



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Magoffin County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Magoffin County Fiscal Court for the fiscal year ended June 30, 2014. 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 Magoffin 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 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 did not maintain capital asset schedules in accordance with regulatory requirements. The county did not maintain a complete and accurate capital asset schedule for the fiscal year ending June 30, 2014. The Department for Local Government requires counties to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.) and maintain a listing of capital assets to be provided to auditors for inclusion in the audit report. This list should include all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded.

We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate. Additionally, we recommend the county perform physical inventories periodically to further ensure the accuracy and completeness of capital asset schedules.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 9.

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. By not timely presenting an annual settlement, the fiscal court did not have timely financial information that could have influenced decisions regarding the county's financial condition. Had the county treasurer reviewed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the annual settlement may have been presented timely. 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. The annual settlement was presented to the fiscal court on November 10, 2014. We recommend the county treasurer present an annual settlement to the fiscal court within 30 days after the close of the fiscal year as required by KRS 68.020(5).

Official's Response: Recommendation accepted.

The county treasurer did not monitor bank account cash balances which caused the road fund bank account to have a negative balance. The county treasurer did not monitor bank account cash balances which caused the Road Fund account to have a negative balance of \$9,061 at fiscal year end. By not monitoring the cash balance of the Road Fund, the county is in noncompliance with KRS 68.020. Had the county treasurer performed her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the negative balance in the Road Fund would not have occurred. One of the duties listed requires the county treasurer to countersign checks only when the following three conditions exist: (1) claim is reviewed by the fiscal court, (2) sufficient fund balance, and adequate cash in the bank to cover the check, and (3) adequate free balance in a properly budgeted appropriation account to cover the check. We recommend the county treasurer monitor the cash balance in each fund and perform her duties as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* to prevent noncompliance with KRS 68.020.

Official's Response: Ok.

The county's administrative code does not address commuting mileage or the personal use of a county vehicle. The county judge/executive's personal use and commuting mileage of a county vehicle are not being reported as compensation or employee benefit on form W-2 wage and tax statement. The maintenance and fuel costs associated with the personal use of a county vehicle increase costs to taxpayers. The county's administrative code does not address the use of a county vehicle for personal use or commuting travel. Therefore, we were unable to determine if the county judge/executive was authorized to use a county vehicle for any reason other than business related to the county. Personal use of public resources is permitted if the entity has

approved such use; however, personal use should be reported as compensation on employees' form W-2 wage and tax statements. Internal Revenue Code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

We recommend the fiscal court establish internal controls over county vehicles by implementing the following:

- Report personal use and commuting mileage for county vehicles as compensation/employee benefit on W-2 wage and tax statements in accordance with IRS regulations. Several methods can be used to determine the vehicle use that is taxable income to the employees, including the cents-per-mile rule, the lease value rule, and the commuting rule.
- Every employee and every department that has county vehicles should maintain vehicle logs. The logs should include, at a minimum, the date, destination, purpose, and mileage for all use of the vehicle.
- The fiscal court should amend the current administrative code to include a policy on the authorization and use of county vehicles. In addition, it should address the tax implications of using a county vehicle for personal use or commuting travel.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 12.

The fiscal court did not prepare a schedule of expenditures of federal awards. The fiscal court did not prepare a Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2014 in accordance with OMB Circular A-133. By not preparing a schedule of expenditures of federal awards, the fiscal court creates the risk of a single audit not being performed, if needed, which could affect the fiscal court's ability to receive federal funding. OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations, Section 310(B)* requires the county to prepare a SEFA from the county's financial records. At a minimum, the SEFA should include the following, if applicable:

- A listing of individual federal programs by federal agency.
- For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Notes that describe the significant accounting policies used in preparing the SEFA.
- Total amount provided to subrecipients from each federal program.
- The value of the federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the SEFA.

We recommend that the fiscal court ensure that a complete and accurate SEFA is prepared.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 13.

