GENERAL ASSEMBLY
COMMONWEALTH OF KENTUCKY

2016 REGULAR SESSION

SENATE BILL NO. 168

WEDNESDAY, MARCH 2, 2016

The following bill was reported to the House from the Senate and ordered to be printed.

RECEIVED AND FILED
DATE April 1, 2016
1:41 pm
ALISON LUNDERGAN GRIMES
SECRETARY OF STATE
COMMONWEALTH OF KENTUCKY
BY K. Adler

1 AN ACT relating to municipal audits.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 43.050 is amended to read as follows:

4 (1) The Auditor constitutes an agency independent of the administrative departments
5 enumerated in KRS 12.020, it being the policy of the General Assembly to provide
6 for the independent auditing of the accounts, financial transactions, and
7 performance of all spending agencies of the state through a disinterested auditor,
8 who is entirely independent of the state administration whose affairs he is called
9 upon to audit.

10 (2) The Auditor shall:

11 (a) Audit annually, and at such other times as may be deemed expedient, the
12 accounts of all state agencies, all private and semiprivate agencies receiving
13 state aid or having responsibility for the handling of any state funds, the
14 accounts, records, and transactions of the budget units, and the general
15 accounts of the state.

16 (b) Make a complete audit and verification of all moneys handled for the account
17 of the state government by local officials charged with the collection of fees or
18 other money for or on behalf of the state, when an audit is demanded in
19 writing by the Legislative Research Commission, the secretary of the Finance
20 and Administration Cabinet, or the Governor, and may make an audit when it
21 is not so demanded.

22 (c) Examine periodically the performance, management, conduct, and condition
23 of all asylums, prisons, institutions for the intellectually disabled, and
24 eleemosynary institutions; public works owned, operated, or partly owned by
25 the state, or in the conduct or management of which the state has any financial
26 interest or legal power; and state agencies. The examinations shall give special
27 attention to the faithful and economical application of any money appropriated

1 by the state to the institution, public works, or state agency examined, or of
2 any money in which the state has an interest.
3 (d) Examine annually the management and condition of the offices of the Finance
4 and Administration Cabinet, the State Treasurer, and the chief state school
5 officer, to determine whether the laws regulating their duties are being fully
6 complied with, and all money received by them for the state fully accounted
7 for.
8 (e) Examine, at least biennially, the Finance and Administration Cabinet's
9 compliance with this section and KRS 48.111 and 56.800 to 56.823. Within
10 sixty (60) days of the completion of each examination, the Auditor shall report
11 his findings and recommendations to the Capital Projects and Bond Oversight
12 Committee.
13 (f) Audit periodically all state revenue collections, and, if he finds that collections
14 are not being satisfactorily made, report that fact to the authority whose duty it
15 is to make the collections.
16 (g) Make special audits and investigations when required by the Governor.
17 (h) Investigate the means of accounting for, controlling, and insuring the safe
18 custody of all property of the state, and verify the existence and condition of
19 such property charged to, or held in the custody of any state agency.
20 (i) Audit the statements of financial condition and operations of the state
21 government, and certify in writing the results of the audit and examination
22 with the comments he deems necessary for the information of the General
23 Assembly.
24 (j) Report immediately in writing to the Governor, each member of the
25 Legislative Research Commission, and the secretary of the Finance and
26 Administration Cabinet, any unauthorized, illegal, irregular, or unsafe
27 handling or expenditure of state funds, or other improper practice of financial

