



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Carlisle County Fiscal Court for the fiscal year ended June 30, 2015. 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 cash and cash equivalents of the Carlisle 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:

Weak internal controls over capital assets resulted in the omission of capital assets. Additions from the County's Schedule Of Capital Asset A material weakness exists over the reporting of capital assets of Carlisle County. The county's schedule of capital assets for the period of audit included misstatements of beginning asset balances, failed to recognize all asset purchases that occurred throughout the year, and recognized certain roads at estimated cost rather than historical cost. Furthermore, the county failed to follow its own capitalization policy consistently.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. Because the county did not emphasize the

importance of maintaining an accurate capital asset list and did not devote sufficient time to ensure that the capital asset policy was followed, capital assets were left vulnerable to misappropriation and misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. This system should be applied consistently in accordance with the county's capitalization policy. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

County Judge/Executive's response: The Carlisle County Fiscal Court is currently in review of our capital assets policy. A new policy will be adopted and put into use by May 30th, 2016.

Weak internal controls over debt and debt service resulted in the misstatement of outstanding debt balances. A material weakness exists over the reporting of the liabilities and debt of Carlisle County. Due to a lack of internal controls over debt reporting, the June 30, 2015 outstanding debt balances reported on the 4th Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding liabilities and debt are necessary to ensure accurate financial reporting. Because the county failed to emphasize strong internal controls over the reporting of liabilities and debt service, these misstatements were able to occur without detection.

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding liability balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's response: The Carlisle County Treasurer has made appropriate changes to ensure a budget amendment is done when debt arises.

The county failed to report receipts and disbursements associated with the county's ambulance building. In December 2013, Carlisle County entered into a lease agreement with the Kentucky Association of Counties Finance Corporation to finance the construction of a new building (Ambulance Building) for use by Emergency Medical Services and the Carlisle County Extension Cooperative. During fiscal year 2015, the county had receipts and disbursements associated with this construction project that the county failed to include in its annual budget and failed to report on its 4th Quarter Financial Report.

According to KRS 68.020(1), “The county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury, and shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefor. All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive.” The county chose to exclude these transactions from the budget process because they believed them to be part of the county’s Public Properties Corporation (PPC). However, since the debt was issued in the name of the county, rather than the PPC, they are not considered PPC transactions. Therefore, they should have been included in the county’s budget and reported on the 4th Quarter Financial Report, the exclusion of which resulted in the county not being in compliance with KRS 68.020.

We recommend the county start including receipts and disbursements associated with the ambulance building in its budget process and include them on the 4th Quarter Financial Report. If necessary, we also recommend the county make any necessary budget amendments for ambulance building receipts and disbursements that occurred during the 2016 fiscal year.

County Judge/Executive’s response: This project is now completed, however the Treasurer has add this into the budget.

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

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