



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

### **Harmon Releases Audit of Pike County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Pike County Fiscal Court for the fiscal year ended June 30, 2017. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Pike County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court’s financial statement did not follow this format. The fiscal court may also present its financial statement in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

The Pike County Fiscal Court’s accounting records are incomplete. The Pike County Treasurer failed to record internal transfers as they were approved by the fiscal court. The treasurer also failed to perform bank reconciliations during the year resulting in incorrect cash balances. Because of the significance of this matter sufficient appropriate audit evidence was not able to be obtained to provide a basis for an audit opinion on the financial statement. Accordingly, the audit report presents a disclaimer of opinion.

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

The audit contains the following comments:

**The fiscal court did not perform bank reconciliations each month:** This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The Pike County Treasurer did not complete bank reconciliations for the fiscal year ended June 30, 2017. Additionally, the fiscal

court did not perform sufficient oversight or implement internal controls to ensure reconciliations were completed monthly.

According to the county treasurer, the fiscal court had problems implementing new accounting software in 2016, which delayed the entry of certain transactions. Without these transactions, bank reconciliations could not be completed. Additionally, the fiscal court failed to establish appropriate oversight for the county treasurer's reconciliation activities. The fiscal court did not establish relevant review procedures to determine if the county treasurer was submitting complete and accurate reconciliations monthly.

The fiscal court's failure to establish a review of the county treasurer's reconciliations resulted in incorrect reporting of the county's financial position for the fiscal year ended June 30, 2017. As a result, the fiscal court also did not have accurate financial information in order to plan for the subsequent fiscal year. Furthermore, as a result of this failure to complete bank reconciliations and provide complete and accurate financial information, we were unable to provide an opinion on the financial statement of the Pike County Fiscal Court for the fiscal year ended June 30, 2017.

KRS 68.210 states, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer[.]" The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* has established minimum requirements for officials handling public funds, which include the preparation of monthly bank reconciliations that include the bank balance and a listing of all outstanding reconciling items (deposits in transit, outstanding checks, investments, etc.). Good internal controls dictate sufficient internal controls be put into place to ensure accurate and complete financial reconciliations and reporting.

We recommend the fiscal court provide sufficient oversight and implement internal controls to ensure bank reconciliations are prepared by the county treasurer and submitted for review by the second court meeting of each month.

*Judge/Executive's Response: Same as last year - Treasurer is working on getting them up to date and agrees to submit them by the second court meeting each month.*

**The fiscal court did not record transfers as they occurred in the accounting software:** This is a repeat finding and was included in the prior year audit report as Finding 2016-004. The Pike County Treasurer did not record interfund transfers as they were approved by the fiscal court, for the year ended June 30, 2017. The fiscal court did not exercise appropriate oversight to ensure the execution of transfers.

According to the county treasurer, the fiscal court had problems implementing new accounting software during 2016, which delayed bank reconciliations and interfund transfers. As a result, the fiscal court did not have a complete set of accounting records during the year. Because transfers were not appropriately recorded in the accounting software, cash balances were incorrect and the fiscal court could not properly manage their budgets and cash flow.

As a result of the lack of complete and accurate accounting records, we were unable to provide an opinion on the financial statement of the Pike County Fiscal Court for the year ended June 30, 2017.

KRS 68.020(4) requires the county treasurer to “keep an accurate detailed account of all money received and disbursed by him for the county” and “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.” Additionally, county treasurers are required by the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* to prepare financial reports that include all receipts, claims allowed, and cash balances. Furthermore, good internal controls require sufficient oversight from the governing body to ensure all financial transactions are recorded correctly and timely.

We recommend the fiscal court implement sufficient oversight and internal controls to ensure financial reports prepared by the county treasurer include all financial activity, and that interfund transfers are recorded in the accounting records as they are approved and occur. The fiscal court should require monthly reporting by the county treasurer that is reviewed for accuracy.

*Judge/Executive’s Response: Same as last year - Treasurer is working on getting them up to date and agrees to submit them by the second court meeting each month.*

**The fiscal court did not pay invoices presented to the court within 30 days of receipt:** This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Pike County Fiscal Court did not pay nine invoices out of the selection tested within 30 days.

According to the county treasurer, the fiscal court sometimes has to wait for money to come in. They also pay only once a month so some of the invoices could have been presented after the cut-off for one meeting and it may be five or six weeks until the next payment meeting. The fiscal court lacks sufficient oversight and policies and procedures to ensure bills are paid timely. As a result, some vendors were paid outside of the 30-day window.

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 performance of improper invoicing by the vendor or by the vendor’s subcontractor.”

We recommend the fiscal court implement sufficient oversight and policies and procedures to ensure invoices are paid timely.

*Judge/Executive’s Response: Same as last year - We try to pay all bills each month and timely. We pay once a month.*

**The fiscal court did not submit a fourth quarter report timely to the Department for Local Government within the required timeframe:** This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The fiscal court did not submit a timely and accurate fourth quarter financial statement to the Department for Local Government (DLG). Due to the

lack of internal control over bank reconciliations and internal transfers, many material transactions were not captured in the accounting system at the time the fourth quarter financial statement was due.

According to the county treasurer, the fiscal court had problems implementing new accounting software in 2016, which delayed reporting.

Failure to submit these reports accurately and timely significantly increases the risk of misappropriation of assets and prevents DLG from knowing the financial position of the county. Additionally, when quarterly reporting is not accurate, the fiscal court is not properly informed and cannot manage the county properly.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to submit quarterly reports to the Department for Local Government by the 30th day following the close of each quarter.

We recommend the fiscal court implement sufficient oversight and policies and procedures to ensure the county treasurer prepares and presents accurate quarterly reports for review and to ensure the quarterly reports are submitted timely in the future.

*Judge/Executive's Response: Treasurer is trying to get caught back up.*

**The county treasurer did not present an annual settlement to the fiscal court within the time period required by state law:** The county treasurer did not present an annual settlement to the fiscal court within the time period required by state law. The county treasurer said she was unable to present an annual settlement timely because she did not have complete accounting records.

KRS 68.020(5) requires an annual settlement to be presented to the fiscal court within 30 days after the close of the fiscal year.

Failure to submit the annual settlement on a timely basis increases the risk of misappropriation of assets and prevents the fiscal court having timely, accurate financial information that could have influenced decisions regarding the county's financial condition.

We recommend the fiscal court implement sufficient oversight and policies and procedures to ensure the county treasurer prepares and presents an accurate annual settlement for review and to ensure the annual settlements are submitted timely in the future.

*Judge/Executive's Response: Treasurer is trying to get caught back up and back on schedule.*

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

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