1 administration, or evidence that any such handling, expenditure, or practice is
2 contemplated, and any obstruction of the Auditor or his agents during the
3 conduct of any audit or investigation of a state agency.
4 (k) Assist the Legislative Research Commission at hearings and investigations
5 conducted by it and cooperate with the Legislative Research Commission in
6 the preparation of its reports to the General Assembly.
7 (l) Keep accounts showing the costs of his own operations and of each separate
8 audit and investigation made by him, and the accounts he deems necessary to
9 provide a record of warrants of the state outstanding as of the end of each
10 calendar month.
11 (3) The Auditor may investigate and examine into the conduct of all state and county
12 officers who are authorized to receive, collect, or disburse any money for the state,
13 or who manage or control any property belonging to the state or in which the state is
14 interested, or who make estimates or records that are used as a basis by any state
15 agency in the disbursement of public funds.
16 (4) ***The Auditor may conduct a special audit or examination of a city government or***
17 ***any of its agencies or departments.***
18 ***(5)*** The Auditor shall not be responsible for the keeping of any accounts of the state,
19 except accounts relating to his own operations, and records of outstanding warrants.
20 He shall not be responsible for the collection of any money due the state, or for the
21 handling or custody of any state funds or property except in the process of counting
22 and verifying the amounts of the funds or property in the course of the audits
23 provided for in this section.
24 ➔Section 2. KRS 91A.040 is amended to read as follows:
25 (1) Except as provided in subsections (2) and (3) of this section, each city shall, after
26 the close of each fiscal year, cause each fund of the city to be audited by the Auditor
27 of Public Accounts or a certified public accountant. The audits shall be completed

1 by February 1 immediately following the fiscal year being audited. Within ten (10)
2 days of the completion of the audit and its presentation to the city legislative body
3 in accordance with subsection (4)(e) of this section, each city shall forward an
4 electronic copy or three (3) paper copies of the audit report to the Department for
5 Local Government for information purposes. The Department for Local
6 Government shall ***make available upon request either an*** [~~forward one (1)~~]
7 electronic or paper copy of the audit report to the Legislative Research Commission
8 to be used for the purposes of KRS 6.955 to 6.975 ***or to the Auditor of Public***
9 ***Accounts***.
10 (2) A city with a population of less than one thousand (1,000) based upon the most
11 recent federal decennial census shall, after the close of each odd-numbered fiscal
12 year, cause each fund of the city to be audited by the Auditor of Public Accounts or
13 a certified public accountant. The audits shall be completed by February 1
14 immediately following the fiscal year to be audited. Within ten (10) days of the
15 completion of the audit and its presentation to the city legislative body in
16 accordance with subsection (4)(e) of this section, the city shall forward an electronic
17 copy or three (3) paper copies of the audit report to the Department for Local
18 Government for information purposes. The Department for Local Government shall
19 ***make available on request either an***[~~forward one (1)~~] electronic or paper copy of
20 the audit report to the Legislative Research Commission to be used for the purposes
21 of KRS 6.955 to 6.975 ***or to the Auditor of Public Accounts***. After the close of
22 each even-numbered fiscal year, each city subject to the provisions of this
23 subsection shall prepare a financial statement in accordance with KRS 424.220 and
24 immediately forward one (1) electronic or paper copy to the Department for Local
25 Government, which shall ***make available on request either an***[~~forward one (1)~~]
26 electronic or paper copy of the financial statement to the Legislative Research
27 Commission ***or to the Auditor of Public Accounts***.

1 (3) Any city, which for any fiscal year receives and expends, from all sources and for
2 all purposes, less than seventy-five thousand dollars ($75,000), and which has no
3 long-term debt, whether general obligation or revenue debt, shall not be required to
4 audit each fund of the city for that particular fiscal year. Each city exempted in
5 accordance with this subsection shall annually prepare a financial statement in
6 accordance with KRS 424.220 and immediately forward one (1) electronic or paper
7 copy to the Department for Local Government for information purposes. The
8 Department for Local Government shall ***make available upon request either an*** [~~be~~
9 ~~responsible for forwarding one (1)~~] electronic or paper copy of the financial
10 statement to the Legislative Research Commission to be used for the purposes of
11 KRS 6.955 to 6.975 ***or to the Auditor of Public Accounts***.
12 (4) Each city required by this section to conduct an annual or biannual audit shall enter
13 into a written contract with the selected auditor. The contract shall set forth all
14 terms and conditions of the agreement which shall include but not be limited to
15 requirements that:
16 (a) The auditor be employed to examine the basic financial statements, which
17 shall include the government-wide and fund financial statements;
18 (b) The auditor shall include in the annual city audit report an examination of
19 local government economic assistance funds granted to the city under KRS
20 42.450 to 42.495. The auditor shall include a certification with the annual
21 audit report that the funds were expended for the purpose intended;
22 (c) All audit information be prepared in accordance with generally accepted
23 governmental auditing standards which include tests of the accounting records
24 and auditing procedures considered necessary in the circumstances. Where the
25 audit is to cover the use of state or federal funds, appropriate state or federal
26 guidelines shall be utilized;
27 (d) The auditor shall prepare a typewritten or printed report embodying:

1. The basic financial statements and accompanying supplemental and required supplemental information;
2. The auditor's opinion on the basic financial statements or reasons why an opinion cannot be expressed; and
3. Findings required to be reported as a result of the audit;

(e) The completed audit and all accompanying documentation shall be presented to the city legislative body at a regular or special meeting; and

(f) Any contract with a certified public accountant for an audit shall require the accountant to forward a copy of the audit report and management letters to the Auditor of Public Accounts upon request of the city or the Auditor of Public Accounts, and the Auditor of Public Accounts shall have the right to review the certified public accountant's work papers upon request.

(5) A copy of an audit report which meets the requirements of this section shall be considered satisfactory and final in meeting any official request to a city for financial data, except for statutory or judicial requirements, or requirements of the Legislative Research Commission necessary to carry out the purposes of KRS 6.955 to 6.975.

(6) Each city shall, within thirty (30) days after the presentation of an audit to the city legislative body, publish an advertisement in accordance with KRS Chapter 424 containing:

(a) The auditor's opinion letter;

(b) The "Budgetary Comparison Schedules-Major Funds," which shall include the general fund and all major funds;

(c) A statement that a copy of the complete audit report, including financial statements and supplemental information, is on file at city hall and is available for public inspection during normal business hours;

(d) A statement that any citizen may obtain from city hall a copy of the complete

1 audit report, including financial statements and supplemental information, for
2 his personal use;
3 (e) A statement which notifies citizens requesting a personal copy of the city
4 audit report that they will be charged for duplication costs at a rate that shall
5 not exceed twenty-five cents ($0.25) per page; and
6 (f) A statement that copies of the financial statement prepared in accordance with
7 KRS 424.220, when a financial statement is required by KRS 424.220, are
8 available to the public at no cost at the business address of the officer
9 responsible for preparation of the statement.
10 (7) Any city may utilize the alternative publication methods authorized by KRS
11 424.190(2) to comply with the provisions of this section.
12 (8) Any person who violates any provision of this section shall be fined not less than
13 fifty dollars ($50) nor more than five hundred dollars ($500). In addition, any
14 officer who fails to comply with any of the provisions of this section shall, for each
15 failure, be subject to a forfeiture of not less than fifty dollars ($50) nor more than
16 five hundred dollars ($500), in the discretion of the court, which may be recovered
17 only once in a civil action brought by any resident of the city. The costs of all
18 proceedings, including a reasonable fee for the attorney of the resident bringing the
19 action, shall be assessed against the unsuccessful party.
20 ***(9) Within a reasonable time after the completion of a special audit or examination***
21 ***conducted pursuant to Section 1 of this Act, the Auditor shall bill the city for the***
22 ***actual expense of the audit or examination conducted. The actual expense shall***
23 ***include the hours of work performed on the audit or examination as well as***
24 ***reasonable associated costs, including but not limited to travel costs. The bill***
25 ***submitted to the city shall include a statement of the hourly rate, total hours, and***
26 ***total costs for the entire audit or examination.***

President of Senate

Speaker-House of Representatives

Attest: Chief Clerk of Senate

Approved Governor

Date 1 APRIL 2016