

**REPORT OF THE AUDIT OF THE  
LARUE COUNTY  
FISCAL COURT**

**For The Year Ended  
June 30, 2017**



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue County Fiscal Court

**Independent Auditor's Report**

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the LaRue County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the LaRue County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the LaRue County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the LaRue County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the LaRue County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the LaRue County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
The Honorable Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2018, on our consideration of the LaRue County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LaRue County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2017-001 The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2017-002 The LaRue County Fiscal Court Did Not Follow The Department For Local Government's Guidance For Reporting General Obligation Bond Proceeds
- 2017-003 The LaRue County Fiscal Court Lacks Adequate Internal Controls Over Disbursements
- 2017-004 The LaRue County Fiscal Court Did Not Follow Proper Procedures For Disbursements
- 2017-005 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties
- 2017-006 The LaRue County Jailer Did Not Properly Oversee The Jail Commissary Fund
- 2017-007 The LaRue County Jailer Did Not Present The Jail Commissary Fund Annual Financial Statement To The County Treasurer As Required

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

June 19, 2018

**LARUE COUNTY OFFICIALS****For The Year Ended June 30, 2017****Fiscal Court Members:**

Tommy Turner	County Judge/Executive
Ricky Whitlock	Magistrate
Gary T. Stewart	Magistrate
Ronald Dale Nunn	Magistrate
Glenn Larry Howell, Jr.	Magistrate

**Other Elected Officials:**

Kyle Williamson	County Attorney
Johnny Cottrill	Jailer
Linda Carter	County Clerk
Larry Bell	Circuit Court Clerk
Russell McCoy	Sheriff
Scotty Lee	Property Valuation Administrator
Todd Skaggs	Coroner

**Appointed Personnel:**

Olivia Reed	County Treasurer
Renee Strock	Finance Officer
Clyde Veirs	Road Supervisor
Craig Dunn	911 Administrator



**LARUE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2017**

**LARUE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2017**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,915,332	\$	\$
In Lieu Tax Payments	4,235		
Excess Fees	166,768		
Licenses and Permits	104,574		
Intergovernmental	367,147	1,644,047	1,621,171
Charges for Services	769,911		62,294
Miscellaneous	93,916	38,301	63,013
Interest	15,225	7,477	316
Total Receipts	<u>3,437,108</u>	<u>1,689,825</u>	<u>1,746,794</u>
<b>DISBURSEMENTS</b>			
General Government	1,241,141		
Protection to Persons and Property	797,481		1,431,079
General Health and Sanitation	249,019		
Social Services	9,648		
Recreation and Culture	68,907		
Roads		1,328,446	
Debt Service			128,069
Capital Projects			
Administration	929,812	222,477	450,282
Total Disbursements	<u>3,296,008</u>	<u>1,550,923</u>	<u>2,009,430</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>141,100</u>	<u>138,902</u>	<u>(262,636)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Payroll Revolving Account	23,575		
Transfers From Other Funds	51,694		199,850
Transfers To Other Funds	(199,850)		
Total Other Adjustments to Cash (Uses)	<u>(124,581)</u>		<u>199,850</u>
Net Change in Fund Balance	16,519	138,902	(62,786)
Fund Balance - Beginning (Restated)	<u>2,256,036</u>	<u>65,287</u>	<u>97,372</u>
Fund Balance - Ending	<u>\$ 2,272,555</u>	<u>\$ 204,189</u>	<u>\$ 34,586</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 1,214,953	\$ 210,789	\$ 53,321
Payroll Revolving Account Reconciled Balance	23,575		
Plus: Deposits In Transit			
Less: Outstanding Checks	(22,421)	(6,600)	(18,735)
Certificates of Deposit	1,056,448		
Fund Balance - Ending	<u>\$ 2,272,555</u>	<u>\$ 204,189</u>	<u>\$ 34,586</u>

The accompanying notes are an integral part of the financial statement.

