



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Garrard County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Garrard County Fiscal Court for the fiscal year ended June 30, 2019. 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 Garrard 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 Garrard County Fiscal Court did not maintain an accurate liability schedule: The Garrard County Fiscal Court’s liability schedule presented to Department for Local Government (DLG) was misstated. The fiscal court did not accurately report all debt of the county. The Public Improvement Corporation’s new debt was omitted from the liability schedule and the change to the old bond was not updated to reflect new balance. The county also entered into various lease agreements in prior years that were not reported on the schedule. The county stated that they were not aware that these debt payments and balances should be reported. 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 \$450,580 in principal and overstating \$374,538 in interest.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per 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 Judge/Executive's Response: We refinanced the debt on the judicial center to take advantage of historically low interest rates during this audit period at a substantial savings to the taxpayers. This debt is paid through the AOC and is not paid through the Garrard County Fiscal Court. The updated liability statement was properly recorded with the county clerk. The second part of this finding relates to our lease payments on leased vehicles, on leases we have had since 2016. We have had three audits since the time, and all previous auditors have agreed with our practice of not including these payments as debt since we do not own the vehicles in the traditional manner pursuant to our contract with the vendor. However, in light of the fact that the current auditors have taken issue with this practice, we have changed how we classify these payments.

Auditor's Reply: The fiscal court is financially accountable and legally obligated for the debt paid through the Administrative Office of the Courts (AOC) necessitating it to be reported on the liability schedule. The Auditor of Public Accounts approved the county judge/executive to hire an independent CPA to conduct the county's prior three fiscal year audits mentioned in his response.

The Garrard County Fiscal Court posted revenue as negative disbursements: The Garrard County Fiscal Court posted numerous receipts as negative expenditures on the ledgers, requiring audit adjustments totaling \$56,539 to receipts and disbursements. The county treasurer believed she should offset expenditure line items with reimbursements received from grants, etc. Total receipts and total disbursements on the county's ledgers and financial statement were understated by \$56,539.

KRS 424.220 requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year. With the exception of Fayette and Jefferson Counties, this applies to all county treasurers, county clerks, and county sheriffs. Per the *County Budget Preparation and State and Local Finance Officer Policy Manual*, "All receipts must be assigned a receipt code."

We recommend the fiscal court assign all receipts a receipt code, ensuring the ledgers and financial statement accurately reflect all activities of the funds.

County Judge/Executive's Response: Our treasurer is a Certified Public Accountant who has managed the county ledgers in a manner that is regularly accepted in the accounting industry, and has handled these reimbursements and refunds in this way for many years. We receive reimbursements and refunds from outside entities for regularly reoccurring services that are

shared by the county. We believe this accounting practice more clearly reflects the true liabilities and expenditures to the taxpayers as they are not paying the full amount of these services due to the reimbursements. Moreover, to book a refund in the way the auditor suggests will give the appearance of a greater expenditure than is correct, which misleads magistrates and taxpayers. The way the auditor suggests will vastly overstate the true expenditures of the county. That said, while counterintuitive, this is a technical change that we are happy to make in light of the auditor's findings.

Auditor's Reply: As stated above, the *County Budget Preparation and State and Local Finance Officer Policy Manual* states, "All receipts must be assigned a receipt code." Offsetting actual disbursements with revenue/reimbursements understates receipts and disbursements on the county's financial statement.

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

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