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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Grayson County Fiscal Court for the fiscal year ended June 30, 2014. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in cash and cash equivalents of the Grayson County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The county should improve procedures with regard to disbursements. The county has several internal control deficiencies with regards to disbursements. Finance charges were paid, bills were paid in excess of 30 days, purchase orders were not dated or were dated after the purchase invoice date, and payments were made from duplicated or faxed invoices.

KRS 65.140 requires a county government that receives goods or services to pay for those goods and services within 30 working days or receipt of a vendor's invoice. Good internal controls dictate that adequate documentation be maintained to support all disbursements, such as all original vendor invoices. Purchase orders are meant to be used to ensure that funds are available for both purposes of the budget and also cash balance, and therefore should be negotiated prior to making purchases or ordering services. KRS 68.275 requires fiscal court approval before making purchases.

Lack of proper accounting practices and internal control increases the risk that misstatements of financial activity and/or errors will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or errors. We recommend the county maintain all original vendor invoices including any supporting documentation, have the fiscal court approve all disbursements, make payment on all invoices within 30 days, properly use purchase orders, and take further steps as needed to improve the expenditure process.

County judge/executive's response: Will see that that is done correctly.

The county lacks adequate segregation of duties over cash transfers, reports, and bank reconciliations. The county treasurer posts transactions into the accounting system, prepares reports for submission to the Department for Local Government, makes cash transfers between funds, and performs bank reconciliations for all bank accounts, with the exception of the jail fund. There were no documented compensating controls to offset the lack of segregation of duties.

Segregation of duties over cash procedures, deposit preparation, report preparation, and bank reconciliations is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Lack of adequate segregation of duties could result in the undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual in any one area without oversight can lead to irregularities that go undetected.

We recommend the county divide the responsibilities for receipts, cash transfers, and bank reconciliations among the treasurer, the finance officer, and other employees as needed to achieve an appropriate level of segregation of duties or implement compensating controls over these areas.

We noted that beginning in January 2014, the county judge/executive had initialed the bank reconciliations performed by the treasurer indicating his review of the reconciliations. We commend the county for this improvement and encourage the county to continue.

County judge/executive's response: Do what-ever it take's to correct.

The jailer should improve controls over purchases in the jail commissary. The jail commissary lacks sufficient internal controls. Of the 25 items tested, only four contained any visible documentation of approval for payment, one invoice included sales tax, only three invoices had the payment amount documented, and one item did not have original documentation.

The jail commissary should be exempt from paying sales tax because the jail commissary is a governmental entity which is exempt from sales taxes.

Lack of internal controls over purchases in the jail commissary can result in improper purchases being made using jail commissary funds. KRS 441.135(3) states that "Allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes."

We recommend that the jailer implement procedures by which approval for payment of invoices is evident. These procedures should include review of invoices to determine that all charges included are appropriate and correct, documentation of the proper payment amount, and retention of original documentation of purchases.

County judge/executive's response: Talk with Fiscal Court and correct problem.

County jailer's response: Changes above will correct this.(See response to next finding)

The Grayson County Detention Center lacks adequate segregation of duties over the accounting functions of the jail commissary. The jail lacks an adequate segregation of duties over jail commissary accounting functions without sufficient, documented, compensating controls to mitigate the risk. Proper segregation of duties over accounting functions is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. One employee prepares commissary deposits, makes deposits, prepares monthly reports, remits monthly reports along with inmate fees to the county treasurer, reconciles the bank account, and makes payments from the bank account. There is no evidence of a second employee or the jailer's review on the documentation. The lack of segregation of duties increases the risk of asset misappropriation and/or inaccurate financial reporting.

We recommend the implementation of the following procedures that could strengthen controls at the jail. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. If the jailer implements compensating controls he, or a designated person, should initial the supporting documentation reviewed.

- An independent person should agree daily deposits to the daily checkout sheet and the receipts ledger.
- An independent person should review monthly bank reconciliations.
- An independent person should review bank statements for unusual transactions.
- An independent person should compare invoices to payments.
- An independent person should review inventory records.

County judge/executive's response: Talk with Fiscal Court and correct problem.

County jailer's response: Deposits are matched to inmate software accounting system cash drawer activity report. Bank statements are being review now. Purchases are made by Commissary staff; reconciliation and payments made by Jail staff.

The fiscal court should annually set and approve salaries for all county employees. The fiscal court did not set and approve annually the salaries of all county employees in accordance with KRS 64.530(1), which states, "[T]he fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer."

The fiscal court's failure to update and annually set county employee salaries denies the magistrates and the public the opportunity to review all relevant financial information necessary for budgetary purposes.

We recommend that the county judge/executive's office annually prepare a list of each employee of the county and include the appropriate hourly rate for hourly employees and monthly or yearly amounts for all salaried employees and present this list to the fiscal court for approval.

County judge/executive's response: Thought we did that it will be done from now on.

The county should annually review the administrative code and make any changes or revisions deemed necessary. The fiscal court did not perform an annual review of the county's administrative code. KRS 68.005 states that the fiscal court should review the administrative code annually during the month of June. However, we could not find evidence that the fiscal court performed this review. Failure to review the administrative code annually increases the likelihood the county could implement a change to an outdated policy without updating the policy in the official code. This would put the county out of compliance with their own administrative code. We recommend the fiscal court review the administrative code and ethics code and make any changes or modifications necessary. This review and the approval of the changes by fiscal court should be reflected in the minutes of the fiscal court.

County judge/executive's response: We will review.

The audit report can be found on the auditor's website.

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