

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Owsley County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Owsley County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Owsley County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Owsley County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Owsley County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Owsley County Fiscal Court. The Budgetary Comparison Schedules and the Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and the Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
 The Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019, on our consideration of the Owsley County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Owsley County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2018-001 The Owsley County Fiscal Court Lacks Adequate Segregation Of Duties And Controls Over The Overall Environment Of The County
- 2018-002 The Owsley County Fiscal Court Did Not Approve The Treasurer's Annual Settlement
- 2018-003 The Owsley County Fiscal Court Did Not Properly Authorize All Cash Transfers And Intrafund Budget Transfers
- 2018-004 The Owsley County Fiscal Court Did Not Budget, Record, Or Report Funds
- 2018-005 The Owsley County Fiscal Court Did Not Have Controls Over Disbursements
- 2018-006 The Owsley County Fiscal Court's Purchase Order System Did Not Operate Correctly
- 2018-007 The Owsley County Fiscal Court Did Not Have Controls Over Recreation Center Receipts, Did Not Issue Receipts, And Did Not Make Daily Deposits
- 2018-008 The Owsley County Fiscal Court Does Not Have Controls Over Garbage Collections And Gravel Sale Receipts
- 2018-009 The Owsley County Fiscal Court Failed To Establish Internal Controls Over Payroll
- 2018-010 The Owsley County Fiscal Court Did Not Maintain And Complete An Accurate Capital Asset Schedule In Order To Comply With Regulatory Requirements
- 2018-011 The Owsley County Fiscal Court Did Not Properly Report Encumbrances On The Fourth Quarter Financial Report
- 2018-012 The Owsley County Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)
- 2018-013 The Owsley County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 2, 2019

OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2018

Fiscal Court Members:

Cale Turner	County Judge/Executive
Zeke Little, Jr.	Magistrate
Mike Thomas	Magistrate
Tim Bishop	Magistrate

Other Elected Officials:

Henley McIntosh	County Attorney
Robert Cope	Jailer
Shanna Oliver	County Clerk
Mike Mayes	Circuit Court Clerk
Kelly Shouse	Sheriff
Sandra King	Property Valuation Administrator
Donald Morgan	Coroner

Appointed Personnel:

Cody Lewis	County Treasurer
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**OWSLEY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2018

OWSLEY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 439,815	\$	\$	\$
In Lieu Tax Payments		42,931		
Excess Fees	11,311			
Licenses and Permits	400			
Intergovernmental	92,069	1,058,868	67,015	116,845
Charges for Services	11,993			
Miscellaneous	194,051	230,880	201	6,331
Interest	30	57	4	130
Total Receipts	<u>749,669</u>	<u>1,332,736</u>	<u>67,220</u>	<u>123,306</u>
DISBURSEMENTS				
General Government	540,932	5,782		8,030
Protection to Persons and Property	30,156		153,662	52,455
General Health and Sanitation	32,000			4,630
Social Services				4,500
Recreation and Culture				
Roads		1,010,325		
Debt Service	1,640			
Capital Projects				
Administration	260,655	197,246	17,208	11,915
Total Disbursements	<u>865,383</u>	<u>1,213,353</u>	<u>170,870</u>	<u>81,530</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(115,714)</u>	<u>119,383</u>	<u>(103,650)</u>	<u>41,776</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	248,850	96,625	105,700	19,000
Transfers To Other Funds	(116,500)	(239,850)	(3,000)	(93,125)
Total Other Adjustments to Cash (Uses)	<u>132,350</u>	<u>(143,225)</u>	<u>102,700</u>	<u>(74,125)</u>
Net Change in Fund Balance	16,636	(23,842)	(950)	(32,349)
Fund Balance - Beginning	10,559	25,833	1,046	42,431
Fund Balance - Ending	<u>\$ 27,195</u>	<u>\$ 1,991</u>	<u>\$ 96</u>	<u>\$ 10,082</u>
Composition of Fund Balance				
Bank Balance	\$ 30,895	\$ 2,608	\$ 368	\$ 11,402
Less: Outstanding Checks	(3,700)	(617)	(272)	(1,320)
Certificates of Deposit				
Fund Balance - Ending	<u>\$ 27,195</u>	<u>\$ 1,991</u>	<u>\$ 96</u>	<u>\$ 10,082</u>

The accompanying notes are an integral part of the financial statement.

OWSLEY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds		
Solid Waste Fund	Parks and Recreation Fund	Local Government Economic Development Fund
\$	\$	\$
	223	
232,010	9,768	
94	13,983	
112	1	
<u>232,216</u>	<u>23,975</u>	
		4,664
187,825		
	52,227	
3,680		
<u>23,691</u>	<u>1,329</u>	<u>3,600</u>
<u>215,196</u>	<u>53,556</u>	<u>8,264</u>
		4,664
<u>17,020</u>	<u>(29,581)</u>	<u>(8,264)</u>
25,000		
13,000	23,000	
<u>(53,700)</u>		
<u>(15,700)</u>	<u>23,000</u>	
1,320	(6,581)	(8,264)
<u>37,173</u>	<u>7,649</u>	<u>9,161</u>
<u>\$ 38,493</u>	<u>\$ 1,068</u>	<u>\$ 897</u>
\$ 22,767	\$ 2,419	\$ 897
(9,737)	(1,351)	
25,463		
<u>\$ 38,493</u>	<u>\$ 1,068</u>	<u>\$ 897</u>

The accompanying notes are an integral part of the financial statement.

