



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Morgan County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Morgan 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 Morgan County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We were not engaged as auditors of the Morgan County Real Properties I and II Corporation Funds and we were unable to obtain audited financial statements to support the Morgan County Real Properties I and II Corporation Funds at June 30, 2019. The Morgan County Real Properties I and II Corporation Funds are part of the Morgan County Fiscal Court’s reporting entity. The omission of the Morgan County Real Properties I and II Corporation Funds is considered a material omission of the Morgan County Fiscal Court’s financial statement.

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

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 Morgan County Fiscal Court does not have internal controls over the Real Properties I and Real Properties II corporations: This is a repeat finding and was included in the prior year audit report as Finding 2018-004. The county does not have internal controls over the Real Properties I and Real Properties II corporations. The Real Properties I Corporation was created for the sole purpose of constructing and equipping the health and wellness center and repairing the old Morgan County courthouse for the benefit of Morgan County after the tornado on March 2, 2012. The Real Properties II Corporation was created for the sole purpose of constructing the Morgan County Cooperative Extension Service building, the Morgan County transit station and parking garage, and repairing the Morgan County Community Center for the benefit of Morgan County after the tornado on March 2, 2012. The Morgan County Fiscal Court did not ensure annual financial statements were prepared for the Real Properties I and Real Properties II corporations. The Morgan County Fiscal Court also failed to obtain an audit of these corporations. We were not engaged as auditors of these corporations and were told that a private firm was conducting these audits. However, as of the date of this report, they have not been audited.

This is caused by a lack of knowledge by county personnel on the activity of these corporations. They have a complex structure and the personnel responsible for the financial statements did not have the knowledge necessary to prepare them.

As a result, the Real Properties I and Real Properties II corporations have not been audited. These are significant components of the Morgan County Fiscal Court and therefore we have disclaimed an opinion on the financial statement for the year ending June 30, 2019.

Good internal controls dictate that financial statements are timely prepared and audited.

We recommend management of the Real Properties I and Real Properties II corporations ensure that financial statements are prepared timely and audited as required.

County Judge/Executive's Response: The Real Properties I and Real Properties II corporations are complete and have closed to date.

The Morgan County Fiscal Court's general fund owes the road fund due to inappropriate disbursements: Below is a chart that depicts how the general fund owes the road fund monies due to various reasons over the past years, including Local Government Economic Assistance (LGEA) funds that should have been spent 100% on road categories (FY 2018), too much truck license fees being transferred to the general fund (FY 2016 and 2017), transfer station disbursements being

paid from the road fund (FY 2014 and 2015), and LGEA funds being transferred to the jail fund that should have been used for transportation (FY 2014).

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
Interfund Receivable (Liabilities) 2014	\$ (138,775)	\$ 165,165	\$(26,390)	\$
Interfund Receivable (Liabilities) 2015	(143,238)	143,238		
Interfund Receivable (Liabilities) 2016	(200,892)	200,892		
Interfund Receivable (Liabilities) 2017				(24,677)
Credit given for Truck License Not Transferred in FY 2017	150,788	(201,855)	26,390	24,677
Interfund Receivable (Liabilities) 2018	<u>(2,254)</u>	<u>2,254</u>		
Total	<u>\$ (334,371)</u>	<u>\$ 309,694</u>	<u>\$ 0</u>	<u>\$ 0</u>

Since Fiscal Year 2014, the county has not remedied the issues noted and is not in compliance in the use of restricted monies. The liabilities of the general fund has the fund in a deficit and the road fund is being deprived of money that could be used in the fund.

Road monies are restricted by KRS 177.320 and KRS 177.360. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statements.

We recommend the Morgan County Fiscal Court remedy the liabilities owed to the road fund as soon as possible and to avoid having deficit balances.

County Judge/Executive's Response: The general fund is in the process of repaying the road fund. This is an error from previous administration.

The Morgan County Fiscal Court does not have internal controls over bank reconciliations:

This is a repeat finding and was included in the prior year audit report as Finding 2018-002. Bank reconciliations were not completed for all bank accounts including payroll, rebuild Morgan County and Public Properties Corporation. Bank reconciliations that were completed did not appear to be reviewed by a second party for accuracy. Mistakes could occur and not be corrected in a timely manner because the official did not have controls in place to ensure that bank reconciliations were completed for all accounts and that those that were completed were reviewed by a second party.

Good internal controls dictate bank reconciliations should be completed for all bank accounts and should reconcile to supporting financial information. A person independent of the posting and reconciliation process should review the reconciliation and original bank statement. We recommend the fiscal court determine appropriate internal controls to ensure that reconciliations are performed and they are reviewed by a second party.

County Judge/Executive's Response: Internal controls have been implemented with the new administration to eliminate issues that existed previously.

The Morgan County Fiscal Court did not accurately report debt on the quarterly financial statement: The debt schedule presented with the fourth quarter report (which serves as the year-end financial statement) inaccurately reported debt obligations. Two debts were omitted from the schedule and four were inaccurately reported.

The fiscal court does not have controls in place to ensure that debt obligations are properly reported on the fourth quarter report.

Due to the omission and inaccuracy, long term debt was understated by \$10,360,718, which could impact the fiscal court's ability to make sound 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 the *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 that the county ensure that the correct amounts are shown all financial statements presented to the public and to the Department for Local Government (DLG). We further recommend that that county review all aspects of the quarterly reports before signing and submitting.

County Judge/Executive's Response: This has been corrected.

The Morgan County Fiscal Court did not pay all invoices within 30 working days as required: The Morgan County Fiscal Court did not pay all invoices within 30 working days. We determined that four invoices totaling \$113,776 were not paid within 30 days.

Invoices that were paid late consisted of insurance and for a project. The fiscal court was unaware the full amount had to be paid to the insurance company within 30 working days since paying in payments is an option and the other invoices were for a road repair project and were not paid until the job was complete.

Failure to pay bills within 30 days could result in finance charges and late fees, which would be improper use of taxpayer monies.

KRS 65.140(2) states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performance or improper invoicing by the vendor or by the vendor's subcontractor."

We recommend the fiscal court monitor and ensure all invoices are paid within 30 working days.

County Judge/Executive's Response: We have implemented multiple internal controls to ensure that all disbursements are paid properly and timely.

The Morgan County Fiscal Court does not have adequate controls over payroll: We noted the following control deficiencies during our test of payroll out of the 39 timesheets tested:

- Fifteen timesheets were not signed by a supervisor.
- Two timesheets were missing.

Because the county failed to maintain signed timesheets, employee hours worked could not be substantiated due to the lack of adequate controls over payroll.

KRS 337.320(1) states, in part, “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee[.]”

We recommend the fiscal court strengthen controls over payroll to ensure timesheets are prepared each pay period for all employees. All timesheets should be signed by employees and their supervisor.

County Judge/Executive’s Response: Internal controls have been implemented with the new administration to eliminate issues that existed previously.

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

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