



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Muhlenberg 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 Muhlenberg 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 Muhlenberg County Fiscal Court’s off-site locations lack adequate controls over decentralized receipts and deposits are not made daily:** This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The Muhlenberg County Fiscal Court’s garbage sites and agriculture center collections lack adequate controls over receipts. The Muhlenberg County Fiscal Court does not issue receipts for all monies collected at the transfer stations. Receipts are not issued for monies collected at garbage drop off locations or for the sale of garbage bags. During receipts testing, we noted that receipts for the garbage site collections and agriculture center are not deposited daily. During the fiscal year, Muhlenberg County Fiscal Court recorded \$92,751 in receipts related to the agriculture center and \$395,979 in receipts related to the garbage collections.

According to the county treasurer, this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire for accounting functions. The issues have been addressed before and they are still looking for a solution for the garbage site collection oversight. The fiscal court is trying to implement a cash free transaction system on the garbage sites locations.

Without the proper internal controls and deposits made daily, the fiscal court creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate that duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, and collection of cash should be segregated in order to decrease the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained in order to ensure all fees collected are deposited by the county treasurer. Furthermore, per KRS 68.210, the state local finance officer shall prescribe minimum accounting standards, including performing daily check-out procedures and making daily deposits intact to a federally insured banking institution.

We recommend the fiscal court require a receipt for each transaction of the agriculture expo center and garbage collection sites in accordance with KRS 64.840 and to better determine the actual amount that is collected from each location. We also recommend that the garbage collection sites and the agriculture expo center administrator implement internal controls over daily transactions and fees collected and begin making deposits daily.

*County Treasurer's Response: The garbage sites collect cash daily. This cash is picked up at several sites on a daily basis and is brought back to the courthouse where it is counted at the Judge Executive's office and a receipt is issued. This receipt is compared to the register count at each site. Sometimes timing of the delivery in the afternoon from this site is not timely for getting the deposit to the banking institution and the deposit is put in safe keeping in the courthouse. On occasion the counting is off from the receipt and additional investigation has be prepared to reconcile the cash count to the site count. This count is then recorded on a master receipt record for bank reconciliation purposes. The deposit is then delivered to the bank for the deposit, which may not be the same day it is deposited by the bank.*

*The County Treasurer is coordinating the aforementioned process each day at approximately 11:00 A.M. each business day to expedite and coordinate any delay in the process to ensure if at all possible that the daily deposit is deposited. The coordination is not simple and there will be some instances when this process will not be possible.*

*An audit exception regarding rental monies received at the Convention Center was raised. County Treasurer is aware of all events and accounts for all deposits that reconcile with worksheet provided by department head. Now the County Treasurer has requested a monthly schedule of events and rentals received that will be reconciled to deposits. In addition the Fiscal Court will approve a standard rental schedule and exceptions to this amount collected will be presented to the Fiscal Court for their approval. All rents collected shall require a signed written receipt issued to the lessee, prenumbered, with a copy to the County Treasurer.*

**The Muhlenberg County Fiscal Court failed to properly account for multiple accounts:** The Muhlenberg County Fiscal Court failed to account for all activities of the county. The following items were noted:

- The Muhlenberg County Fiscal Court failed to account for the activities of the Paradise Park Board (board), an annual music festival held in the county. As a result, proper records were not maintained to support the financial activity of the board. For Fiscal Year 2018, the board had a beginning balance of \$3,332, receipts of \$3,299, disbursements of \$2,486, and an ending fund balance of \$4,145. The board did not maintain adequate supporting documentation for all disbursements. Furthermore, the board shorted a deposit in the amount of \$250.
- The Muhlenberg County Fiscal failed to account for the activities of the Freedom Fest account, a fund set up for Fourth of July fireworks. For Fiscal Year 2018, the Freedom Fest account had a beginning balance of \$0, the fund had receipts of \$1,700 with no disbursement, and an ending balance of \$1,700.
- The Muhlenberg County Jail failed to account for an equipment fund which was used to submit invoices to a telephone company. For Fiscal Year 2018, the beginning balance was \$1,860, no receipts and disbursements occurred, leaving an ending balance of \$1,860. The Muhlenberg County Jail had a second equipment fund which was used to submit invoices to a telephone company. For Fiscal Year 2018, the account had a beginning balance of \$30,359, no receipts, disbursements of \$12,538, and an ending balance of \$17,821.
- The Muhlenberg County Fiscal Court failed to account for the GO Bonds, Series 2017A. The trustee held the bank accounts, but the county treasurer did not include the activity on his financial statement. For Fiscal Year 2018, the account had \$2,217,549 in receipts and \$2,213,846 in disbursements, leaving an ending balance of \$3,703

According to county personnel, the county was originally unsure of its responsibilities towards the board due to the nature of its operations. Although the county is in the process, it has not yet implemented systematic internal controls over the board's receipts and disbursements. Also, according to county personnel, the county was unaware of their responsibilities for the other accounts.

The lack of internal controls over the operations of the omitted accounts exposes its assets to the risk of misappropriation. Additionally, failure to maintain minimum accounting records means the county was not in compliance with KRS 68.210.

According to the minimum requirements for handling public funds established by KRS 68.210, accounting systems should include books of original entry for receipts and expenditures such as receipts and disbursements ledgers. They should also include pre-numbered receipt forms issued to customers. Also, all deposits should be intact.

We recommend the fiscal court require the omitted accounts be budgeted and included on the county's financial statements in order for the activity to be properly reported. We also recommend the county implement internal controls over these activities in order to protect its assets from misappropriation.

*County Treasurer's Responses: There were two bank accounts that was originally instituted by volunteer groups, one for the park improvements and the other for the July 4, fireworks. The County did not feel they were responsible for these accounts and did not have any supervision of the activity for these accounts. The County Treasurer was not a signatory of one of these accounts. These two groups had a separate committee to oversee these accounts.*

*The County Treasurer is in the process of closing these two accounts and bringing the activity of these into the General Fund as administered by the Fiscal Court.*

**The Muhlenberg County Fiscal Court did not maintain an accurate liabilities schedule:** The Muhlenberg County Fiscal Court's liabilities schedule presented to the Department for Local Government (DLG) was materially misstated. The fiscal court did not report all debt of the county. GO Refunding Bonds, Series 2007 and First Mortgage Refunding Revenue Bonds, Series 2012 debt were omitted from the liabilities schedule.

The county treasurer stated that he left off the debt due to guidance from DLG and was unaware of the remaining balance of the Series 2007 bonds that were partially refunded.

By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, the county is not providing a complete overview of their debt by understating it by \$3,095,000 in principal and \$237,705 in interest.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the DLG'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 county ensure all debt has been disclosed and the balances are accurate when reporting the county's liabilities on the fourth quarter report submitted to DLG.

*County Treasurer's Responses: The Jail Bond was refinanced during the current audit period. At year end the Fiscal Court was unaware that one payment was left to pay on the old issue and not included in the schedule of payments in the refinanced issue. Actually, the County Treasurer was not aware this payment one year out was due until a week before the payment was due. This payment was actually due and payable during the current fiscal year. This obligation was not included on the fourth quarter report to DLG because it was not known. However, this liability was reported to the audit team on the schedule and reconciliation of bonds payable at year end 6-30-18 for audit purposes. This issue has now been paid in full during the current year and no further action will be necessary. The amortization schedule showing this one payment left was not available when the 6-30-18 quarterly report was due and filed.*

*We were disturbed that this one payment was not part of the refinance and felt like we were somewhat misled about this fact.*

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

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