OWSLEY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	<u>Unbudgeted Funds</u>			<u>Total Funds</u>
	<u>Capital Improvements Fund</u>	<u>USDA Teleworks Grant Fund</u>	<u>ARC Wolf Creek Metal Equipment Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 439,815
In Lieu Tax Payments				42,931
Excess Fees				11,311
Licenses and Permits				400
Intergovernmental	50,000	30,360	24,659	1,440,039
Charges for Services				253,771
Miscellaneous			147	445,687
Interest			1	335
Total Receipts	<u>50,000</u>	<u>30,360</u>	<u>24,807</u>	<u>2,634,289</u>
DISBURSEMENTS				
General Government			24,659	584,067
Protection to Persons and Property				236,273
General Health and Sanitation				224,455
Social Services		30,360		34,860
Recreation and Culture				52,227
Roads				1,010,325
Debt Service				5,320
Capital Projects	50,000			50,000
Administration			155	515,799
Total Disbursements	<u>50,000</u>	<u>30,360</u>	<u>24,814</u>	<u>2,713,326</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(7)	(79,037)
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				25,000
Transfers From Other Funds				506,175
Transfers To Other Funds				(506,175)
Total Other Adjustments to Cash (Uses)				<u>25,000</u>
Net Change in Fund Balance			(7)	(54,037)
Fund Balance - Beginning			7	133,859
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 79,822</u>
Composition of Fund Balance				
Bank Balance	\$	\$ 7,500	\$	\$ 78,856
Less: Outstanding Checks		(7,500)		(24,497)
Certificates of Deposit				25,463
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 79,822</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Owsley County includes all budgeted and unbudgeted funds under the control of the Owsley County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments and transfers from the other funds. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Solid Waste Fund - The primary purpose of this fund is to account for disbursements related to solid waste material, trucks, and personnel. The primary source of receipts for this fund is solid waste pickup service fees.

Parks and Recreation Fund - The primary purpose of this fund is to account for disbursements for the county park and recreation area. The primary source of receipts for this fund is transfers from other funds.

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are state and federal grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Capital Improvements Fund - The primary purpose of this fund is to account for monies received and expended for building construction and grant funds for capital purchases.

USDA Teleworks Grant Fund - The primary purpose of this fund is to account for a federal grant and related disbursements.

ARC Wolf Creek Metal Equipment Fund - The primary purpose of this fund is to account for a federal grant and related disbursements.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Owsley County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Owsley County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

H. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Three Forks Regional Jail is considered a joint venture of the Owsley County Fiscal Court.

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance, and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Joint Venture (Continued)

the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 First Mortgage Revenue Bonds, Series 2000. In 2012, the bonds were refunded with \$5,570,000 Financing Program Revenue Bonds, Series 2012D that are scheduled to mature on February 1, 2032. The refunding resulted in a present value savings of \$1,432,999 and a cumulative savings of \$1,610,721 for the Authority.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements of the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bonds as follows (the proportionate share or use allowance): 40 percent for Lee County, 22 percent for Owsley County, and 38 percent for Wolfe County.

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases. Each county is liable solely for its own proportionate share of total annual debt service on the bonds and no one county is liable for another county's debt. Payment of the annual debt service on the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full. Each county has agreed in its lease and sublease agreements that in the event a county cannot pay its indebtedness, an Ad Valorem Tax will be levied in that county for the amount sufficient to provide full payment of the county's rentals due for that year.

Also on December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping, and operation of the Three Forks Regional Jail.

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County Jailer is a required member of the board.

A copy of the Three Forks Regional Jail Authority's most recent audit report may be obtained at Three Forks Regional Jail, 2475 Center Street, Beattyville, Kentucky 41311.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	Jail Fund	LGEA Fund	Solid Waste Fund	Total Transfers In
General Fund	\$	\$ 229,850	\$	\$ 9,000	\$ 10,000	\$ 248,850
Road Fund	47,000			49,625		96,625
Jail Fund	50,500			28,000	27,200	105,700
LGEA Fund	9,000	10,000				19,000
Solid Waste Fund	10,000		3,000			13,000
Parks and Recreation Fund				6,500	16,500	23,000
Total Transfers Out	<u>\$ 116,500</u>	<u>\$ 239,850</u>	<u>\$ 3,000</u>	<u>\$ 93,125</u>	<u>\$ 53,700</u>	<u>\$ 506,175</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Accounts Receivable

At June 30, 2018, the Owsley County Fiscal Court had receivables in the amount of \$152,807, due from residential customers for garbage collection services.

Note 5. Long-term Debt

A. Sheriff's Vehicles

On August 05, 2015, the Owsley County Fiscal Court entered into a \$19,000 lease agreement with the Kentucky Association of Counties Leasing Trust (along with other funding) for the purchase of two vehicles for the sheriff's department. The agreement required monthly payments of \$820, beginning September 20, 2015, and ended August 20, 2017. As of June 30, 2018, the principal balance outstanding was \$0.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

B. Garbage Truck

On December 20, 2017, the Owsley County Fiscal Court entered into a \$25,000 lease agreement with the Kentucky Association of Counties Leasing Trust (along with other funding) for the purchase of one garbage truck for the solid waste department. The agreement required monthly payments of \$736, beginning January 20, 2018, and ending December 20, 2020. The payment schedule required six monthly payments of \$736 to be made for the fiscal year 2018; however, only five payments were made during the fiscal year. As of June 30, 2018, the principal balance outstanding was \$21,688. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2018 Missed Payment	\$ 666	\$ 70
2019	8,182	649
2020	12,840	384
Totals	<u>\$ 21,688</u>	<u>\$ 1,103</u>

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 1,633	\$ 25,000	\$ 4,945	\$ 21,688	\$ 8,848
Total Long-term Debt	<u>\$ 1,633</u>	<u>\$ 25,000</u>	<u>\$ 4,945</u>	<u>\$ 21,688</u>	<u>\$ 8,848</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$176,311, FY 2017 was \$196,186, and FY 2018 was \$189,452.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

Nonhazardous (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 6. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Deferred Compensation

The Owsley County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2018, the Owsley County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2018

