



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the single audit of the Oldham County Fiscal Court for the fiscal year ended June 30, 2016. 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 Oldham 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.

In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have issued an unmodified opinion on the compliance requirements that are applicable to Oldham County Fiscal Court's major federal program.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Oldham County Fiscal Court is not reporting transfers and beginning balances accurately on the fourth quarterly report. During testing, auditors noted the following issues with financial reporting on the fourth quarterly report:

- Transfers in and out on various funds are being netted.

- A transfer from general fund to the LGEA fund of \$632,000 was not booked on the fourth quarterly report.
- A transfer in from LGEA fund to general fund of \$592,655 was not booked on the fourth quarterly report.
- The LGEA fund balance reported on the fourth quarterly report was (\$249,468).
- The prior year audit adjustments were approved by county management but were not booked, so the beginning balance (prior year carryover) was not reported accurately.

According to county staff:

- The transfers are netted for ease of reporting on the fourth quarterly report.
- The transfer to the LGEA fund of \$632,000 and transfer from the LGEA fund of \$592,655 was not booked on the fourth quarterly report due to county staff thinking of this transaction as a loan from the general fund to the LGEA fund, not a transfer.
- The LGEA fund balance was negative due to the transfers being reported incorrectly and staff not reviewing the fourth quarterly report to ensure accurate and complete reporting.
- County management has signed off on the prior year adjustments in the past with no intention to book the adjustments because they thought they should sign the adjustments but did not agree to them.

The result of the financial reporting issues noted:

- When transfers are netted, the transfer in amount and transfer out amount are not reported in the correct codes and it cannot be seen what amounts are moving from one fund to another easily, increasing the risk of incorrect reporting of transfers and a misstatement of fund balances. In fact, the transfer to LGEA fund of \$632,000 and the transfer from LGEA fund of \$592,655 were not reported on the general fund or the LGEA fund on the fourth quarterly report. This resulted in a misstatement of the general fund balance of (\$39,345), and a misstatement of the LGEA fund balance of \$39,345.
- The prior year audit adjustments were agreed to by county management, but not booked, resulting in the following adjustments to beginning balances on the fourth quarterly report:

Fund	Beginning Balance Adjustment
General	(\$1,256,486)
LGEA	255,655
Dispatch	133,048
Police	(7,739)
Total	(\$875,522)

The Department for Local Government's *County Budget Preparation And State Local Finance Officer Policy Manual* explains that transfers in and out should be clearly reported on the fourth quarterly report using specific account codes for transfer in and transfer out in order for amounts

of transfers to be reconciled between funds easily. The transfers in and transfers out amounts are to be included in receipts and disbursements to calculate ending fund balance.

Strong internal controls require all transfers to be clearly reported between funds, adjustments be accurately reported and that financial reports be reviewed to ensure they agree to the bank reconciliations and county ledgers.

We recommend the fiscal court implement procedures to ensure:

- All transfers in are reported separately from transfers out on the fourth quarterly report, using the account codes 4909 and 4910.
- Recommended adjustments that are agreed to by county management be booked to the ledgers.
- The fourth quarterly report should be reviewed to ensure all receipts, transfers in, disbursements, transfers out, adjustments, and balances are reported accurately and that they agree to the bank reconciliations and county's ledgers.

County Treasurer's Response: The books of Oldham County Fiscal Court accurately reflect the balances of all accounts. On the 4th Quarter report, numbers are combined to balance the report.

Reviewing the "adjustments to beginning balances on the 4th Quarter Report", it is obvious that we are being asked to break out certain accounts that we have combined.

The General Fund beginning balances on the 4th Quarter Report includes:

- *OCD CAD Inter-local account (Central Dispatch Fund)*
- *P&Z Cash Bonds*
- *Geographic Information Consortium Fund Inter-local account*
- *We also included in Police Funds the Seized Account Funds.*

During prior year audits, we were told us to include these accounts on the "books" and therefore we do. At one time, we were told to include LEPC funds on the 4th Quarter Report, but last year we were told to stop including it.