**LARUE COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<u>Unbudgeted Funds</u>		
<u>General Obligation Bond Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$	\$ 1,915,332
		4,235
		166,768
		104,574
		3,632,365
	159,501	991,706
		195,230
4	38	23,060
4	159,539	7,033,270
		1,241,141
		2,228,560
		249,019
		9,648
	148,109	217,016
		1,328,446
		128,069
212,565		212,565
		1,602,571
212,565	148,109	7,217,035
(212,561)	11,430	(183,765)
		23,575
		251,544
(51,694)		(251,544)
(51,694)		23,575
(264,255)	11,430	(160,190)
264,255	41,772	2,724,722
\$ 0	\$ 53,202	\$ 2,564,532
\$	\$ 38,115	\$ 1,517,178
		23,575
	17,108	17,108
	(2,021)	(49,777)
		1,056,448
\$ 0	\$ 53,202	\$ 2,564,532

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**LARUE COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2017**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of LaRue County includes all budgeted and unbudgeted funds under the control of the LaRue County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

General Obligation Bond Fund - The LaRue County Fiscal Court had funds during the year with U.S. Bank from a financing lease obligation for improvements to the courthouse. The general obligation bond fund was reported as an unbudgeted fund on the financial statement. According to the Department for Local Government (DLG), this fund should be budgeted in the county's annual budget before they are expended and included in the financial statement. The LaRue County Fiscal Court did not budget this fund.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

**E. LaRue County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting LaRue County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the LaRue County Fiscal Court.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. LaRue County Elected Officials (Continued)**

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	General Obligation Bond Fund	Total Transfers In
General Fund	\$	\$ 51,694	\$ 51,694
Jail Fund	199,850		199,850
Total Transfers Out	<u>\$ 199,850</u>	<u>\$ 51,694</u>	<u>\$ 251,544</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Long-term Debt**

**A. Financing Obligation - Golf Course Renovations**

On October 1, 2007, the LaRue County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$1,072,000 for the renovation of the golf course of the LaRue County Golf Association, Inc. (Golf Association). Principal is payable annually on January 20 and interest is payable monthly on the 20th of each month. Interest rate is variable. The maturity date of the lease is January 20, 2034. The Golf Association makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2017, the Golf Association paid debt service of \$78,102 on behalf of the LaRue County Fiscal Court. As of June 30, 2017, the principal balance was \$832,000. The Golf Association has agreed to make the payments due below on behalf of the fiscal court.

Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 35,000	\$ 41,360
2019	35,000	39,616
2020	35,000	37,962
2021	40,000	36,032
2022	40,000	34,043
2023-2027	220,000	139,293
2028-2032	290,000	75,680
2033-2034	<u>137,000</u>	<u>8,693</u>
Totals	<u>\$ 832,000</u>	<u>\$ 412,679</u>



**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Financing Obligation - Refunding Lease and Courthouse Improvements**

On March 1, 2011, the LaRue County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purpose of refunding the General Obligation Improvement Bonds, Series of 1999 and additional courthouse facility improvements. The original principal was \$1,545,000 at 3.75 percent interest for a period of 20 years, with interest and principal paid monthly. Total principal outstanding June 30, 2017, totaled \$1,205,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 65,000	\$ 65,519
2019	70,000	62,669
2020	70,000	59,431
2021	72,500	56,062
2022	77,500	52,387
2023-2027	455,000	195,244
2028-2031	395,000	55,647
Totals	<u>\$ 1,205,000</u>	<u>\$ 546,959</u>

**C. Financing Obligation - Sheriff Police Cruisers**

On September 30, 2009, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of three vehicles for the LaRue County Sheriff's Department. The original principal balance was \$89,060 at 2.73 percent interest for a period of six years, with interest and principal paid monthly. The LaRue County Sheriff makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2017, the LaRue County Sheriff paid debt service of \$16,211 on behalf of the fiscal court. Total principal outstanding June 30, 2017, totaled \$10,647. The LaRue County Sheriff has agreed to make the payments due below on behalf of the fiscal court.

Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 10,647	\$ 125
Totals	<u>\$ 10,647</u>	<u>\$ 125</u>

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 2,158,259	\$	\$ 110,612	\$ 2,047,647	\$ 110,647
Total Long-term Debt	\$ 2,158,259	\$ 0	\$ 110,612	\$ 2,047,647	\$ 110,647

**Note 5. Employee Retirement System**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2015 was \$412,586, FY 2016 was \$396,483, and FY 2017 was \$431,192.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary.

Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 18.68 percent.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Members in the plan contribute a set percentage of their salary each month to their own accounts. Hazardous members contribute eight percent of their annual creditable compensation and also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one-half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.06 percent.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 5. Employee Retirement System (Continued)**

Health Insurance Coverage (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

**Note 6. Deferred Compensation**

The LaRue County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 7. Health Reimbursement Account**

The LaRue County Fiscal Court established a flexible spending account on May 24, 2016, to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides reimbursement of up to \$10 for Tier 2 and \$35 for Tier 3 for eligible employees, to pay for qualified prescription drug copays.

**LARUE COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2017**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2017, the LaRue County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Conduit Debt**

From time to time the county has issued bonds to provide financial assistance for industrial facilities and economic development for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the LaRue County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

**Note 10. Prior Period Adjustments**

The prior period ending balance for the general fund was increased by \$272 to include prior year voided checks and was decreased by \$100,000 for a payroll revolving fund transfer error.

**Note 11. Agency Fund**

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2017, was \$8,597.

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**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

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**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Taxes	\$ 1,780,175	\$ 1,780,175	\$ 1,915,332	\$ 135,157
In Lieu Tax Payments	3,500	3,500	4,235	735
Excess Fees	119,000	119,000	166,768	47,768
Licenses and Permits	85,000	85,000	104,574	19,574
Intergovernmental	421,000	421,000	367,147	(53,853)
Charges for Services	722,000	722,000	769,911	47,911
Miscellaneous	50,000	50,000	93,916	43,916
Interest	16,000	16,000	15,225	(775)
Total Receipts	<u>3,196,675</u>	<u>3,196,675</u>	<u>3,437,108</u>	<u>240,433</u>
<b>DISBURSEMENTS</b>				
General Government	1,531,900	1,573,595	1,241,141	332,454
Protection to Persons and Property	828,400	860,369	797,481	62,888
General Health and Sanitation	240,150	280,294	249,019	31,275
Social Services	21,400	21,131	9,648	11,483
Recreation and Culture	81,700	84,900	68,907	15,993
Administration	1,135,600	988,861	929,812	59,049
Total Disbursements	<u>3,839,150</u>	<u>3,809,150</u>	<u>3,296,008</u>	<u>513,142</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(642,475)</u>	<u>(612,475)</u>	<u>141,100</u>	<u>753,575</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			51,694	51,694
Transfers To Other Funds	<u>(74,850)</u>	<u>(74,850)</u>	<u>(199,850)</u>	<u>(125,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(74,850)</u>	<u>(74,850)</u>	<u>(148,156)</u>	<u>(73,306)</u>
Net Change in Fund Balance	(717,325)	(687,325)	(7,056)	680,269
Fund Balance - Beginning (Restated)	<u>717,325</u>	<u>717,325</u>	<u>2,256,036</u>	<u>1,538,711</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 30,000</u>	<u>\$ 2,248,980</u>	<u>\$ 2,218,980</u>

**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<b>ROAD FUND</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,845,960	\$ 1,845,960	\$ 1,644,047	\$ (201,913)
Charges for Services	1,500	1,500		
Miscellaneous	4,000	4,000	38,301	34,301
Interest	4,000	4,000	7,477	3,477
Total Receipts	<u>1,855,460</u>	<u>1,855,460</u>	<u>1,689,825</u>	<u>(164,135)</u>
<b>DISBURSEMENTS</b>				
Roads	1,561,160	1,581,520	1,328,446	253,074
Administration	<u>294,300</u>	<u>273,940</u>	<u>222,477</u>	<u>51,463</u>
Total Disbursements	<u>1,855,460</u>	<u>1,855,460</u>	<u>1,550,923</u>	<u>304,537</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>138,902</u>	<u>140,402</u>
Net Change in Fund Balance			138,902	138,902
Fund Balance - Beginning			<u>65,287</u>	<u>65,287</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 204,189</u>	<u>\$ 204,189</u>

