



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Washington 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 Washington 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 Washington County Fiscal Court did not maintain proper records for the justice center corporation fund, or include the debt on the quarterly report: The fiscal court did not have proper records for the justice center corporation. The fiscal court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for the fiscal year ended June 30, 2017, for the justice center corporation’s bond fund. The fiscal court failed to include this bond fund debt in the debt section of the county’s quarterly report. The official does not agree with the responsibility to prepare and maintain these records.

As a result, the fiscal court is unable to keep track of the receipts and disbursements of the justice center corporation’s fund. The fiscal court is also unable to accurately assess the level of debt for

which it is responsible. The fiscal court is financially accountable and legally obligated for the debt of the justice center corporation, and this entity is reported as an unbudgeted fund of the fiscal court. As the fiscal court is financially accountable and legally obligated for the debt of the justice center corporation, the related debt must be included as part of the county's debt schedule.

We recommend the fiscal court prepare and maintain ledgers for the receipts and disbursements of the justice center corporation's bond fund. We also recommend the fiscal court prepare monthly bank reconciliations and an end-of-the-year financial statement for the justice center corporation's fund. We further recommend the fiscal court include the debt for the justice center corporation on its quarterly financial reports.

County Judge/Executive's Response: The debt of the Justice Center is not a debt of Washington County Fiscal Court. Therefore, we are not obligated to keep track of receipts and disbursements. All Statements received from the AOC regarding the Justice Center are presented to the auditor for review.

Auditor's Reply: The debt is managed by the Justice Center Corporation, which was established by the fiscal court and is reported as an unbudgeted fund of the county. The fiscal court approved the revenue bond and a lease agreement with AOC for this property, which further identifies the county as the responsible party. Therefore, the fiscal court is financially accountable and legally obligated for this debt, and the fiscal court should maintain appropriate records for all activities.

The Washington County Fiscal Court did not follow proper procedures over disbursements: Proper procedures over disbursements would dictate adequate supporting documentation and original invoices. Auditors randomly selected disbursements to test and found the following:

- Invoices were not paid within 30 days of receipt. Of 25 items tested, three were not paid within 30 days of receipt.
- Purchase orders were not completed for the general, road, or jail fund. Of the 62 items tested, 58 did not have purchase orders completed.
- The Chevrolet trucks purchased were 2017 vehicles, while the state price contract agreement indicated the contract was for 2016 vehicles.

Insufficient records and lack of management oversight resulted in noncompliance with state regulations over disbursements.

Noncompliance with KRS 65.140 could result in penalties and interest being assessed to the county. The county is not in compliance with Department for Local Government (DLG) regulations that purchase orders be issued for every purchase. The county is also not in compliance with state contract purchasing guidelines by purchasing vehicles that do not match the state contract. Per KRS 65.140(2), "[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." KRS 65.140(3) states, "[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30)

working days which followed receipt of vendor's invoice by the purchaser." Per DLG regulations and the county's administrative code, purchase orders should be issued for every purchase.

We recommend the county maintain the original copy of all paid invoices, complete purchase orders for all purchases, pay timely within 30 working days, and ensure purchases have been properly approved and in compliance with budget and legal requirements. We also recommend the county obtain copies of the proper master agreement when purchasing items under the state price contract.

County Judge/Executive's Response: Some invoices cannot be paid within 30 days, due to the timing of the fiscal court meetings in relation to the date the invoice was received. Some invoices are not paid within 30 days simply because they are incorrect and the clarification of the invoice extends the remittance date.

All departments have been instructed to obtain purchase orders for every purchase when possible. However, certain functions of the county necessitate that purchases be made outside of the regular office hours therefore making it impossible to obtain purchase orders.

Vehicles were purchased in 2016 from the dealer that had the state price contract for 2016.

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

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