



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Powell County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Powell 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 Powell 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:

Interfund payables result in a deficit for the jail fund: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The fiscal court had a deficit fund balance of \$80,047 in the jail fund at June 30, 2018, as shown in the table below:

Cash Balance	\$ 172,981
Interfund Payables	<u>(253,028)</u>
Fund Balance	<u>\$ (80,047)</u>

The jail fund deficit was due primarily to prior period transfers of restricted funds that have not been repaid. In the past, the fiscal court transferred restricted money from the jail fund to the road fund. A schedule of interfund payables is as follows:

<u>Due From</u>	<u>Due To</u>	<u>6/30/2017 Balance</u>	<u>Increase/ (Decrease)</u>	<u>6/30/2018 Balance</u>
Jail	Road	<u>\$ 253,028</u>	<u>\$</u>	<u>\$ 253,028</u>

The road fund is restricted for transportation, with the exception of the amount calculated on the road fund cost allocation worksheet. Non-allowable disbursements made by the jail fund are due back to the road fund. Under the regulatory basis of accounting, fund balances are not adjusted on the financial statement for unpaid liabilities; however, the liability is still owed. We recommend the fund liabilities be repaid as money becomes available.

County Judge/Executive's Response: As I have stated in previous audits, it should be clearly stated and understood that this finding is not a result of this administration or that of the current jailer. Previous auditors made an attempt to trace back when this actually occurred and went back to the early 90's before they quit trying to determine when it originated. It should also be noted though that as a result of this administration's efforts this amount is down \$200,000 from what it was when it came in. Even though we didn't create the issue it has and will continue to be our goal to resolve it as soon as jail revenues allow.

The treasurer did not accurately report debt on the quarterly financial statement: The liabilities section of the fourth quarter report (which serves as the year-end financial statement) inaccurately reported debt obligations. The quarterly report overstated the interest balance for the KACo 2016 Series B Bond Pool by \$355,378. The treasurer did not update the reported interest balances. By not accurately reporting debt, the county is not in compliance with the Department for Local Government (DLG). In addition, the fiscal court does not have accurate information on which to base financial decisions. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement. We recommend the treasurer ensure accuracy when reporting the county's liabilities on the fourth quarter report submitted to DLG and consult with its lenders to verify outstanding debt balances are in agreement. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's Response: This finding as well as the following one both relate to the bond sale for the jail construction. This was basically the result of confusion by the way these funds were held. As the treasurer at no time had these in an account she held or had direct control over it led this oversight. If in the future there is another project financed in a similar manner, she will have a better understanding of the process.

The fiscal court did not establish adequate controls over the jail construction fund: No financial statement was prepared for the fund and no information regarding the activity in the fund was submitted to the fiscal court for review. The treasurer was unaware she had to prepare a

financial statement for the jail construction fund. This fund is for reporting of debt financing for the fiscal court and not included on the quarterly report. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted fund. This could result in fraud, errors, or misstatements that go undetected. The fiscal court is financially accountable and legally obligated for the debt of the jail construction fund. The fiscal court should establish adequate controls over the fund so that proper records are maintained and complete and accurate information is available for review. We recommend the county treasurer reconcile the account and prepare a financial statement for the jail construction fund.

County Judge/Executive's Response: I take strong exception to this finding as I think its inaccurate and deceptive. While this is basically a continuation of the previous finding resulting in the way the funds for the Jail construction were held by US Bank from the bond sale and never directly by the county treasurer we still had control over their use and all the pay packets were approved by the court each month just as all other invoices are. As the bond sale resulted in the manner this was set up and we never had the option to personally set up our own account during this process its very unfair to insinuate the court failed to establish control. We controlled to our maximum ability what the process allowed.

Auditor's Reply: As noted in the county's response, the county had control over the funds even though they were held on account by the bond trustee. The assets belonged to the county and are required to be properly recorded and reported. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Office Policy Manual* states, "[p]roperly budgeted debt service. This budget section is to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, Governmental Leasing Act issues, and Bond Anticipations notes." All debt should be included on the quarterly report in accordance with DLG's manual.

Short-term borrowings were not in compliance with KRS 65.117 or KRS 65.7707: The fiscal court was not in compliance with KRS 65.117 or KRS 65.7707 in regard to short-term borrowings. On December 27, 2017, the fiscal court entered into a short-term note with a local bank for \$353,725 to fund the jail expansion project and did not notify the state local debt officer of the short-term borrowing. According to the county, they were not aware that the state local finance debt officer needed to be notified prior to short-term borrowings. The county was also unable to pay the debt back as of June 30, 2018, due to a lack of funds.

According to KRS 65.117, "[n]o city, county, urban-county, consolidated local government, charter county, or special purpose governmental entity as defined in KRS 65A.010 shall enter into any financing obligation of any nature...without first notifying the state local debt officer in writing." KRS 65.7707 states, "[n]otes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued." (emphasis added) We recommend the fiscal court comply with said statutes by making the proper written notifications and satisfying short-term debt obligations by fiscal year end.

County Judge/Executive's Response: This was due to the new jail construction being delayed by contractor and the legal action against them to recoup lose not yet finished. Over half this debt is

has already been paid. We are now aware this should have been handled differently and will be able to avoid such findings in the future.

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

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