It is the goal of Oldham County Fiscal Court to include balances on the 4th Quarter Report as desired by the State Auditor. However, we ask for guidance:

- 1. How do we show the Central Dispatch Fund? Do we create a new major fund code? How are changes shown and handled?*
- 2. P&Z Cash Bonds: it appears that these are not to be shown now on the quarterly report. So, in the future should these be excluded from the report, but still shown on our General Ledger?*
- 3. Geographic Information Consortium Fund: we assume the treatment would be the same as the Central Dispatch Fund. What major fund code number should be used for this?*

Guidance is also needed for reporting small balances that are actually payables or receivables. It has been our practice, based on prior guidance from the State, to treat these as outstanding checks per se by adjusting the cash number reported. For instance, our last payroll for FY16 was paid on June 30, 2016 and it was impossible to pay the retirement withheld by June 30,

2016. The withholding of \$11,113.54 was shown as part of cash. It appears these amounts on the audit report on shown as general government. So, are we to assume that in the case of the retirement that was withheld and not paid by June 30, we reduce our payroll expense?

We have not made adjustments to the books of Oldham County Fiscal Court as no adjustments were needed. However, we do agree that the 4th Quarter Report combines several of the items shown separately on the audit report and includes items not shown on the audit report.

Oldham County Fiscal Court will show beginning balances on future quarterly reports that match the audit report.

We do seek guidance how to correctly show this.

Auditor's Reply:

The Department for Local Government is the state agency that prescribes the minimum accounting requirements for county budget preparation and financial statement reporting. The Department for Local Government has issued the *County Budget Preparation and State Local Finance Officer Policy Manual* that provides the necessary information for counties to manage available financial resources. The Auditor of Public Accounts audits according to the policies outlined in this manual. We recommend the Oldham County Fiscal Court review the policies as set forth by the Department for Local Government.

The Oldham County Fiscal Court did not approve individual transfers between funds. The county made total transfers in, noted in column B in the below chart, and transfers out noted in column C. The county presented transfers between funds as “netted” amounts to the fiscal court for approval, as shown in column E below. The fiscal court approved the transfers on March 31, 2016 and June 30, 2016. As shown in the calculations below in Column D, the net of the transfers in to the transfers out is zero. The difference in the calculated net amount in Column D and the net amount presented to the fiscal court in Column E agrees in total, at \$1,713,584. However, the fiscal court was not presented the individual transfers to see how each transfer would affect receipts and disbursements for the funds as they occurred during the fiscal year.

A Fund	B Total Transfers In To Fund	C Total Transfers Out From Fund	D Difference (Transfers In Less Transfers Out)	E Transfers Presented by the County to the Fiscal Court in Net Amount	F Difference (Calculated Net Amount - Col. D Less Amount Approved - Col. E)
General	\$1,681,233	\$2,924,594	(\$1,243,361)		(\$1,243,361)
Road	1,586,140	1,283,758	302,382	\$302,358	24
Jail	608,450		608,450	1,072,855	(464,405)
LGEA	632,000	592,655	39,345		39,345
Central	338,226	128,292	209,934	338,371	(128,437)

Dispatch					
General Obligation Bond	83,250		83,250		83,250
Total	\$4,929,299	\$4,929,299	\$0	\$1,713,584	(\$1,713,584)

The county presented transfers to the fiscal court in the net amount, which does not allow fiscal court members to see each individual transfer and how it affects the corresponding fund receipts and disbursements. This significantly increases the risk that the fiscal court may not have a clear understanding of fund balances to make informed, effective financial decisions.

According to the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* the fiscal court should constantly be monitoring receipts and disbursements. If the fiscal court wants to make a transfer from one fund to another, the fiscal court should be checking to see how that transfer will affect total receipts and the effect on the remaining expenditures in that fund. Each individual transfer should be approved by a fiscal court order.

We recommend the treasurer prepare a court order for each transfer between funds to be presented to the fiscal court for approval. Approval of each transfer should be documented in the fiscal court minutes.

County Treasurer’s Response: The treasurer will comply with State Auditor recommendations, and will present a court order to fiscal court for each transfer between funds.

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

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