



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the fourth quarter financial statement of the Morgan 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 fourth quarter financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Morgan 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. The fiscal court may also present its financial statement 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.

Morgan County Real Properties I, Inc. and Morgan County Real Properties II, Inc. are Kentucky nonprofit, tax-exempt corporations created for the sole purpose of acquiring and financing certain infrastructure. The Morgan County Real Properties I and II Corporation Funds are part of the Morgan County Fiscal Court’s reporting entity. We were not engaged as auditors of the Morgan County Real Properties I and II Corporation Funds, and we were unable to obtain audited financial statements to support the Morgan County Real Properties I and II Corporation Funds at June 30, 2015. The omission of the Morgan County Real Properties I and II Corporation Funds is considered a material omission of the Morgan County Fiscal Court’s financial statement. Therefore, we were not able to obtain sufficient and appropriate evidence to provide an audit opinion on the Morgan County Fiscal Court’s financial statement for the year ended June 30, 2015, and therefore, the audit report presents a disclaimer of opinion.

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 Morgan County Fiscal Court’s General Fund and Jail Fund have deficit balances due to inappropriate disbursements.** This is a repeat finding that was included in the prior year audit report as Finding 2014-001. The Morgan County Fiscal Court’s General Fund and Jail Fund have deficit balances of \$183,581 and \$20,678, respectively, as of June 30, 2015. The General Fund owes the Road Fund \$143,238 due to transfer station disbursements that were paid from the Road Fund for Fiscal Year ending June 30, 2015. Also, for Fiscal Year ending June 30, 2014, the General Fund has not paid the Road Fund \$138,775 for transfer station disbursements paid from the Road Fund. The Jail Fund owes the Road Fund \$26,390 due to local government economic assistance (LGEA) funds being transferred to the Jail Fund that should have been used for transportation. Due to this, the Road Fund’s ending cash balance was reduced a total of \$308,403. Road monies are restricted by KRS 177.320 and KRS 177.360. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement. The unpaid liabilities and deficit balances are as follows:

	<u>General Fund</u>	<u>Jail Fund</u>	<u>Totals</u>
Fund Balance - Ending	\$ 98,432	\$ 5,712	\$ 104,144
Due to Road Fund for fiscal year ending June 30, 2014	(138,775)	(26,390)	(165,165)
Due to Road Fund for fiscal year ending June 30, 2015	<u>(143,238)</u>	<u>                    </u>	<u>(143,238)</u>
Fund Balance - Ending	<u>\$ (183,581)</u>	<u>\$ (20,678)</u>	<u>\$ (204,259)</u>

We recommend the Morgan County Fiscal Court ensure that restricted monies are spent properly in the future and avoid having deficit balances. We will refer this comment to the Department for Local Government.

*County Judge/Executive’s response: We have a plan in place to pay back all owed money to the Road and Jail fund. To date we have paid back about \$100,000 of the debt owed to the Road [fund]. We intend to have all debt paid in full by June 30, 2018.*

**The Morgan County Fiscal Court paid transfer station disbursements from the Road Fund.** This is a repeat finding that was included in the prior year audit report as Finding 2014-002. Disbursements totaling \$143,238 for operations of the county’s solid waste transfer station were made from the Road Fund. Solid waste transfer station employee salaries are budgeted and paid from the same account code as road workers salaries. By doing this, the county has reduced the amount of funds available to spend on road repairs and maintenance. KRS 177.320 and KRS 177.360 restrict expenditures from the Road Fund to be used for secondary and rural road maintenance, repairs, and related activities. We recommend the fiscal court ensure that only proper payments for allowable activities are made from restricted Road Fund monies. Furthermore, we recommend the General Fund reimburse the Road Fund \$143,238. We will refer this comment to the Department for Local Government.

*County Judge/Executive’s response: This was corrected and changed in the 2015-2016 fiscal year. All expenditures for the transfer station are paid solely from the General Fund.*

**The Morgan County Fiscal Court did not pay invoices within 30 working days.** This is a repeat finding that was included in the prior year audit report as Finding 2014-006. The Morgan County Fiscal Court did not pay all invoices within 30 working days. Three invoices totaling \$443,245 were not paid within 30 days as required. It appears that these payments were delayed to ensure that there was an adequate cash balance to cover the disbursements. As a result, the Morgan County Fiscal Court was in violation of KRS 65.140. Pursuant to KRS 65.140(2), “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 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[.]” We recommend the county comply with KRS 65.140, by paying invoices within 30 working days.

*County Judge/Executive’s response: Changes have been made to insure a timely manner in paying all invoices within 30 working days. There are instances where we must have invoices corrected or questions that prevent us from issuing payment due to the fact we only have fiscal court meets only once a month. We do make it a priority to issue payments as timely and efficiently as possible.*

**The Morgan County Fiscal Court Public Properties Corporation disbursements were not approved by the Project Development Board.** This is a repeat finding that was included in the prior year audit report as Finding 2014-004. Documentation could not be found of approval of \$128,439 of Public Properties Corporation disbursements paid in August 2014 for the judicial center. All disbursements are required to be approved by the project development board before payment is made. There was no documentation of a project development board meeting in August 2014. Project development board members may not have been aware of the disbursements being paid. This increases the risk that disbursements are out of compliance with the contract terms for the judicial center. We recommend all disbursements be approved in the official minutes of the project development board with a listing of each vendor and amount to be paid.

*County Judge/Executive’s response: The official did not provide a response.*

**The Morgan County Fiscal Court lacks internal controls over the Real Properties I and Real Properties II corporations.** The Real Properties I Corporation was created for the purposes of constructing and equipping the Health and Wellness Center and repairing the old Morgan County courthouse for the benefit of Morgan County after the tornado on March 2, 2012. The Real Properties II Corporation was created for the purposes of constructing the Morgan County Cooperative Extension Service building, the Morgan County transit station and parking garage, and repairing the Morgan County Community Center for the benefit of Morgan County after the tornado on March 2, 2012.

The Morgan County Fiscal Court did not ensure annual financial statements were prepared for the Real Properties I and Real Properties II corporations. The Morgan County Fiscal Court also failed to obtain an audit for these corporations. We were not engaged as auditors of these

corporations and were told that a private firm was conducting these audits. However, as of the date of this report, these corporations have not been audited. County personnel lack knowledge about the activities of these corporations. The corporations have a complex structure, and the personnel responsible for the financial statements did not have the knowledge necessary to prepare their financial statements. As a result, the Real Properties I and Real Properties II corporations have not been audited. These are significant components of the Morgan County Fiscal Court, and therefore, we have disclaimed an opinion on the financial statement for the year ending June 30, 2015.

Good internal controls dictate that financial statements are timely prepared and audited. We recommend management of the Real Properties I and Real Properties II corporations ensure that financial statements are prepared timely and audited as required.

*County Judge/Executive's response: We are aware of the lack of internal controls with Real Properties I & Real Properties II. We are currently investigating options to make changes and implement better policies to insure all issues are resolved.*

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

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