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OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 439,700	\$ 439,700	\$ 439,815	\$ 115
In Lieu Tax Payments	21,000	21,000		(21,000)
Excess Fees	10,000	10,000	11,311	1,311
Licenses and Permits			400	400
Intergovernmental	179,100	179,100	92,069	(87,031)
Charges for Services			11,993	11,993
Miscellaneous	159,084	159,084	194,051	34,967
Interest	250	250	30	(220)
Total Receipts	<u>809,134</u>	<u>809,134</u>	<u>749,669</u>	<u>(59,465)</u>
DISBURSEMENTS				
General Government	591,038	571,997	540,932	31,065
Protection to Persons and Property	18,100	30,200	30,156	44
General Health and Sanitation	30,000	32,000	32,000	
Debt Service	4,920	1,640	1,640	
Administration	252,576	260,797	260,655	142
Total Disbursements	<u>896,634</u>	<u>896,634</u>	<u>865,383</u>	<u>31,251</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(87,500)</u>	<u>(87,500)</u>	<u>(115,714)</u>	<u>(28,214)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	202,500	202,500	248,850	46,350
Transfers To Other Funds	<u>(145,000)</u>	<u>(145,000)</u>	<u>(116,500)</u>	<u>28,500</u>
Total Other Adjustments to Cash (Uses)	<u>57,500</u>	<u>57,500</u>	<u>132,350</u>	<u>74,850</u>
Net Change in Fund Balance	(30,000)	(30,000)	16,636	46,636
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>10,559</u>	<u>(19,441)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,195</u>	<u>\$ 27,195</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 34,231	\$ 34,231	\$ 42,931	\$ 8,700
Intergovernmental	1,246,918	1,246,918	1,058,868	(188,050)
Miscellaneous	86,000	86,000	230,880	144,880
Interest			57	57
Total Receipts	<u>1,367,149</u>	<u>1,367,149</u>	<u>1,332,736</u>	<u>(34,413)</u>
DISBURSEMENTS				
General Government	7,400	7,400	5,782	1,618
Roads	884,924	1,015,159	1,010,325	4,834
Capital Projects	125,000	788	788	788
Administration	225,725	219,702	197,246	22,456
Total Disbursements	<u>1,243,049</u>	<u>1,243,049</u>	<u>1,213,353</u>	<u>29,696</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>124,100</u>	<u>124,100</u>	<u>119,383</u>	<u>(4,717)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	38,400	38,400	96,625	58,225
Transfers To Other Funds	(202,500)	(202,500)	(239,850)	(37,350)
Total Other Adjustments to Cash (Uses)	<u>(164,100)</u>	<u>(164,100)</u>	<u>(143,225)</u>	<u>20,875</u>
Net Change in Fund Balance	(40,000)	(40,000)	(23,842)	16,158
Fund Balance - Beginning	<u>40,000</u>	<u>40,000</u>	<u>25,833</u>	<u>(14,167)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,991</u>	<u>\$ 1,991</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 51,000	\$ 51,000	\$ 67,015	\$ 16,015
Charges for Services	200	200		(200)
Miscellaneous			201	201
Interest	12	12	4	(8)
Total Receipts	<u>51,212</u>	<u>51,212</u>	<u>67,220</u>	<u>16,008</u>
DISBURSEMENTS				
Protection to Persons and Property	229,850	223,751	153,662	70,089
Administration	24,362	30,461	17,208	13,253
Total Disbursements	<u>254,212</u>	<u>254,212</u>	<u>170,870</u>	<u>83,342</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(203,000)</u>	<u>(203,000)</u>	<u>(103,650)</u>	<u>99,350</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	200,000	200,000	105,700	(94,300)
Transfers To Other Funds			(3,000)	(3,000)
Total Other Adjustments to Cash (Uses)	<u>200,000</u>	<u>200,000</u>	<u>102,700</u>	<u>(97,300)</u>
Net Change in Fund Balance	(3,000)	(3,000)	(950)	2,050
Fund Balance - Beginning	<u>3,000</u>	<u>3,000</u>	<u>1,046</u>	<u>(1,954)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 96</u>	<u>\$ 96</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes	\$ 247	\$ 247	\$	\$ (247)
Intergovernmental	136,700	136,700	116,845	(19,855)
Miscellaneous			6,331	6,331
Interest	110	110	130	20
Total Receipts	<u>137,057</u>	<u>137,057</u>	<u>123,306</u>	<u>(13,751)</u>
DISBURSEMENTS				
General Government	8,680	8,680	8,030	650
Protection to Persons and Property	71,900	68,660	52,455	16,205
General Health and Sanitation	2,100	4,630	4,630	
Social Services	5,400	5,400	4,500	900
Administration	17,577	18,287	11,915	6,372
Total Disbursements	<u>105,657</u>	<u>105,657</u>	<u>81,530</u>	<u>24,127</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>31,400</u>	<u>31,400</u>	<u>41,776</u>	<u>10,376</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			19,000	19,000
Transfers To Other Funds	(68,400)	(68,400)	(93,125)	(24,725)
Total Other Adjustments to Cash (Uses)	<u>(68,400)</u>	<u>(68,400)</u>	<u>(74,125)</u>	<u>(5,725)</u>
Net Change in Fund Balance	(37,000)	(37,000)	(32,349)	4,651
Fund Balance - Beginning	<u>37,000</u>	<u>37,000</u>	<u>42,431</u>	<u>5,431</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,082</u>	<u>\$ 10,082</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 275,000	\$ 275,000	\$	\$ (275,000)
Charges for Services			232,010	232,010
Miscellaneous	2,000	2,000	94	(1,906)
Interest	110	110	112	2
Total Receipts	<u>277,110</u>	<u>277,110</u>	<u>232,216</u>	<u>(44,894)</u>
DISBURSEMENTS				
General Health and Sanitation	188,600	198,120	187,825	10,295
Roads	13,000			
Debt Service		3,480	3,680	(200)
Administration	60,510	60,510	23,691	36,819
Total Disbursements	<u>262,110</u>	<u>262,110</u>	<u>215,196</u>	<u>46,914</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>15,000</u>	<u>15,000</u>	<u>17,020</u>	<u>2,020</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			25,000	25,000
Transfers From Other Funds			13,000	13,000
Transfers To Other Funds	(40,000)	(40,000)	(53,700)	(13,700)
Total Other Adjustments to Cash (Uses)	<u>(40,000)</u>	<u>(40,000)</u>	<u>(15,700)</u>	<u>24,300</u>
Net Change in Fund Balance	(25,000)	(25,000)	1,320	26,320
Fund Balance - Beginning	<u>25,000</u>	<u>25,000</u>	<u>37,173</u>	<u>12,173</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,493</u>	<u>\$ 38,493</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 76,000	\$ 76,000	\$ 223	\$ (75,777)
Charges for Services	13,000	13,000	9,768	(3,232)
Miscellaneous	27,200	27,200	13,983	(13,217)
Interest			1	1
Total Receipts	<u>116,200</u>	<u>116,200</u>	<u>23,975</u>	<u>(92,225)</u>
DISBURSEMENTS				
Recreation and Culture	130,830	129,733	52,227	77,506
Administration	3,370	4,467	1,329	3,138
Total Disbursements	<u>134,200</u>	<u>134,200</u>	<u>53,556</u>	<u>80,644</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(18,000)</u>	<u>(18,000)</u>	<u>(29,581)</u>	<u>(11,581)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	15,000	15,000	23,000	8,000
Total Other Adjustments to Cash (Uses)	<u>15,000</u>	<u>15,000</u>	<u>23,000</u>	<u>8,000</u>
Net Change in Fund Balance	(3,000)	(3,000)	(6,581)	(3,581)
Fund Balance - Beginning	<u>3,000</u>	<u>3,000</u>	<u>7,649</u>	<u>4,649</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,068</u>	<u>\$ 1,068</u>