**LARUE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,954,000	\$ 1,954,000	\$ 1,621,171	\$ (332,829)
Charges for Services	30,250	30,250	62,294	32,044
Miscellaneous	55,000	55,000	63,013	8,013
Interest	500	500	316	(184)
Total Receipts	2,039,750	2,039,750	1,746,794	(292,956)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	1,515,250	1,541,550	1,431,079	110,471
Debt Service	134,000	129,500	128,069	1,431
Administration	465,350	473,550	450,282	23,268
Total Disbursements	2,114,600	2,144,600	2,009,430	135,170
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(74,850)	(104,850)	(262,636)	(157,786)
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	74,850	74,850	199,850	125,000
Total Other Adjustments to Cash (Uses)	74,850	74,850	199,850	125,000
Net Change in Fund Balance		(30,000)	(62,786)	(32,786)
Fund Balance - Beginning			97,372	97,372
Fund Balance - Ending	\$ 0	\$ (30,000)	\$ 34,586	\$ 64,586

**LARUE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2017**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of the General Fund**

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the general fund's other adjustments to cash (uses) and ending balance by \$23,575 due to the inclusion of the payroll revolving account's reconciled balance.

**LARUE COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2017**

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**LARUE COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2017**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,114,640	\$	\$	\$ 1,114,640
Construction In Progress	335,541	834,344		1,169,885
Buildings and Land Improvements	8,673,331	5,630		8,678,961
Vehicles and Equipment	1,602,602	71,019	35,000	1,638,621
Other Equipment	1,541,103	58,758		1,599,861
Infrastructure	8,486,438	669,600		9,156,038
 Total Capital Assets	 <u>\$ 21,753,655</u>	 <u>\$ 1,639,351</u>	 <u>\$ 35,000</u>	 <u>\$ 23,358,006</u>

**LARUE COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2017**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-15
Infrastructure	\$ 20,000	10-50



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tommy Turner, LaRue County Judge/Executive  
Members of the LaRue County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the LaRue County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the LaRue County Fiscal Court's financial statement and have issued our report thereon dated June 19, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the LaRue County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the LaRue County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the LaRue County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-003, 2017-004, 2017-005, and 2017-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the LaRue County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-003, 2017-004, 2017-006, and 2017-007.

**Views of Responsible Officials and Planned Corrective Action**

LaRue County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

June 19, 2018

**LARUE COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

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**LARUE COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2017**

FINANCIAL STATEMENT FINDINGS:

2017-001    The LaRue County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

---

This is a repeat finding and was included in the prior year audit report as 2016-001. The LaRue County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for the fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. A new county treasurer was appointed on September 1, 2016. New compensating controls have been implemented to offset the lack of segregation of duties. All bank reconciliations are now reviewed and initialed by the county judge/executive. In addition, all monthly and quarterly reports and cash transfers between banks are reviewed by the county judge/executive before approval by the fiscal court. However, there was no documentation of this review by the county judge/executive.

The LaRue County Fiscal Court has limited staff. However, the county has implemented policies to ensure adequate segregated duties by implementing compensating controls. By implementing strong compensating controls, the county reduces the potential for undetected misappropriation of assets, errors, and inaccurate financial reporting. The lack of adequate segregation of duties and too much control by one individual could result in undetected misappropriation of assets, errors, and inaccurate financial reporting.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the LaRue County Fiscal Court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend further compensating controls, such as a receipt listing prepared by another person should be compared to the deposit ticket by the county judge/executive or other designee and the deposit ticket from the bank should be initialed to evidence this review. In addition, all monthly and quarterly reports and cash transfers between funds should be initialed by the county judge/executive after review and prior to approval by the fiscal court.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: This is a comment found in many if not most audits of local government agencies. It involves having different employees handle funds and duties regarding finances. Small local government agencies, such as LaRue County, have limited staff and as a result employees often have to wear multiple "hats". This doesn't allow duties to be spread among a large group of employees resulting in the audit comment. However, beginning this Fiscal Year we have employees cross checking each other's work and responsibilities. Hopefully this will suffice in eliminating this comment in the future.*

