

# Auditor of Public Accounts

Presentation to Budget Review Subcommittee on General  
Government, Finance, Personnel & Public Retirement

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Mike Harmon  
State Auditor

[www.auditor.ky.gov](http://www.auditor.ky.gov)

# What We Do

- ▶ APA conducts more than 600 audit engagements each year, including:
  - ▶ Audit of the Commonwealth's Annual Comprehensive Financial Report and Statewide Single Audit of Kentucky - financial, IT, and federal compliance audits of state agencies
  - ▶ Fiscal Courts
  - ▶ Sheriffs & County Clerks
  - ▶ Special Examinations



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# Expanding Transparency - ADDs

- ▶ In 2017, the General Assembly passed HB189 to increase transparency as to Area Development Districts and gave APA a right of first refusal & right to review workpapers on the required annual audits of ADDs.
- ▶ Since then, we've worked with the ADDs and their CPA firms to get all ADDs using a more consistent form of financial reporting.
- ▶ This year, we are exercising our right of first refusal to perform two ADD audits with APA staff.



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# Expanding Transparency - County Attorneys

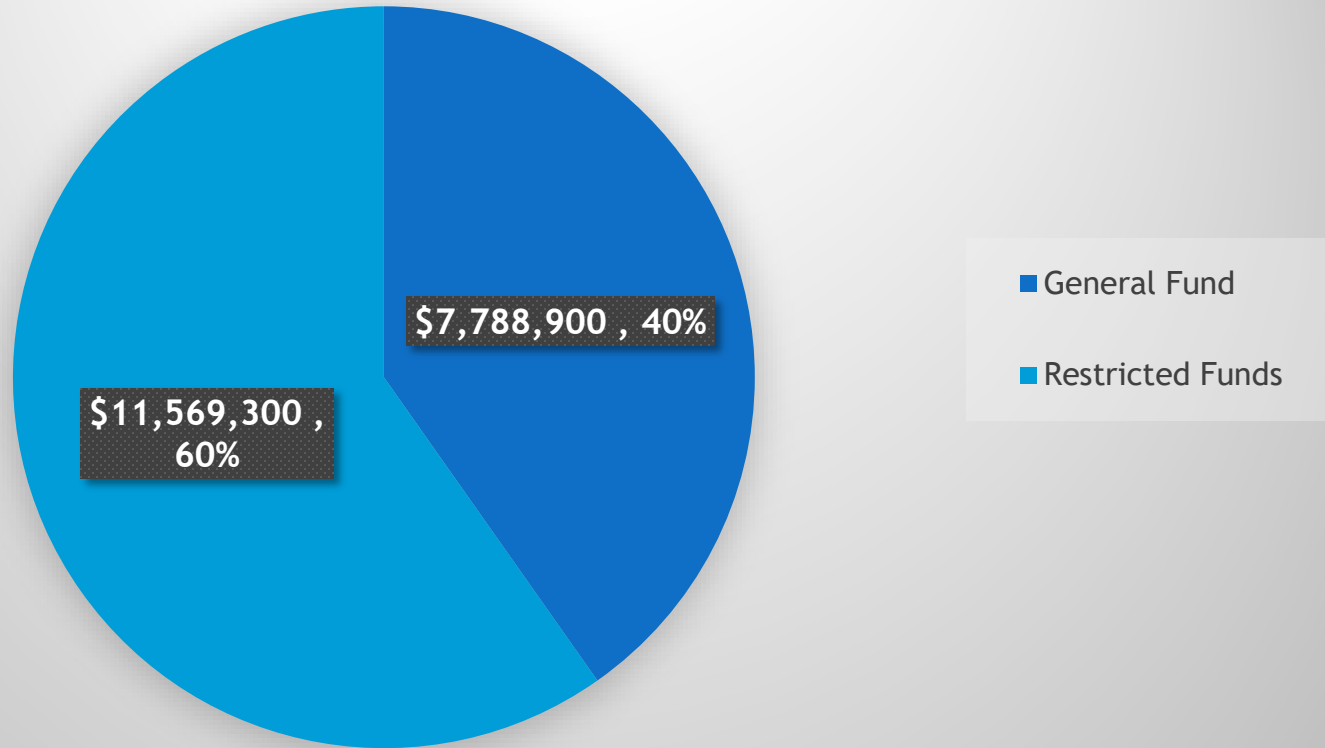
- ▶ Our 2020 special examination of certain county attorney offices identified a number of issues and led to federal indictments in two different counties.
  - ▶ Boyd County Child Support Office Manager pled guilty.
  - ▶ Lawrence County Attorney indicted on multiple counts related to six-figure payment of bonuses to his wife.
- ▶ Over the past year, we've been working with the County Attorneys' Association on a pilot program to begin more routine reviews of county attorney offices around the state.



