given to the City of Salyersville, the Fiscal Court will review the terms of the loan. The loan to Magoffin Co. Water District was forgiven.*

**The fiscal court does not have adequate oversight of monthly reconciliation processes.** The finance officer's appropriation ledger is not reconciled on a monthly basis with the treasurer's ledger, as required by DLG. Reconciliations are not being performed on a monthly basis due to the small size of the accounting department and lack of resource. This results in noncompliance with DLG requirements.

We recommend that the treasurer and finance officer's appropriation ledgers are reconciled on a monthly basis.

*County Judge/Executive's Response: Recommendation Accepted*

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

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