Auditor's Reply: As stated above, we recommend all compensating controls be documented.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The LaRue County Fiscal Court Did Not Follow The Department For Local Government's Guidance For Reporting General Obligation Bond Proceeds

---

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The county did not include all funds on the Fourth Quarter Report, resulting in unreported general obligation bond expenditures of \$212,565 and a transfer out to the general fund of \$51,694 as of June 30, 2017. The fiscal court did not budget or include these items on the county's financial statement. Invoices were submitted to the Kentucky Association of Counties and payments were made from this account and not included on the financial statements.

When the fiscal court does not include all county money on the financial statement, taxpayers may not be aware of all funds available for expenditure. Furthermore, if the fiscal court does not budget the funds before expending them, they are in danger of overspending the budget and violating KRS 68.220.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Guidance in the *County Budget Preparation and State Local Finance Officer Policy Manual* indicates that "[a]ll county money is to be reported on the financial statement whether it is included in the budget or not."

KRS 68.220 requires all funds to be budgeted and states, "[t]he fiscal affairs of each county, except those pertaining to education, shall be administered by the fiscal court under a uniform budget system. The county budget shall provide for all the funds to be expended by the county from current revenue for each fiscal year. The state local finance officer shall classify the counties for budget purposes upon the basis of their populations and expenditures, or upon some other proper basis, and may classify them in the same manner for the purpose of prescribing accounts."

The LaRue County Fiscal Court had funds totaling \$264,259 in U.S. Bank from a financing lease obligation for improvements to the courthouse. According to the Department for Local Government (DLG), these funds should be budgeted in the county's annual budget before they are expended and included in the financial statement. By not including this information, the financial statement and notes are not providing a complete overview of the county's available funds. We recommend the fiscal court include all funds in the county's annual financial statement and budget.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: As I did in a prior year, I challenge and dispute this finding. All funds WERE included on the county financial statement. The funds mentioned were included in the carryforward line item. We may disagree on whether they should have been included in the carryforward line item or in another fund account. However, they did appear in the financial statement and budget. The funds mentioned were part of the original bond issue refinancing the jail and lowering the interest rate on the jail construction and for jail security improvements. However, timing became an issue and General Fund dollars were used to finish the jail security improvements and these funds lay dormant until they were then used to replenish the General Fund account. Each year the funds appeared in the carryforward line item of the budget as they were carried forward until utilized.*

**Auditor's Reply:** As stated, the General Obligation Bond was not budgeted in the county's fiscal year 2017 budget or included on the fourth quarter report. The receipts and expenditures are included as an unbudgeted fund on the county's financial statement. The county is required by the Department for Local Government to budget the activity of this fund as a separate budgeted fund of the county or budget it in an existing fund.



**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The LaRue County Fiscal Court Lacks Adequate Internal Controls Over Disbursements

---

This is a repeat finding and was included in the prior year audit report as finding 2016-004. The LaRue County Fiscal Court had a deficiency in internal controls over disbursements which caused the county to not be in compliance with state budget law and KRS 68.275. The LaRue County Fiscal Court approved claims and made appropriations in excess of budgeted appropriations nine times during the fiscal year without approval of budget transfers prior to overspending. These claims were approved and paid even though the budget line item did not have sufficient budgeted free balance. In addition, wire transfers were made for purchases even though the expenditures were not listed on the approved standing order.

