



Auditor of Public Accounts
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Edelen Releases Audit of Henderson County Fiscal Court

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

Recent changes in 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 Henderson County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court 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:

Quarterly financial reports presented to Fiscal Court and the Department for Local Government should accurately reflect cash, receipts, and disbursements. During testing auditors noted that the Fourth Quarter Financial Statement was not accurate. KRS 68.360 requires a statement for the year showing the actual receipts, encumbrances, disbursements, and transfers that is to be submitted to the state local finance officer. The former treasurer was out of the office for personal reasons during the close of the fiscal year. Closing adjustments were improperly classified causing the cash balances to be misstated. Without proper oversight, amounts on the financial statement could be materially misstated. We recommend the Fiscal Court monitor quarterly reports and compare quarterly reports to supporting documentation.

County Judge/Executive Donald Hugh McCormick's response: The current Treasurer is working to gain an understanding of the position and the requirements.

Fiscal Court investments should be properly documented. During testing of investments, we found that the former treasurer had not prepared an investment ledger. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, requires books of original entry be maintained for receipts and expenditures of all transactions of the fiscal court. This includes an investment ledger or journal. The former treasurer failed to prepare a ledger and there were no internal controls in place to ensure that the proper records were being maintained. Therefore, the Fiscal Court had no documentation of investment balances. Since there was no oversight, investments could be liquidated without Fiscal Court knowledge. We recommend the Fiscal Court require an investment ledger be maintained and investments be reviewed in order to verify amounts listed on the quarterly as investments.

County Judge/Executive Donald Hugh McCormick's response: A system has been put in place for maintaining an investment ledger and documentation of the balances.

The payroll revolving account was not properly reconciled. During testing of cash, we discovered the payroll account was not properly reconciled. The Department of Local Government County Budget Preparation and State Local Finance Officer Policy Manual requires monthly bank reconciliations as well as subsidiary ledgers and journals. Payroll activity was comingled with self-insurance fund transactions as well as flexible spending transactions. There were no ledgers to support each of these activities. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. Disbursements from the various funds of the county did not agree to amounts received by the payroll account. Prior year balance was used to pay current year expenses and therefore the transactions do not appear as disbursements on the financial statement and costs related to the self-insurance fund flex plan are not being captured and presented to fiscal court. We recommend the payroll account be properly reconciled, a separate fund and separate account be utilized for the Self Insurance Fund activity and that flex plan administration costs be presented to fiscal court and paid from the proper fund.

County Judge/Executive Donald Hugh McCormick's response: Procedures are in place to move forward with establishing a separate fund for a Self-Insurance Fund and handling of the Flex Plan administration during FY 2016.

Self insurance costs were not properly allocated to all funds or departments. Testing of the payroll account revealed that the General Fund was covering losses in the Self Insurance Fund. KRS 68.210 requires accurate subsidiary ledgers and journals. Losses should have been paid from the funds and activities that incurred them. The losses are caused by self insurance claims exceeding self insurance receipts, which included claims from various funds, the County Attorney's office, and also the Riverport. The County ends up paying the costs for self insurance participants that are not employees of the County. Additionally, the losses were not properly disclosed to fiscal court. We recommend the Fiscal Court require the Self Insurance Fund be maintained separately from other payroll activity, be included on the financial statement as a

budgeted fund, and post transfers to the Self Insurance Fund as expenses in the proper funds. Additionally, the County Attorney's Office and Riverport should be billed for their portion of the losses due to claims by their respective participants.

County Judge/Executive Donald Hugh McCormick's response: The Treasurer's office is in the beginning stages of implementing a Self-Insurance Fund and the reconciliation of the fund as well as educating the Departments, County Attorney and Riverport of the forthcoming procedures for losses due to the associated claims.

Jailer Ron Harrington's response: I was not aware that the County Health Insurance is 100% self funded until the audit exit, therefore I understand the Jail may incur additional expense.

All jail disbursements should be presented to Fiscal Court prior to payment. The Jail Commissary paid jail bills in excess of \$20,000. These bills were later reimbursed by the Jail Fund. KRS 441.225 states (1) Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal court shall not withhold approval of payment for jail expenditures, which are within the jail budget and not unlawful. These bills were not presented to Fiscal Court prior to payment. Since the bills were not properly submitted, they were not available to be analyzed prior to payment. We recommend that the Jailer have all invoices presented to the Fiscal Court for review prior to payment and approved payments should be recorded in the county's appropriation ledger as budgeted disbursements and not be paid from the jail commissary fund.

County Judge/Executive Donald Hugh McCormick's response: Refer to the Jailer's response.

Jailer Ron Herrington's response: Jail budget expenditures will be submitted to the County Treasurer's Office for fiscal court approval (except in cases of emergency).

Jail Commissary Fund has a lack of adequate internal controls. Testing of Jail Commissary disbursements found several large cellular phone bills paid from the Jail Commissary fund. One employee had run up excessive overages on minutes for several months. Upon evaluation we found that these bills had never been presented to the Jailer until questioned by auditors. Good internal controls dictate that the Jailer be informed of questionable expenses and that the Jailer should review monthly Jail Commissary bills. The Jail Administrative Assistant worked with the cell phone provider to get the bill credited but did not inform the Jailer of the minute overages or large bills. Since the Jailer was not properly informed of the expenses, internal controls were circumvented. If this activity could be hidden, other activity that is illegal or unallowable could take place and not be detected. We recommend the Jailer institute internal controls over jail commissary activity and review disbursements to determine that they are allowable and for the benefit of prisoners.

County Judge/Executive Donald Hugh McCormick's response: Refer to the Jailer's response.

Jailer Ron Herrington's response: I have appointed a jail employee to review Jail Commissary invoices to be paid to ensure expenses are allowable & for the benefit of the inmates.

The lack of adequate segregation of duties over receipts, cash, bank reconciliations, ledger postings, and financial statement preparation caused financial reporting errors. Testing disclosed a lack of segregation of duties over receipts, cash, bank reconciliations, ledger postings, and financial statement preparation as well as errors in these accounting functions. The Department of Local Government County Budget Preparation and State Local Finance Officer Policy Manual requires monthly bank reconciliations, accurate ledgers maintenance, and preparation of accurate quarterly financial statements. The treasurer performs all accounting functions over cash and receives, posts, and reconciles receipts as well as preparation of the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. Due to the lack of oversight the following errors were noted:

- The cover of the fourth quarter financial statement was not correct.
- No financial statements for the Bond Fund or Public Properties Corporation were prepared.
- No Schedule of Federal Awards was prepared.
- Liabilities section on the fourth quarter financial statement was understated.
- Payroll account was not properly reconciled.
- Flex plan activity was not properly accounted for.
- Bond Fund and Self Insurance Fund were not budgeted.

Segregation of duties over the functions noted above, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the fiscal court segregate these duties or implement compensating internal controls.

County Judge/Executive Donald Hugh McCormick's response: As the familiarity and acclimation of those in new positions in the office increases, errors and omissions should decrease allowing for increase in job knowledge, leading to segregation of duties.

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

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