OWSLEY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 106,000	\$ 106,000	\$	\$ (106,000)
Total Receipts	106,000	106,000		(106,000)
DISBURSEMENTS				
General Government		4,664	4,664	
Protection to Persons and Property	100	100		100
Capital Projects	105,800	97,636		97,636
Administration	100	3,600	3,600	
Total Disbursements	106,000	106,000	8,264	97,736
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(8,264)	(8,264)
Net Change in Fund Balance			(8,264)	(8,264)
Fund Balance - Beginning			9,161	9,161
Fund Balance - Ending	\$ 0	\$ 0	\$ 897	\$ 897

OWSLEY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

The solid waste fund debt service disbursements exceeded budgeted appropriations by \$200.

**OWSLEY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2018

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OWSLEY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 291,228	\$	\$	\$ 291,228
Buildings	2,969,904			2,969,904
Vehicles and Equipment	2,543,345	89,415	18,500	2,614,260
Infrastructure	3,608,572	247,369		3,855,941
Total Capital Assets	<u>\$ 9,413,049</u>	<u>\$ 336,784</u>	<u>\$ 18,500</u>	<u>\$ 9,731,333</u>

The accompanying notes are an integral part of this schedule

**OWSLEY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

June 30, 2018

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Owsley County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Owsley County Fiscal Court's financial statement and have issued our report thereon dated July 2, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Owsley County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Owsley County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owsley County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, and 2018-011 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-012 and 2018-013 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-009, 2018-010, 2018-011, 2018-012, and 2018-013.

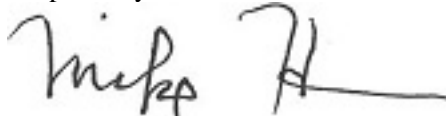
Views of Responsible Official and Planned Corrective Action

Owsley County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 2, 2019

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Owsley County Fiscal Court Lacks Adequate Segregation Of Duties And Controls Over The Overall Environment Of The County

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The Owsley County Fiscal Court lacks adequate segregation of duties over receipts, disbursements, cash, and payroll. The Owsley County Treasurer was responsible for recording receipts and disbursements in the ledgers, preparing bank reconciliations, and preparing the county's payroll. Additionally, the Owsley County Treasurer prepared monthly, quarterly, and annual financial reports on behalf of the Owsley County Fiscal Court. The Owsley County Fiscal Court failed to establish adequate management oversight to ensure proper recording of receipts and disbursements, complete and accurate bank reconciliations, and accurate preparation of the Owsley County Fiscal Court's payroll.

The Owsley County Fiscal Court failed to adequately segregate the duties involved in recording revenues and disbursements, preparing monthly bank reconciliations, and preparing the Owsley County Fiscal Court's payroll. The Owsley County Fiscal Court also failed to provide adequate oversight regarding the Owsley County Treasurer's preparation of financial reports.

The lack of adequate internal controls and segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds. The following control deficiencies occurred due to the lack of internal controls and segregation of duties over these areas:

- The fiscal court did not approve the treasurer's annual settlement as reported in finding 2018-002.
- The fiscal court did not properly authorize all cash transfers and intrafund budget transfers as reported in finding 2018-003.
- The fiscal court did not budget, record, or report funds as reported in finding 2018-004.
- The fiscal court did not have controls over disbursements as reported in finding 2018-005.
- The fiscal court's purchase order system did not operate correctly as reported in finding 2018-006.
- The fiscal court did not have controls over Recreation Center receipts, did not issue receipts, and did not make daily deposits as reported in finding 2018-007.
- The fiscal court does not have controls over garbage collections and gravel sale receipts as reported in finding 2018-008.
- The fiscal court failed to establish internal controls over payroll as reported in finding 2018-009.
- The fiscal court did not maintain and complete an accurate capital asset schedule in order to comply with regulatory requirements as reported in finding 2018-010.
- The fiscal court did not properly report encumbrances on the fourth quarter financial report as reported in finding 2018-011.
- The fiscal court did not prepare an accurate schedule of expenditures of federal awards (SEFA) as reported in finding 2018-012.
- The fiscal court did not accurately report financial information on the fourth quarter financial report as reported in finding 2018-013.