The county determined that when claims were posted in the payables system by the finance officer and then uploaded to the treasurer's ledgers, adequate funds were not available for many line items causing overpayments. The county treasurer would transfer within the fund to eliminate all line items that were over budget by year-end. The county now has steps in place to make sure adequate funds are available before claims are posted. For fiscal year 2015 there were 283, fiscal year 2016 there were 31, and for fiscal year 2017 there were only nine instances of line items expenditures being over budget. Strong internal controls over disbursements are important to ensure the budget is not overspent. In addition, wire transfers for payments of equipment purchased online was the only means of payment acceptable. The purchases were on the claims list approved by the fiscal court. The lack of internal controls increases the risk of material misstatement due to fraud and errors.

KRS 68.275(1), states, "[c]laims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer." Strong internal controls dictate that the fiscal court approve budget transfers prior to disbursing funds to prevent overspending budget line items. In addition, KRS 68.275(3), states, "[n]otwithstanding KRS 68.020(1), payment of preapproved expenses may be made by means of electronic fund transfers. . . if approved by the fiscal court in a standing order, and if the fiscal court has received the payee's prior written consent for the payment of funds by electronic funds transfer due to payee."

We recommend the fiscal court implement strong internal controls over disbursements to ensure that budget transfers be obtained prior to disbursing funds to prevent overspending budget line items and electronic fund transfers be approved in a standing order by the fiscal court.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Information has been provided by the county treasurer and finance officer. A problem was found in the way the program places a disbursement to the ledger causing an appearance of a negative balance in an account. Transfers were always done to fill the account needs. We have reduced this problem over time with the number of account balance issues dropping from nearly 300 to 31 to 9 during the current audit period. We feel the issue has now been eliminated.*

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The LaRue County Fiscal Court Did Not Follow Proper Procedures For Disbursements

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Auditors selected 93 disbursements that were determined to be individually significant items and/or large, and unusual and the following were noted:

- 70 disbursements did not include a purchase order.
- Two invoices were not paid within 30 days of the receipt.

The invoice is after the work is done. The purchase order is what authorizes the county to make the purchase. Purchase orders should be the first step in the expenditure process. It ensures they have budget and funds available to complete the project. Invoices should be paid within 30 days from stamped date received. The county indicated that purchase orders were not required for road bid contracts and service contracts and the two invoices that were not paid within 30 days were for road repairs that the state had not reimbursed the county for. A written purchase policy stating when purchase orders are required or not required was not available. Work should not be completed unless funds are available to complete the project. Insufficient records and management oversight resulted in noncompliance with state regulations over disbursements. The Department for Local Government (DLG) required purchase procedures were not followed which increases the risk of material misstatement due to fraud and errors. Noncompliance with KRS 65.140 could result in penalties and interest being assessed to the county.

DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* includes purchase procedures and guidelines for counties as prescribed by the state local finance officer. The guidelines include:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

Any county may opt to retain their current purchase order system provided that the guidelines above are met.

KRS 65.140(2) states, "[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."

We recommend the county follow required purchase order procedures and that invoices be paid timely within 30 days per KRS 65.140.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The LaRue County Fiscal Court Did Not Follow Proper Procedures For Disbursements (Continued)

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Information has been provided by the county treasurer and finance officer. The disbursements noted by the auditor involved contracted services or work performed by the county. Every contract must be approved by the fiscal court prior to any work being performed. The contract details the work or service to be done and the amount to be paid for that work or service. LaRue Fiscal Court has never, in its history, issued a Purchase Order for contracted services. As required by statute, a contract would not be presented to Fiscal Court for approval without sufficient funds available to fulfill the contract. A Purchase Order being issued for a contracted service is redundant as the purpose of the PO is to validate sufficient funds available. The comment comes from the Dept. for Local Government and it stating that Purchase Orders should be issued to authorize any purchase, which is exactly what the approval of a contract does. Its double work required for a short staffed office trying to work as efficiently as possible. As stated earlier, LaRue Fiscal Court has never issued a Purchase Order for work done under a contract for work or services.*

*Regarding the two invoices not being paid within 30 days, we dispute this comment as the auditor ONLY uses a portion of KRS 65.140(2) for justification of the comment. The auditor fails to utilize 65.140(2) which states: "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within 30 working days....". The two invoices noted were for bid and contracted paving done on county roads. The nature of the work being done under a contract eliminates the need for the 30 working day limit. Payment for the contracted work exceeded 30 days due to the Transportation Cabinet changing it payment and reimbursement policy, not because of actions on the part of LaRue County.*

Auditor's Reply: Approval of contracts by the fiscal court does not remove the requirement to utilize a purchase order system for the approval of the related expenditures. Additionally, the finding cited the relevant portion of KRS 65.140, as no evidence was identified or communicated indicating the contract between the county and the vendor permitted payments to exceed 30 days.