The fiscal court did not have insurance on a 2013 Mack truck that could not be found during a physical inventory test. The fiscal court does not have adequate internal control procedures to ensure all assets are properly tracked and insured. During our fixed asset procedures, we selected a sample of assets to determine if they were properly insured and to determine their actual physical existence and location. A 2013 Mack truck could not be found and after interviewing the county's management, it was determined the truck was missing. We found no evidence in the fiscal court minutes that the fiscal court had discussed this matter in a public meeting or that the Magoffin County Judge/Executive had reported the missing truck to the Kentucky State Police, Office of the Attorney General, or the Auditor of Public Accounts. The county's fixed asset records list the truck as having a historical value of \$35,000. As of the date we performed our test, the truck was not listed as being on the county's list of insured assets. The lack of controls over fixed assets has created a risk that assets may not be properly insured or protected from theft. It has also created a financial loss to the county equal to the value of the truck, which would have been recovered from the insurance provider had the asset been properly listed on their insurance policy. We recommend the fiscal court immediately develop proper controls and procedures that will protect the county's assets and ensure they are properly listed on the county's insurance policy. In addition, because the fiscal court has a fiscal responsibility to the taxpayers of the county, we recommend any time an asset is missing, it should be reported to the proper authorities so the asset can be recovered or an insurance claim can be filed. This matter will be referred to the Kentucky State Police and Office of the Attorney General for further investigation.

Official's Response: Unable to comment due to ongoing investigation.

The fiscal court lacks adequate segregation of duties over payroll. We noted inadequate segregation of duties for payroll. The treasurer is responsible for maintaining timesheets, entering payroll information into the computer system for processing, posting to the payroll ledgers, transferring funds to the revolving payroll account, administering health reimbursement and flex spending programs, preparing pay checks, preparing state and local withholding reports, and reconciling the payroll account. A strong internal control system does not allow one person to perform processing, documentation, and reporting functions. By delegating all these duties to the same individual, the risk that fraud or errors will occur and go undetected for a significant time increases.

In order to strengthen internal controls, we recommend the fiscal court adequately segregate duties related to payroll or implement other controls to compensate for these weaknesses. For example, designate an individual to review the receipts and payroll ledgers, reconciliations, and reports. This individual can document their review by initialing the documents that were reviewed.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 5.

The fiscal court does not have adequate internal controls over gravel inventory. The fiscal court does not have adequate internal controls over gravel purchased and stored at the county's road department. Our review of the controls over gravel stockpiled at the county's road department revealed the county maintains a log for gravel transported out to county roads; however, the log is not updated consistently. In addition, the log does not track the gravel hauled to the road department from the rock quarry, making it impossible to estimate how much gravel should be in the stockpile. During our procedures relating to expenditures, we noted gravel purchases for fiscal years 2013 and 2014 were \$256,821 and \$315,225, respectively. The fiscal court's lack of internal controls has created an opportunity for misappropriation of the county's assets to occur. When controls are not in place to protect the county's resources, there is an increased risk of fraud. We recommend the county maintain a log that tracks the gravel being hauled to the road department and also tracks the gravel hauled from the road department. This would allow an estimate of the gravel on hand and determine if a shortage existed.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 14.

The fiscal court does not have adequate controls over health reimbursement accounts and flexible spending accounts. The fiscal court does not adequately track health reimbursement account and flexible spending account contributions. The amounts contributed to these accounts are not maintained separately from regular county funds, and payroll funds and cannot be easily identified in the accounting records. These monies do not belong to the county, and good internal controls require that these monies be maintained and/or tracked separately in the accounting system. Failure to track these accounts separately increases the risk that the monies could be misappropriated. We recommend the fiscal court implement procedures to track and identify health reimbursement and flexible spending accounts for all employees who participate in these programs.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 7.

The fiscal court does not have adequate controls over notes receivable. The fiscal court does not have proper oversight and controls over notes receivable. In August 2008, the fiscal court loaned the Magoffin County Water District \$20,000 for a water project. The water district has not made any payments to date and the entire amount is still outstanding. In September 2011, the fiscal court gave \$50,000 to the City of Salyersville for water projects related to Salyersville Water Works. The fiscal court minutes indicate this was a loan; however, the county judge/executive and the treasurer stated it was not a loan and is not expected to be paid back. Failure to follow up on outstanding notes receivable and establish payment plans, deprives the county of needed funds. We recommend management and the fiscal court review the terms of all notes receivable to determine if the county will pursue collection or alternate disposition (i.e. loan forgiveness) and document those decisions in the fiscal court minutes.

Official's Response: See exit conference [for the fiscal year ended] June 30, 2013 response number 9.

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

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