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# Current-Year Appropriations

## FY 22 Appropriations by Fund Type



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# APA Expenditure Summary

Expenditure	FY 18	FY 19	FY 20	FY 21
Salaries	\$7,138,574	\$6,912,814	\$7,309,848	\$7,400,659
Retirement Contribution %	49%	83%	83%	84%
Total Personnel	\$12,347,141	\$13,916,725	\$14,775,958	\$15,453,676
Total Operating	\$1,088,556	\$1,171,692	\$977,879	\$799,640
Total Expenditures	\$13,435,697	\$15,088,417	\$15,753,837	\$16,253,315



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# APA Expenditures

Expenditure Type	FY 18	FY 19	FY 20	FY 21
Personnel	92%	92%	94%	95%
Operating	8%	8%	6%	5%

- ▶ Personnel costs - primarily salary, pension, and other benefits - account for the vast majority of APA spending.
- ▶ Like many agencies, APA has a high turnover rate, particularly because our auditors are often recruited to other jobs in state and local government, or the private sector.
- ▶ Recruitment and retention are crucial to ensure APA continues to be an effective guardian of transparency and accountability.



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# APA Rates

- ▶ State Agency & Special Exam Rate: \$84.00 per hour
  - ▶ General Fund appropriations specifically cover the annual audits of “the statewide systems of personnel and payroll, cash and investments, revenue collection, and the state accounting system.”
  - ▶ Other state agency audits, including audits of federal funds, are billed to the audited agencies.
- ▶ County Rate: \$65.00 per hour
  - ▶ Fiscal Courts are charged 50% of this rate for audits of budgeted funds per KRS 43.070(3).
    - ▶ In the FY 2019-2020 budget bill, the legislature included language to increase this charge to 75%, notwithstanding KRS 43.070.
- ▶ Rates have not increased since FY 2019.



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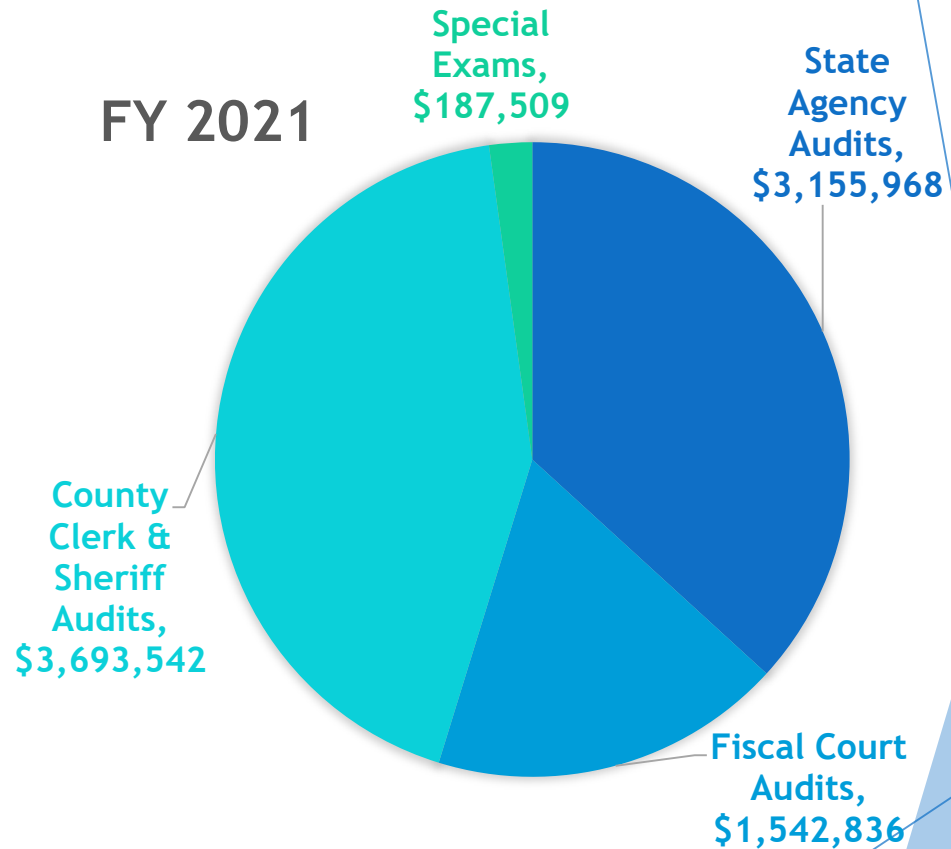
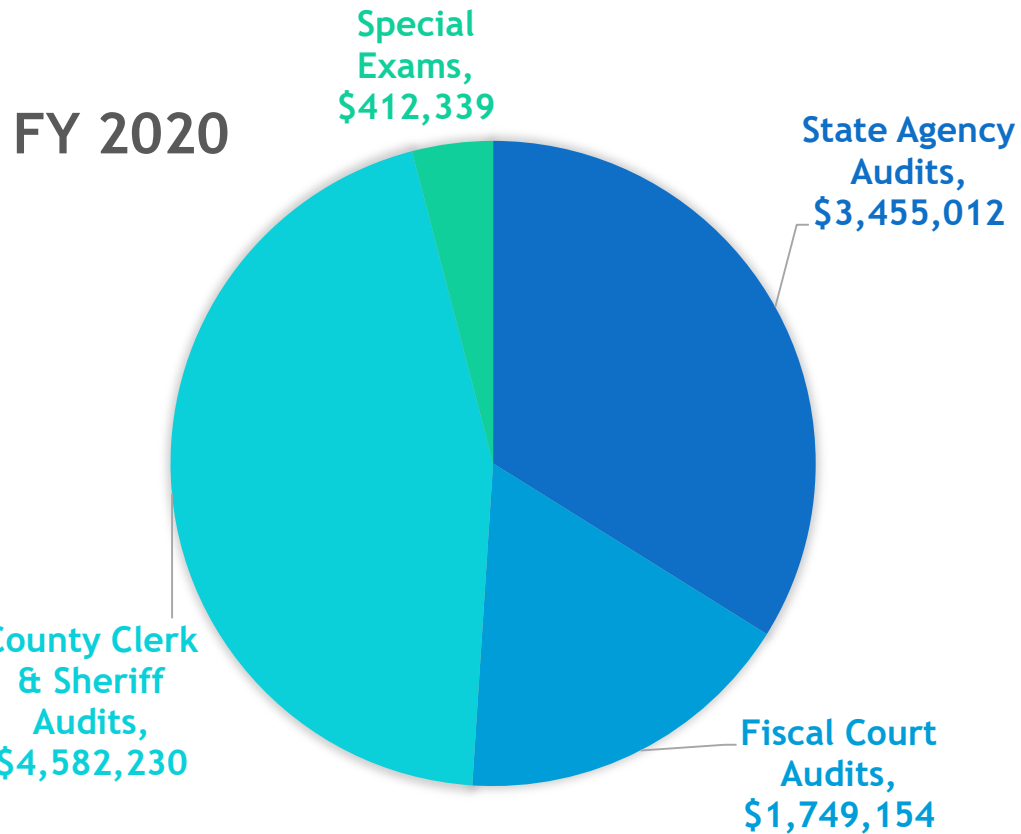
# General Fund Support

