



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Owsley County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Owsley County Fiscal Court for the fiscal year ended June 30, 2017. 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 Owsley 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 fiscal court did not follow LGEA coal producing funds disbursement requirements: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The fiscal court did not follow disbursement requirements for coal producing funds received through the Local Government Economic Assistance (LGEA) program. The fiscal court did not spend the required amount of coal producing funds on the coal haul road system. The county received \$131,742 in coal producing funds, of which, \$39,523 was required to be spent on the coal haul road system. No LGEA coal producing funds were spent on road repairs/maintenance.

Not spending the LGEA coal producing funds as required, means that adequate infrastructure may not be available for the coal industry. LGEA coal producing funds play a fundamental part in

maintaining roads that are used for the transportation of coal. This money is set aside by statute to ensure certain roads are in good condition to provide an efficient mode of transportation for the coal industry.

KRS 42.455(2) states that 30 percent of all coal producing funds received must be spent on the county coal haul road system.

KRS 42.460 requires a certification that LGEA funds were expended for the purpose intended. The certification, included as Appendix A, is not entirely accurate. The LGEA funds were spent entirely on priority items, but none were spent on roads.

We recommend the fiscal court monitor the LGEA coal producing funds received and expended to ensure compliance with statute.

Judge/Executive's Response: We will correct deficiency. Next audit will not occur.

The fiscal court did not budget, record or report funds: The fiscal court did not budget, record, or report two new federal grant funds. The fiscal court maintained separate bank accounts for these funds, but did not include them in the original budget, or any amendment to the budget. In addition, the receipts and disbursements of the funds were not recorded on the ledgers or reported on the fourth quarter financial statement.

The U.S. Department of Agriculture Teleworks Grant Fund and the Appalachian Regional Commission Wolf Creek Metal Equipment Fund were first received and disbursed during Fiscal Year 2017. The funds were added to the audited financial statement to comply with the regulatory basis of accounting.

The Uniform System of Accounts requires counties to submit quarterly reports to their regulatory agency, the Department for Local Government (DLG). These reports should include all funds of the county, should include all activity within the funds, and should agree to the county's reconciled cash balances. The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* states "[i]t is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document."

We recommend that grant funds be included in future budgets and on fourth quarter reports.

Judge/Executive's Response: The grant funds should have been included in the fourth quarter financial report.

The fiscal court lacked adequate segregation of duties for two months of the fiscal year: The fiscal court lacked adequate segregation of duties over receipts and disbursements during the months of May and June 2017. The former county treasurer resigned in early May 2017. The finance officer was sworn in as county treasurer on May 5, 2017. During May and June 2017, the new county treasurer performed duties of both finance officer and treasurer.

During this time, the new treasurer handled all accounting functions. For receipts, the treasurer received all monies, prepared and delivered deposit tickets to the bank, posted receipts to ledgers, and prepared bank reconciliations. For disbursements, the treasurer issued purchase orders, posted disbursements to ledgers, prepared claims lists for fiscal court approval, and prepared and signed checks. The treasurer also prepared the fourth quarter financial report. As a compensating control, the county judge/executive provided reviews of bank reconciliations and payroll.

Proper internal controls dictate that duties of handling, posting, reconciling, and reporting should be delegated to separate individuals when possible. Adequate segregation of duties increases the ability of the fiscal court to prevent, detect, and correct errors in a timely manner and decreases the risk of misappropriation of assets and inaccurate financial reporting. When one person is in charge of all functions, then strong compensating controls are needed.

We recognize that, due to budget constraints, the fiscal court has limited options for establishing adequate segregation of duties. Therefore, we recommend at a minimum, that a separate individual review, initial and date the ledgers, reconciliations, and reports reviewed.

Judge/Executive's Response: We have now hired a finance officer.

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

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