The implementation of internal controls and the segregation of duties over various accounting functions such as recording receipts and disbursements, preparing bank reconciliations, and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The Owsley County Fiscal Court Lacks Adequate Segregation Of Duties And Controls Over The Overall Environment Of The County (Continued)

We recommend the Owsley County Fiscal Court segregate the duties involved in recording receipts and disbursements, preparing bank reconciliations, preparing payroll, and preparing monthly, quarterly, and annual financial reports where possible. If this is not feasible due to a limited budget, appropriate management oversight should be established.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Owsley County does not have funding to adequately segregate duties; however, another employee has been hired to help segregate.

2018-002 The Owsley County Fiscal Court Did Not Approve The Treasurer's Annual Settlement

The Owsley County Treasurer's Annual Settlement for fiscal year ending 2018 was not presented and approved by the fiscal court.

The fiscal court did not have controls in place to ensure that staff knew the requirements or did not monitor/review to make sure requirements were followed. Since an annual settlement was not presented and approved, the fiscal court was not aware of the financial condition of the county after ending fiscal year 2018. Also, the fiscal court was not in compliance with state regulations.

KRS 68.020(5) states, in part "[t]he county treasurer shall, when required by the fiscal court, settle his accounts as county treasurer, and within thirty (30) days after the close of each fiscal year, he shall, unless his immediate predecessor has done so, make a full and complete settlement for the preceding fiscal year with the fiscal court[.]"

KRS 68.030 states, in part, "[e]ach settlement made by the county treasurer shall be approved by the fiscal court in open court, and shall, by order of the fiscal court, be recorded by the county clerk in a book kept for that purpose. The original shall be filed in the county clerk's office, and preserved as a record of the court."

Strong internal controls over financial reporting are vital in ensuring the fiscal court is aware of requirements as stated in KRS 68.020(5) and KRS 68.030 and ensuring compliance with all state regulations.

We recommend the fiscal court implement internal controls to ensure compliance with all state regulations. We also recommend that the fiscal court require the treasurer to present an annual settlement for approval within 30 days after the end of the fiscal year.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The county treasurer has prepared an annual settlement and [it] will be approved at the next fiscal court meeting.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Owsley County Fiscal Court Did Not Properly Authorize All Cash Transfers And Intrafund Budget Transfers

The Owsley County Fiscal Court did not properly authorize all cash transfers between county funds. Furthermore, the Owsley County Fiscal Court did not properly authorize intrafund budget transfers of appropriations from one line item to another in the same fund. As a result, the following cash transfers and intrafund budget transfers were not properly authorized:

- Eighteen of the 42 cash transfers processed, totaling \$286,050, were not documented in the minutes of the fiscal court meetings.
- Intrafund budget transfers totaling \$22,321 for the general fund.
- Intrafund budget transfers totaling \$130,235 for the road fund.
- Intrafund budget transfers totaling \$6,099 for the jail fund.
- Intrafund budget transfers totaling \$3,240 for the Local Government Economic Assistance (LGEA) fund.
- Intrafund budget transfers totaling \$13,000 for the solid waste fund.
- Intrafund budget transfers totaling \$1,097 for the parks and recreation fund.
- Intrafund budget transfers totaling \$8,164 for the Local Government Economic Development (LGED) fund.

This was due to the fiscal court believing that approving the cash transfers as needed was sufficient. The fiscal court did not have controls in place to ensure compliance with state law regarding the uniform system of accounts which requires all cash transfers and intrafund budget transfers to be properly authorized. By not properly authorizing cash transfers, the risk of misappropriation of assets is increased as cash could be transferred to non-county funds. Furthermore, failure to approve intrafund budget transfers prevents the fiscal court from making fully informed decisions on budgetary matters.

Strong internal controls over cash transfers are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, "[a]ll transfers require a court order."

We recommend the fiscal court implement stronger internal controls over the cash transfer process to ensure all cash transfers are approved by the fiscal court. We also recommend that all cash transfers and intrafund budget transfers be voted on specifically and clearly documented in the fiscal court minutes.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The fiscal court has been authorizing all transfers for years. Transfers will be properly authorized beginning immediately.

2018-004 The Owsley County Fiscal Court Did Not Budget, Record, Or Report Funds

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The fiscal court did not budget, record, or report three federal grant funds with expenditures totaling \$82,337. The grant funds not reported were the U.S. Department of Agriculture Community Facilities Grant program, the U.S. Department of Agriculture Teleworks Grant Fund, and the Appalachian Regional Commission Wolf Creek Metal Equipment Fund. The fiscal court maintained separate bank accounts for these funds, but did not include them in the original budget, or any amendment to the budget. In addition, the receipts and disbursements of the funds were not recorded on the ledgers or reported on the fourth quarter financial statement.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Owsley County Fiscal Court Did Not Budget, Record, Or Report Funds (Continued)

The county treasurer was new during fiscal year 2018 and did not realize these funds should be reported on the fourth quarter financial report. The fiscal court did not have controls in place to ensure all funds were reported. Failure to record the activity in these accounts on the fourth quarter financial report resulted in a materially inaccurate financial statement. Furthermore, the fiscal court was not in compliance with the uniform system of accounts.

Strong internal controls over the budgeting, recording, and reporting of funds is vital in ensuring that the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. In addition, the uniform system of accounts, as prescribed pursuant to KRS 68.210, requires counties to submit quarterly reports to their regulatory agency, the Department for Local Government (DLG). These reports should include all funds of the fiscal court, should include all activity within the funds, and should agree to the fiscal court's reconciled cash balances. The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[i]t is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document."