2017-005 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-006. A lack of segregation of duties exists over all jail commissary fund accounting functions with no management supervision or oversight. The bookkeeper receives the mail, prepares and deposits receipts, posts to computer accounting software, receives invoices, and writes checks without management review. The jailer and jail personnel lack understanding of the financial information provided through the accounting system from an external source. If one employee is solely responsible for the receipt, disbursement, reconciling process, and reporting, the risk of misappropriation of assets and inaccurate financial reporting increases. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements.

The jailer should strengthen internal controls by either segregating duties or by implementing and documenting compensating controls. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the jailer cannot ensure all receipts and disbursements are properly recorded and accounted for.

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The LaRue County Jail Commissary Fund Lacks Adequate Segregation Of Duties (Continued)

We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

Views of Responsible Official and Planned Corrective Action:

*Jailer's Response: The official did not provide a response.*

2017-006 The LaRue County Jailer Did Not Properly Oversee The Jail Commissary Fund

Deposits are not made intact daily as required. There were less than three deposits made for most months. Computer reports for checkouts were not detailed by source. Money is on hand for long periods of time without being deposited. Disbursements were not paid timely. Invoices submitted for payments to the county were over 30 days past due. Accounting records were not up to date. Jail personnel were not knowledgeable about accounting software reports. Bank statements were not reconciled on a monthly basis. The lack of management oversight, supervision, and review caused deficiencies in the jail commissary fund for accounting and reporting. There are no compensating controls in place. Failure to maintain accurate records can result in inaccurate information as to funds available for use or benefit of the inmates. Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements.

KRS 441.135 requires the jailer to maintain records of receipts and disbursements of the jail commissary fund. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidelines for the jail commissary fund.

In accordance with these guidelines, the jailer should maintain the following records:

- Daily checkout sheets should include a category for all funds collected to be posted to the jail commissary receipts journal.
- Jail commissary receipts journal should agree to the daily checkout sheets and include a category for all funds collected.
- Jail commissary disbursements journal should include every check written. Each check written should be posted to the proper category.

We recommend the jailer oversee the jail commissary fund and comply with the applicable statutes by maintaining required records. Furthermore, we recommend the jailer implement internal controls to ensure deposits are made timely, invoices are paid within 30 days, and bank accounts are properly reconciled to ensure accurate financial reporting.

Views of Responsible Official and Planned Corrective Action:

*Jailer's Response: The official did not provide a response.*

**LARUE COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2017**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007    The LaRue County Jailer Did Not Present The Jail Commissary Fund Annual Financial Statement  
                 To The County Treasurer As Required

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The annual report of the jail commissary fund was not provided to the county treasurer at fiscal year-end. Lack of management oversight, supervision, and review caused deficiencies in the jail commissary fund for accounting and reporting. The jailer prepared a Cash Flow Summary report; however, the report did not accurately reflect the sources of receipts as required. It reflects only the deposits made as an account line item "cash on hand."

Failing to maintain accurate records can result in inaccurate information as to funds available for use for benefit of the inmates. Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements.

KRS 441.135 requires the jailer to maintain records of receipts and disbursements of the jail commissary fund and to prepare a report annually for the county treasurer.

We recommend the jailer comply with the applicable statute by preparing and submitting an accurate annual commissary report to the county treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts ledger and disbursements ledger.

Views of Responsible Official and Planned Corrective Action:

*Jailer's Response: The official did not provide a response.*