



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 Grayson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Grayson County Fiscal Court for the fiscal year ended June 30, 2020. 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 Grayson 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 comment:

Grayson County failed to properly account for the general obligation bond fund: The Grayson County Fiscal Court failed to account for all activities of the county. It was noted that the general obligation bond fund was not properly accounted for and budgeted. The county treasurer did not include the activity on her financial statement. For Fiscal Year 2020, the general obligation bond fund had a beginning balance of \$525,014. Receipts to the fund consisted of interest earned of \$133,276, net bond proceeds of \$16,878,703, a transfer in of \$1,006,937, and good faith proceeds of \$340,000. Disbursements for debt service and construction costs totaled \$12,391,167 along with transfers out of \$5,209. With the noted activity, the ending balance of \$6,487,554 remained on June 30, 2020. According to county personnel, the county was unsure of its responsibilities towards the general obligation bond fund.

The lack of internal controls over the operations of the omitted accounts exposes its assets to the risk of misappropriation. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. According to the minimum requirements for handling public funds established by DLG, 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 in 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 misapplication.

County Judge/Executive's Response: Since 2006, the General Obligation Bond Fund has been included on the long-term debt liability worksheet of the financial statements and bond payments have been accounted for in the budget. All of the bond fund account activities were recorded on spreadsheets and given to the auditors annually. During the 2019-2020 fiscal year, the Jail began an expansion project and the US bank paid the construction expenses from the bond proceeds. We were unaware that the jail expansion would require us to report the bond fund differently than we had in the past. To comply with auditors' recommendations and KRS 68.210, the bond fund accounts will be included on our financial statements with our other fund accounts and bond fund receipts and expenditures will be reported on financial statements beginning with the 3-21-21 quarterly financial statements and 3-31-21 monthly financial statements.

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

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