We recommend the fiscal court implement strong internal controls over the budgeting, recording, and reporting of funds to ensure financial reports accurately reflect the financial activity of the fiscal court. We further recommend the fourth quarter financial report prepared by the Owsley County Treasurer include all financial activity of the Owsley County Fiscal Court including any grant funds received and disbursed during the fiscal year.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The county did not budget any pass-thru agency funds but will do so in the future.

2018-005 The Owsley County Fiscal Court Did Not Have Controls Over Disbursements

The Owsley County Fiscal Court did not have sufficient controls over disbursements which allowed the following deficiencies to occur:

- Twelve disbursements tested, totaling \$399,708, did not have adequate supporting documentation.
- One project exceeding the county's bid threshold of \$20,000 was not advertised for bids.
- Three disbursements tested were not presented to the fiscal court.
- Sixteen of 72 disbursements tested were copies from vendors. Original invoices could not be located.
- Four disbursements tested were not paid within thirty days (KRS 65.140).
- One disbursement was paid by the statement balance.
- Two disbursements tested included finance charges due to being paid late.
- Two items were purchased using a debit card without any supporting documentation.
- Debt payments were not paid according to the amortization schedule: \$666 was not paid in 2018.
- There were overdraft charges totaling \$60 for the LGEA Fund bank account.
- There were negative balance fees of \$110 for the ARC Wolf Creek Metal Equipment Fund.
- There were overdraft fees of \$60 for the Parks and Recreation Fund.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Owsley County Fiscal Court Did Not Have Controls Over Disbursements (Continued)

The fiscal court failed to ensure procedures were in place to properly support disbursements paid from county funds. By not having good controls in place, errors were allowed to occur and were not detected. Weak controls also increase the risk of misappropriation of county funds. These conditions also lead to noncompliance with the regulations noted below.

KRS 424.260(1) states, in part, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.”

Under the authority of KRS 68.210, the state local finance officer is to prescribe minimum requirements for handling public funds. According to the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements are to be made by check only. Strong internal controls dictate policies and procedures be in place and working effectively to ensure county funds are expended on items to efficiently operate the county; operating disbursements have appropriate supporting documentation; and disbursements are properly coded prior to inclusion on the monthly claims list.

We recommend the fiscal court improve internal controls over disbursements to prevent these deficiencies from occurring. Such procedures should include ensuring all claims against the county are adequately supported, properly recorded, allowable, paid timely, and reviewed prior to payment. We also recommend the fiscal court follow proper bid laws and regulations by ensuring all applicable purchases and contracts be made in compliance with KRS 424.260.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The county has employed an additional finance officer to control disbursements as needed.

2018-006 The Owsley County Fiscal Court’s Purchase Order System Did Not Operate Correctly

The Owsley County Fiscal Court’s purchasing procedures were not operating correctly. Seventy-two disbursements tested totaling \$749,848 did not have a properly executed purchase order.

The county treasurer stated she was aware that purchase orders were not properly prepared or executed. By having weak internal controls over the purchase order system, the fiscal court assumes a higher risk of misstatement and fraud. In addition, purchases could be made that exceed available cash or the amount available in the budget for a line item. Furthermore, encumbrances are reported incorrectly on the quarter financial reports.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Owsley County Fiscal Court's Purchase Order System Did Not Operate Correctly (Continued)

Strong internal controls over disbursements are essential in ensuring disbursements are properly approved and recorded.

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 Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all fiscal courts and each fiscal court is responsible for ensuring their purchase order system is executed and working properly. Furthermore, this manual requires purchase requests to indicate the proper appropriation account number to which the claim will be posted.

DLG also highly recommends that fiscal courts accept the practice of issuing purchase orders for payroll and utility claims. Issuing purchase orders allows the county to actually see the cash requirements needed to cover a particular bill.

The *Owsley County Administrative Code* section 425.3 states, "[f]our copies of purchase order are prepared: one for the vendor, one for the agency requesting the items, and two for the Judge/Executive." In addition, section 425.5 states, "[a]fter payment is made, Judge/Executive files one copy of the purchase order in numerical sequence and the other copy alphabetically by vendor's name along with vendor's invoice."

We recommend the fiscal court strengthen controls over purchasing procedures by requiring disbursements to have purchase orders submitted prior to approval. We recommend the fiscal court comply with KRS 68.210 by requiring purchase orders to be completed for all disbursements. Purchase orders should include dates, amounts, account codes, and department head approvals to ensure sufficient appropriations are available within the amount of line items in the fiscal court's budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The purchase order system has operated functionally for the past years. The fiscal court will make the necessary adjustments.

2018-007 The Owsley County Fiscal Court Did Not Have Controls Over Recreation Center Receipts, Did Not Issue Receipts, And Did Not Make Daily Deposits

The fiscal court receives cash at the recreation center for events, room rentals, and concessions. Cash is maintained in cash drawers and turned over to the county judge/executive once per week. Receipts are not issued for transactions and money is only turned over to the fiscal court once per week.

The fiscal court did not have controls in place to ensure all recreation receipts have been accounted for and reported properly. Without a proper way to account for cash receipts, receipts could be collected and not be recorded or deposited intact with the fiscal court.

Good internal controls dictate that adequate controls exist over recreation center receipts and disbursements to ensure they are properly reported. In addition, 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 *County Budget Preparation and State Local Finance Officer Policy Manual*. This manual states, "[d]aily deposits intact into a

**OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Owsley County Fiscal Court Did Not Have Controls Over Recreation Center Receipts, Did Not Issue Receipts, And Did Not Make Daily Deposits (Continued)

federally insured banking institution.” It also states, “[p]re-numbered three-part receipt forms should be issued for all receipts. Original to be given to payer, copy to be attached in sequential order to daily cash check-out sheet or daily deposit record, and copy to remain in file.” Also, good internal controls dictate receipts are accounted for daily and all collections are deposited daily. Any discrepancies between the deposit and daily checkout sheet should be documented.

KRS 64.840(1) states, in part, “all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer[.]”