- ▶ For FY 2021 and in the current-year appropriation for FY 2022, the General Assembly provided an additional \$2 million in General Fund dollars to APA.
  - ▶ This has held down audit costs for county governments by allowing for a return to 50% billing for Fiscal Court audits and also avoided the need to increase rates.
- ▶ **It is important to maintain this funding in the next biennium to continue holding down the costs that are passed on to local governments and other agencies.**
  - ▶ We want to thank the General Assembly for providing this support in the past two single-year budgets!



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# APA Restricted Funds by Major Sources



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# Savings on County Clerk and Sheriff AUPs

- ▶ 2018 SB 144 - APA proposal that provided option for Agreed-Upon-Procedures for County Clerks & Sheriffs.
- ▶ First year of implementation produced cost savings for counties that were even better than expected:
  - ▶ County Clerk AUP costs averaged 65% less.
  - ▶ Sheriff AUP costs averaged 70% less.

AUP Participants	County Clerks	Sheriffs
2018	45	19
2019	39	26
2020	32	41



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# Sheriffs' Tax Settlement Consolidation

- ▶ 2021 HB 265: APA proposal to reduce audit costs for counties by ensuring only one STS audit is required annually for each sheriff in Kentucky.
  - ▶ Before this, sheriffs in many counties had multiple STS audits in one year because they use different time periods to collect different types of property tax (e.g. unmined coal, gas & oil).
- ▶ Next calendar year will be first year of implementation.



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# Fiscal Court Responsibility for County Clerk and Sheriff Audits

- ▶ Under KRS 43.070, APA charges the full rate for the mandatory annual audits of county clerks and sheriffs (both the fee and tax settlement audits).
- ▶ In the vast majority of counties, the Fiscal Court pays these bills.
  - ▶ If an audit bill remains unpaid, APA has authority to intercept state funds the county would receive, which means the Fiscal Court ultimately would absorb the cost on an unpaid bill.



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# APA Proposal to Assist Counties with Outlier Audits

- ▶ APA bills for audit costs based on hours required to complete the audit.
  - ▶ Counties often ask for discounts, but APA doesn't have legal authority to offer discounts.
  - ▶ APA does recognize the burden it puts on Fiscal Courts when they have to pay for a clerk or sheriff audit that costs more than the Fiscal Court would have reasonably anticipated.
- ▶ Proposal: One option could be to add budget language to designate General Fund dollars to help pay outlier audit costs.



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# Other Budget Language Suggested Updates

- ▶ **Auditor Scholarships:** language notwithstanding KRS 43.200 is no longer necessary to specifically defund the Auditor’s scholarship program because 2020 SB 186 amended the statute to make the program optional.
- ▶ **Comp Leave Conversion to Sick Leave:** budget language allows APA to convert “Block-50” time into sick leave if warranted by budgetary pressures.
  - ▶ Beginning July 1, 2021 (starting with FY22), APA has discontinued this practice, so the language is now unnecessary.



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# Questions?



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