



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

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Bourbon County Fiscal Court for the fiscal year ended June 30, 2014. State law requires annual audits of county fiscal courts.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in cash and cash equivalents of the Bourbon County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court 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 non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The County should accurately report debt on the quarterly financial statement. The debt schedules presented with the prior year and current year 4th Quarter Reports, which also serve as the County's year-end financial statements, materially misstated debt obligations.

- Misstatement of \$322,442 Debt On Prior Year Financial Statements

On June 23, 2013, the County entered into a Bank Fixed Rate Lease in the amount of \$322,442 for the purpose of leasing fire trucks. This debt was not recorded in the prior year audit due to its omission on the County's 4th Quarter Report, resulting in a prior period audit adjustment in the amount of \$322,442.

- Misstatement of \$426,115 Debt On Current Year Financial Statements

The Bank Fixed Rate Lease mentioned above was reported on the County's current year 4th Quarter Report, however, the principal amount outstanding at June 30, 2014 was overstated. The amount of misstatement on the 4th Quarter Report at June 30, 2014 was \$31,115.

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$120,000 for the purpose of renovating the jail. This debt was not reported on the County's 4th Quarter Report. The principal amount outstanding and amount of misstatement on the 4th Quarter Report at June 30, 2014 was \$120,000.

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$275,000 for the purpose of renovating the courthouse. This debt was not reported on the County's 4th Quarter Report. The principal amount outstanding and amount of material misstatement on the 4th Quarter Report at June 30, 2014 was \$275,000.

An accurate debt schedule is necessary for Department of Local Government reporting requirements. Strong internal controls over outstanding debt and liabilities ensure accurate financial reporting. We recommend that the County ensure that correct amounts are shown on all financial statements presented to the public and to the Department of Local Government. We further recommend that the County review all aspects of the Quarterly Reports before signing and submitting.

Michael R. Williams, Bourbon County Judge Executive's response: No response provided.

The County should strengthen controls over payroll. The County contracts a service organization to process payroll biweekly. This third party calculates amounts due employees and withholdings payable to various entities, processes checks and returns them to the County Judge/Executive for signatures and distribution. The County then transfers funds to the Payroll Revolving Account and to the Payroll Fringe Account. Adequate controls were not in place to ensure the accuracy of the service organization's reports, evidenced by the following deficiencies:

- Bank reconciliations for the Payroll Revolving Account and the Payroll Fringe Account were not being prepared on a monthly basis and were not being reviewed by a person independent of preparation.
- The Payroll Revolving Account was not being zeroed out, having an ending cash balance of \$19,213. This balance fluctuated monthly and could not be explained.

All reports to and from the service organization should be reviewed for accuracy. The Payroll Revolving Account and the Payroll Fringe Account should be reconciled monthly in order to resolve any discrepancies, errors, or omissions that may arise. These reconciliations should be reviewed by someone other than the person who prepares them. All payroll deposits into

clearing accounts should agree to the total amount of the payroll checks issued for each payroll, resulting in zero ending cash balances at the end of each month.

We recommend that the County strengthen controls over payroll by reviewing all payroll reports, timely preparing bank reconciliations for all payroll accounts, and reconciling each revolving account to zero on a monthly basis.

Michael R. Williams, Bourbon County Judge Executive's response: Effective 7/1/15, a new payroll revolving fund was created so we have a definite balancing number.

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

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