We recommend the fiscal court implement internal controls to ensure compliance with KRS 64.840(1) and the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* by ensuring pre-numbered receipts are issued for all transactions and all receipts are deposited daily.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Deposits will be made bi-weekly. Many days there is less than \$5 received.

Auditor’s Reply: As cited in the finding, the Department for Local Government’s County Budget Preparation and State Local Finance Officer Policy Manual requires daily deposits. This requirement is not dependent upon the amount collected.

2018-008 The Owsley County Fiscal Court Does Not Have Controls Over Garbage Collections And Gravel Sale Receipts

The fiscal court receives payments for garbage collections and gravel sales. Collections can be received by the county treasurer, finance officer, or janitor. Manual receipts are issued to customers. Solid waste receipts are posted to customer accounts by the treasurer through solid waste collection software. Gravel sale receipts are issued to customers in order for them to pick up gravel from the county road garage. During the month of June 2018, there was a shortage in cash receipts of \$480 when comparing solid waste collection reports to bank deposits. Further testing for the month of March 2018 showed a variance of \$18. The amount could not be detailed due to the fiscal court not maintaining all collection records. The county treasurer is also responsible for performing bank reconciliations.

The fiscal court did not have controls in place to ensure collections were being properly recorded. Receipts could not be accounted for or recorded properly.

Good internal controls dictate that adequate controls exist over receipts to ensure they are recorded and deposited properly.

We recommend the fiscal court separate the duties of receiving payments, posting to customer accounts, preparing deposits, and preparing bank reconciliations. If segregation of duties is not feasible due to lack of funds, the county should implement and document compensating controls to offset this control weakness.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: The fiscal court has hired an additional employee to better control all collections and receipts.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Owsley County Fiscal Court Failed To Establish Internal Controls Over Payroll

The lack of internal controls over payroll resulted in the following issues:

- Five of the 16 employees tested had withholdings treated as pre-tax deductions that should have been after-tax deductions, which resulted in underreported W-2 wages.
- Personnel files could not be found for six of the 16 employees tested.
- The test of employee withholdings resulted in six authorizations not being located.
- Eleven of 23 employees tested had vacation leave balances that exceeded the limit set by the County Administrative Code of 240 hours.
- Two employees were issued two W-2s with differing social security numbers.
- The DES Director receives a \$50 expense allowance per month.
- The DES Director and the 911 Coordinator were not required to maintain timesheets in any capacity.
- The treasurer and finance officer's timesheets could not be located when initially requested. The treasurer did provide timesheets at a later date, but it could not be confirmed that these had been completed during the specified pay period tested.
- Employees holding two jobs within the county, generally as a Road Laborer and a Solid Waste Worker, are not maintaining adequate timesheets showing hours worked for each position.
- None of the employees' timesheets tested were reviewed or signed by supervisors of departments.
- Employees with two different job titles are accruing double leave balances (including sick and vacation leave) in the payroll system for both positions each month.

The lack of internal controls and adequate oversight have allowed issues with the payroll process to go unnoticed. The lack of controls over payroll have allowed numerous errors to occur. Additionally, sufficient supporting documentation for payroll has not been maintained and numerous issues of non-compliance were noted with regard to the Owsley County Administrative Code and Kentucky Revised Statutes (KRS). Strong internal controls over payroll are vital in ensuring the payroll amounts are calculated and accounted for properly.

The Owsley County Administrative Code, Section 350.2 states, “[e]ach employee will receive one day annual leave for each complete month worked and may accumulate to a maximum of thirty days.”

The Owsley County Administrative Code, Section 350.3 states, “[e]ach employee will receive one sick day per month with no maximum on days each could accumulate.”

KRS 337.320(1) states, “[e]very employer shall keep a record of: (a) [t]he amount paid each pay period of each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.”

Good internal controls dictate that timesheets be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

KRS 64.710 states, “[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly.”

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Owsley County Fiscal Court Failed To Establish Internal Controls Over Payroll (Continued)

We recommend the fiscal court:

- Strengthen internal controls over the payroll process.
- Comply with KRS 337.320 by requiring timesheets or timecards be maintained for all employees; these should be signed by the employees and then reviewed and signed by the employees' immediate supervisors.
- Ensure employees holding two positions within the county accrue leave at the rate listed in the Owsley County Administrative Code.
- Ensure all forms for withholdings or any other personnel documents be maintained in the employees' file.
- Ensure all employees' vacation leave balances are in compliance with the Owsley County Administrative Code.
- Discontinue the use of the expense allowance for the DES Director per KRS 64.710.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Will be corrected.

2018-010 The Owsley County Fiscal Court Did Not Maintain And Complete An Accurate Capital Asset Schedule In Order To Comply With Regulatory Requirements

The schedule of capital assets and infrastructure for the audit period did not recognize all asset purchases that occurred throughout the year. The county treasurer is responsible for maintaining the schedule. She makes additions and deletions based on the time of purchase or when item is taken out of the county's name. The fiscal court's schedule of capital assets was materially misstated by \$131,982. The fiscal court's schedule of capital assets for June 30, 2018, was understated/overstated as follows:

- \$113,482 for three roads that were resurfaced and not added to infrastructure.
- Vehicle valued at \$18,500 that was reported stolen in fiscal year 2018 was not deleted.

The fiscal court lacks adequate controls over reporting of capital assets. The county treasurer also stated she compared her listing to the insurance listing but did not perform an actual inventory of equipment. By having weak internal controls over capital assets, assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection resulting in an understatement in infrastructure of \$113,482 and an overstatement of vehicles of \$18,500.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting, to protect assets from misappropriation, and to ensure accurate insurance coverage. 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 Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. An annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented." Furthermore, the manual states "[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by the authorized personnel and documented accordingly."

