



Auditor of Public Accounts
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Harmon Releases Audit of Monroe County Fiscal Court

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

The Monroe County Fiscal Court’s fourth quarter report was materially misstated: The following reporting errors were noted on the June 30, 2019 quarterly financial report for the Monroe County Fiscal Court:

- Transfers out were incorrectly reported as \$360,000 instead of (\$360,000). Three cash transfers from the general fund to the jail fund totaling \$150,000 were not included as transfers out on the fourth quarter report. The actual transfers out were \$510,000 for audit period.

- Two checks written for \$13,330 and \$12,730, respectively, were not included on the fourth quarter report; however, they were recorded to the disbursements ledger and included on the treasurer's annual settlement.
- Road materials and supplies disbursements of \$654,758 were not recorded to the fourth quarter report; however, they were recorded to the disbursements ledger and included on the treasurer's annual settlement.
- The fourth quarter liabilities page on the quarterly report was materially inaccurate. The Monroe County Public Properties Corporation First Mortgage Refunding Revenue Bonds Series 2016 and the unrefunded portion of the First Mortgage Revenue Bonds Series 2009 were not included.
- The fourth quarter report export file sent to the Department for Local Government (DLG) did not agree to the accounting records and did not report the correct amount of total receipts and disbursements on the summary page since this was manually entered to agree to the county treasurer's settlement.
- The original budget and budget amendments did not agree to the fourth quarter report. Budgeted receipts were overstated by \$1,004,643 and budgeted disbursements were understated by \$601,500 due to not recording including budget amendments as inter-fund transfers in error on fourth quarter report.

These errors resulted from a lack of oversight over the financial reporting process and preparation of the fourth quarter report export file performed by the county treasurer. The fourth quarter financial report was not reconciled to the original budget, budget amendments, and accounting records or reviewed by another employee for accuracy to ensure amounts were reported correctly prior to submission to DLG. In addition, the road materials and supplies errors were a result of inter-fund transfers being shown as actual disbursements on the manual ledgers; therefore, once they were manually entered to the quarterly report file they included the wrong amount.

Cash transfers not properly recorded on the financial statement required an \$870,000 adjustment to the general fund for cash transfers out to other funds. By not including all outstanding debt of the Monroe County Public Properties Corporation on the quarterly report liabilities page, principal of \$6,335,000 and interest of \$1,024,538 was not reported. Furthermore, other material misstatements were noted requiring adjustments due to the errors noted above on the quarterly report. This lack of oversight could result in undetected misappropriation of assets and resulted in inaccurate financial reporting to external agencies such as DLG and the fiscal court.

Strong internal controls over the reporting process is vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court.

KRS 68.020(4) states the county treasurer "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer."

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 DLG's *County Budget Preparation and State Local*

Finance Officer Policy Manual. The manual requires the county treasurer to “[p]repare a quarterly financial statement for the State Local Finance Officer.” The manual also provides a format to be used when preparing the quarter financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements and total available in each line item.

In addition, KRS 68.360(2) states, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund.”

We recommend the fiscal court implement stronger internal controls over the financial reporting process to ensure all activity and budgeted amounts are properly recorded and reported on the financial statements submitted to DLG..

County Judge/Executive’s Response: The official did not provide a response.

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

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