



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Bourbon County Fiscal Court for the fiscal year ended June 30, 2018. 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 Bourbon County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court’s financial statement did not follow this format. However, the fiscal court’s financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

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

The audit contains the following comments:

The Bourbon County Fiscal Court exceeded the budget in the debt service category in the jail construction fund for the fiscal year ending June 30, 2018, in violation of KRS 68.300: This is a repeat issue and was included in a similar finding in the prior year audit report as Finding 2017-002. During our audit, we noted that after making audit adjustments to include all activity that occurred in the jail construction fund for the fiscal year, the debt service disbursement category exceeded the budget. The fiscal court budgeted zero but spent \$151,850. The fiscal court budgeted jail construction fund debt payments under the protection to persons and property expense category instead of the debt service expense category. Not properly monitoring the budget can cause the fiscal court to overspend the budget categories. KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not

within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any fiscal court warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.” We recommend the Bourbon County Fiscal Court review the budget to ensure that debt related expenditures are included in the debt service expense category. We also recommend the Bourbon County Fiscal Court monitor and prepare a budget amendment in any future instance of possible budget overage.

County Judge/Executive’s Response: The Bourbon County Fiscal Court will not Exceed The Budget In The Debt Service Category In The Jail Construction Fund in the future.

The Bourbon County Fiscal Court is not following its personnel vacation policy: This is a repeat finding and was included in the prior year audit report as Finding 2017-003. Fiscal court employees can accumulate vacation throughout the year. For Fiscal Year 2018, the fiscal court had a policy stating that for vacation time, a maximum of 10 days were allowed to be accumulated. During our review of the vacation (leave) schedule for fiscal court personnel, the auditors noted that several employees had accumulated vacation balances in excess of 10 days. Furthermore, the auditors noted that two employees who retired during the current fiscal year were paid out for accumulated vacation in excess of 10 days’ pay. Employee A had accumulated 292 hours of vacation upon retirement. Employee A was paid a lump sum of \$6,334 in gross pay on November 3, 2017, for these accumulated vacation hours. However, according to the policy in place at the time, Employee A was only entitled to 10 days’ worth of pay, or \$1,735 of gross pay. In total, Employee A was overpaid by \$4,599 in gross pay. Employee B had accumulated 1,362 hours of vacation upon retirement. Beginning on December 15th, 2017, Employee B was paid for this vacation in 10 bi-weekly checks of \$2,001, for a total payout of \$20,011. However, according to the policy in place at the time, Employee B was only entitled to 10 days’ worth of pay, or \$2,001. In total, Employee B was overpaid by \$18,010 in gross pay.

The Bourbon County Fiscal Court did not follow its written personnel vacation policy. Also, the county judge/executive approved these payments to Employee A and B and was one of the two check signers on the payments. The auditors did not receive any documents showing prior approval of these payments by the fiscal court. The Bourbon County Fiscal Court was not in compliance with their written personnel vacation policy. By not following the policy, the fiscal court overpaid two employees by a total of \$22,609. The Bourbon County Fiscal Court had a written personnel policy stating that for vacation time, only a maximum of 10 days will be allowed to be accumulated and carried over to the next year and the maximum to be paid at termination is 10 days.

We recommend the county judge/executive not approve any transactions that are not in accordance with the Bourbon County Fiscal Court policy. We further recommend the Bourbon County Fiscal Court seek to recover the \$22,609 in overpayments of gross pay to Employees A and B.

County Judge/Executive’s Response: The Bourbon County Fiscal Court (the “Court”) had not followed its written policy with regards accumulated vacation days and the payment of retired employees accumulated vacation days since before the enactment of the said policy by the Court on 3/9/1989. Further, given the small number of Court employees, many employees felt that they could not use the said vacation days due to lack of coverage. Court employees were under the

belief that the nearly three decades practice of the Court paying accumulated vacation was in fact the policy. The Court would have been unjustly enriched had they not paid employees for accumulated vacation days, after it, previous Court's and previous County Judge Executives had carried out the practice during the entire term of both employees who retired in 2018. As soon as I realized there was an issue, I worked with the Court and elected officials to pass an ordinance and to implement a new administrative code to address the issue and codify the practice that the Court had used over the last three decades.

The Bourbon County Fiscal Court's capital asset schedule was inaccurate: During the fiscal year ending June 30, 2018, the Bourbon County Fiscal Court's renovations on the detention center were substantially completed, but were not properly included on the capital asset schedule as building improvements. As of June 30, 2018, the total value of these building improvements was \$7,029,710. The Bourbon County Fiscal Court also did not include \$637,646 in infrastructure assets on the capital asset schedule. This was due to an oversight when preparing the capital asset schedule. The fiscal court's capital assets were not accurately reported as of June 30, 2018. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long-range planning for property placement. We recommend the fiscal court maintain an up to date capital asset schedule and ensure that these records are accurate throughout the fiscal year.

County Treasurer's Response: The Bourbon County Fiscal Court Capital Asset Schedule will be updated 2/6/2019.

The Bourbon County Fiscal Court did not properly record all activity related to the jail construction fund: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The fiscal court did not prepare the financial statement in accordance with appropriate accounting principles. During our audit, we noted that the fiscal court has a jail construction fund to record activity related to the jail expansion. On the fourth quarter report, the fiscal court recorded \$3,364,763 as refunding and improvement bond proceeds. However, these funds were received in the prior year, and should have been recorded as a prior year carryover. An additional \$992,373 in bond proceeds received in the prior year should have also been recorded as a prior year carryover, but were not accounted for on the fourth quarter report. The fiscal court also failed to record \$19,515 in interest earned and an interest payment of \$26,900. These misstatements resulted in material adjustments to jail construction receipts and the jail construction fund balance. The fiscal court did not properly record activity in the jail construction fund for bond related bank accounts. Certain adjustments were required to be made to the account records subsequent to the start of the audit process. A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare the financial statement. We recommend the Bourbon County Fiscal Court apply the appropriate accounting principles required to prepare the financial statement.

County Treasurer's Response: The Jail Construction Fund will be properly reported.

The Bourbon County Fiscal Court's debt balances per the lead schedule do not agree to the long-term liabilities on the fourth quarter report: Debt balances per the fiscal court's lead schedule did not agree to the fourth quarter report. Total principal outstanding per the lead schedule is \$10,713,662. Total principal outstanding per the fourth quarter report is \$10,552,970, a difference of \$160,692. Total interest outstanding per the lead schedule is \$2,848,332. Total interest outstanding per the fourth quarter report is \$2,871,481, a difference of \$23,149. The long-term liabilities on the fourth quarter report were not accurately reported. The largest difference was due to the omission of the body scanner lease from the fourth quarter report. Not having the correct debt amounts on the fourth quarter report makes the fiscal court appear to have less debt than it actually does. Proper internal control requires that the fourth quarter report and other financials be as accurate as possible. We recommend the Bourbon County Fiscal Court ensure that actual principal and interest balances agree to the fourth quarter report.

County Treasurer's Response: The Long-Term Liabilities report will be updated on 2/6/2019.

The Bourbon County Fiscal Court's payroll reports prepared by the service organization are not checked for accuracy: The fiscal court contracts with a service organization to process payroll bi-weekly. This third party calculates amounts due employees, prepares payroll tax reports, and submits payments for these taxes. The fiscal court transfers funds to the payroll revolving account for payroll and payroll taxes. The service organization sweeps funds from the payroll revolving account into their bank account, where funds are swept for federal and state taxes due and checks are issued for local taxes. During our review, we noted adequate controls were not in place to ensure the accuracy of payroll tax reports prepared by the service organization. While the bi-weekly payroll processed by the service organization is checked by the treasurer and her staff, payroll tax returns prepared for federal, state, and local taxes are not compared to payroll reports to ensure accuracy. In addition, the fiscal court does not receive documentation when tax payments are made from the service organization's bank account. Therefore, they would not be aware if payments were accurate and made timely.

Payroll tax returns prepared by the service organization are not being compared to payroll tax reports due to time constraints. The fiscal court has not requested documentation be sent to them when payroll tax payments are made because the service organization is responsible for timely submissions. If payroll tax payments are not submitted timely or submitted incorrectly, the fiscal court may incur penalty and interest. Proper internal controls dictate that the fiscal court cannot abdicate their responsibility to make timely and accurate payments to the Internal Revenue Service (IRS) and other tax agencies to their service organization. We recommend the fiscal court ensure payroll tax reports prepared by their service organization agree to payroll reports. In addition, the fiscal court should require the service organization to provide documentation that tax payments were accurate and submitted timely.

County Treasurer's Response: The payroll company, [Name Redacted], has been notified on 2/6/2019 to send quarterly reports starting with the 12/31/18 quarter so we may check for accuracy. These reports will be checked quarterly for accuracy and filed in the Treasurer's office.

The Bourbon County Fiscal Court's fourth quarter report contained errors: While reviewing the fourth quarter report, we noted that the revenue listed for account 77-4543 (county ag

investment program) was incorrectly listed as \$239,321. The revenue, per the fiscal court's ledger, was correctly recorded as \$329,321. As a result, revenue was understated by \$90,000. This error also impacted the cash balance for the phase 1 fund on the financial cover sheet, where the cash balance is listed at two different amounts. The cash balance is both incorrectly listed as \$15,662, and correctly listed as \$105,662.

Revenue and cash balances per the fourth quarter report were not agreed to the ledger prior to submission of the fourth quarter report.

Revenue on the fourth quarter report for the phase 1 fund was understated by \$90,000, and the cash balance was understated by the same amount.

Proper internal controls require that the fourth quarter report and other financials be as accurate as possible.

We recommend the Bourbon County Fiscal Court ensure that revenue and cash balances per the fourth quarter report agree to their ledger.

County Treasurer's Response: Bourbon County Fiscal Court will ensure that revenue and cash balances per the 4th Quarter Report will agree to the ledger.

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

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