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-010 The Owsley County Fiscal Court Did Not Maintain And Complete An Accurate Capital Asset Schedule In Order To Comply With Regulatory Requirements (Continued)

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government's requirements. Procedures should be implemented that will identify and track additions and deletions for the purpose of the schedule of capital assets with adequate supporting documentation and any additions or deletions should be reconciled to the department inventory records annually for insurance coverage.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Capital asset schedule will be maintained regularly.

2018-011 The Owsley County Fiscal Court Did Not Properly Report Encumbrances On The Fourth Quarter Financial Report

Encumbrances were not properly reported by the Owsley County Fiscal Court on the fourth quarter financial report. Encumbrances are funds the fiscal court has committed prior to the actual disbursements. The amounts reported as encumbrances did not include all amounts committed as of June 30, 2018, since purchase orders are not properly issued for all funds committed.

The county treasurer stated she was aware that purchase orders were not being prepared correctly or entered into the computer. The fourth quarter financial report misstated the unencumbered cash balance as of June 30, 2018, which helps management and other users determine the financial position of the fiscal court.

Strong internal controls are vital to ensure compliance with requirements governing fiscal court disbursement procedures and to ensure the fourth quarter financial report contains all of the required information. In addition, according to KRS 68.360(2), "[t]he county judge/executive shall, within (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." Additionally, 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 Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires this information to be presented on the quarterly financial reports.

We recommend the fiscal court add controls to ensure encumbrances are reported properly on the front page of the fourth quarter financial report in order to accurately disclose unencumbered cash balances for each fund. In addition, purchase orders should be issued for all funds committed so all encumbrances are reported on the quarterly financial report.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Will be corrected.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-012 The Owsley County Fiscal Court Did Not Prepare An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)

The Owsley County Fiscal Court prepared a Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2018, as required by the Department for Local Government (DLG) and Uniform Guidance. Total federal disbursements per the SEFA totaled \$30,360. However, the SEFA did not include the Wolf Creek Metal Expansion Program federal disbursements of \$24,659, the Community Facilities Grant Program federal disbursements of \$50,000, and the Disaster and Emergency Services Grant federal disbursements of \$7,678. In addition, the fiscal court does not have policies and procedures in place for SEFA preparation.

The county treasurer did not include these disbursements when preparing the SEFA. Because the fiscal court did not include the federal disbursements for the Wolf Creek Metal Expansion Program, the Community Facilities Grant Program, and the Disaster and Emergency Services Grant on the SEFA, the SEFA was inaccurate.

Good internal controls dictate the fiscal court prepare an accurate SEFA and include total federal awards expended for each individual federal program. Completeness and accuracy are critical to the SEFA preparation. In addition, Uniform Guidance states that the auditee must prepare a SEFA for the period covered by the auditee's financial statements, which must include the total federal awards expended as determined by 2 CFR 200.502.

2 CFR 200.302(b)(1) states, "[i]dentification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and the name of the pass-through entity, if any." This information enables the auditee to reconcile amounts presented in the financial statement to related amounts in the SEFA.

2 CFR 200.508 states, "[t]he auditee must: (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements."

2 CFR 200.510(b) states, in part, "Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended."

We recommend the Owsley County Fiscal Court develop policies and procedures for SEFA preparation, as well as strengthen internal controls over the preparation in order to ensure its completeness and accuracy and compliance with reporting compliance requirements.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: An accurate SEFA will be prepared.

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-013 The Owsley County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report

The fiscal court's fourth quarter financial report did not accurately reflect the approved budget amounts and did not include all payroll disbursements for the solid waste fund and the parks and recreation fund. The following errors occurred:

- The fourth quarter financial report included a budgeted receipt of \$50,000 for a USDA grant for the solid waste fund. The fiscal court's approved budget did not have a budget line item for the \$50,000 receipt for the solid waste fund.
- The fourth quarter financial report did not include disbursements totaling \$6,440 for salaries for the solid waste fund and \$1,121 for payroll disbursements for the county's portion of social security for the parks and recreation fund.

These misstatements are a result of not having internal controls over the financial reporting process. The fiscal court failed to recognize the importance of strong internal controls over reporting financial information, and instead relied on a single employee without sufficient oversight. The errors were not detected because the fourth quarter financial report was not reviewed by another employee to ensure accuracy.

Because of not having internal controls in place, the amounts reported on the quarterly financial report were misstated and did not agree with the actual budgeted amounts and the actual transaction amounts. Also, not having internal controls in place resulted in disbursements not being included on the financial report reducing the usefulness of the financial reports to the public as well as to the fiscal court. The fiscal court needs accurate financial information to oversee the financial condition of the government as well as to prepare future budgets.

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. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to, "[p]repare a quarterly financial statement for the State Local Finance Officer." The manual provides a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements and total available in each line item. In addition, the manual provides a chart of accounts and states, "[a]ll counties must use the account numbers from the chart of accounts." Strong internal controls over financial reporting are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. These controls should include an individual independent of the accounting function reviewing the financial reports for compliance with DLG reporting requirements.

We recommend the fiscal court implement internal controls over the financial reporting process. Internal controls such as a thorough review of quarterly financial reports by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing budgeted amounts reported to the original budget and budget amendments approved by DLG. This review should also include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly financial reports and bank reconciliations, agreeing bank balances per the bank statements to the quarterly financial reports and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Ledgers

OWSLEY COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-013 The Owsley County Fiscal Court Did Not Accurately Report Financial Information On The Fourth Quarter Financial Report (Continued)

should also be reviewed to verify transactions have been recorded and posted to the correct account codes. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can implement its internal control system, and help ensure accurate financial reporting.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Will be corrected.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM**

OWSLEY COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

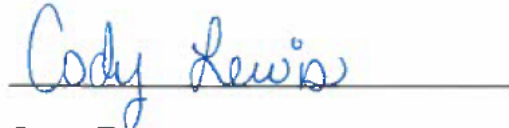
OWSLEY COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer