



Auditor of Public Accounts
Adam H. Edelen

FOR IMMEDIATE RELEASE

Contact: **Stephene Hoelscher**
stephene.hoelscher@ky.gov
502.564.5841
502.209.2867

Edelen Releases Audit of Leslie County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Leslie 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 Leslie 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:

The Fiscal Court lacks adequate segregation of duties over cash, receipts, bank reconciliations, and payroll procedures. The Fiscal Court lacks adequate segregation of duties over cash, receipts, bank reconciliations and payroll. These control weaknesses are present because the County Treasurer is responsible for preparing deposits, posting to the receipts ledger, reconciling all bank accounts, preparing monthly reports for the Fiscal Court and quarterly reports for the Department for Local Government, and performing all payroll procedures. While some compensating controls are in place, including the preparation of receipt listings by the Occupational Tax Administrator, the comparison of these listings to the Quarterly Report(s) are not sufficient to ensure that all receipts are properly recorded.

No additional procedures have been implemented to verify the bank reconciliations agree to monthly or quarterly reports, or to ensure payroll reports are accurate and are properly recorded in the disbursement ledger. Lack of adequate segregation of duties can result in misstatements and/or in accurate financial reporting that is not detected in a timely manner. To adequately protect assets, effective internal controls require separation of duties involving deposit preparation, recording of receipts, reconciling the bank account, and preparation of payroll should be separated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Compensating controls may be implemented to reduce the risks associated with a lack of adequate segregation of duties. We recommend the duties over cash, receipts, bank reconciliations and payroll procedures be separated. The Fiscal Court can also strengthen internal controls by implementing the following compensating controls:

- An independent employee could compare the listing of receipts to the Treasurer's deposits and receipt ledger. The comparison should be documented.
- An independent employee could review the Treasurer's bank reconciliations for accuracy and compare to the ending fund balances. This review should be documented on the bank reconciliation.
- An independent employee could review payroll reports prior to distribution of payroll checks. The comparison should verify amounts such as gross wages, withholding amounts, amounts transferred to the payroll revolving account, and should be documented on the applicable payroll reports.

County Judge/Executive's response: The Leslie County Fiscal Court will implement the recommended compensating controls subject to financial and staffing limitations.

The Fiscal Court lacked adequate physical controls over the county's gravel stockpile resulting in gravel being used for personal use. Leslie County Fiscal Court lacked adequate physical controls over the County's gravel stockpile during Fiscal Year Ended June 30, 2014. This weakness was present because the County's gravel stockpile is located in an area where there was previously no fence or other physical controls in place to prevent unauthorized access to the gravel. The County Judge/Executive stated, approximately a year ago, he gave someone a five-gallon bucket of gravel to fill a pothole in their road. After that, County employees have caught individuals on multiple occasions loading County gravel into their trucks without authorization from the County that was presumably for private use. The County subsequently posted signs in May 2015 outside the gravel stockpile that read "ABSOLUTELY NO SHOVELING GRAVEL VIOLATORS WILL BE PROSECUTED" and hired someone to watch the gravel stockpile during evening and night hours to prevent unauthorized access. The County is also currently in the process of building a fence around the gravel that will prevent unauthorized access.

County resources are paid for with taxpayer dollars and any personal use of county resources is illegal and not permitted. The Kentucky Constitution Section 171 does not permit a county to expend public funds for private purposes. Lack of adequate physical controls over the County's gravel stockpile has resulted in individuals obtaining County gravel for personal use.

We recommend the County Judge/Executive continue to monitor the gravel stockpile and implement additional physical controls as needed to ensure gravel is only removed for authorized County use. We will refer this finding to the Kentucky Office of the Attorney General for further review.

County Judge/Executive's Response: This problem has been corrected and will be monitored for continued compliance.

The Jail Commissary lacked adequate segregation of duties. A lack of segregation of duties existed over all Jail Commissary accounting functions. The former Jailer's commissary bookkeeper received the mail, prepared deposits, issued receipts, prepared checks and signed checks. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. Adequate segregation of duties would have prevented the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. The former Jailer should have separated the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties could not be segregated due to limited number of staff or budget, strong oversight should have been provided over the employee responsible for these duties. Any compensating controls performed should have been documented. The following are examples of other controls the former Jailer could have implemented:

- The former Jailer, or his designee, could have periodically recounted and deposited cash receipts. This could have been documented by initialing the daily checkout sheet and deposit slip.
- The former Jailer, or his designee, could have periodically reviewed daily checkout sheets and compared to the receipts ledger. This could have been documented on the daily checkout sheet.
- The former Jailer, or his designee, could have opened bank statements and reviewed them for unusual items. This could have been documented by initialing the bank statement.
- The former Jailer, or his designee, could have completed bank reconciliations or reviewed the bookkeeper's bank reconciliations for accuracy. This could have been documented by initialing the bank reconciliation.

County Judge/Executive's response: No response.

Current Jailer's response: No response.

Documentation was not available to support Jail Commissary disbursements. A review of 28 disbursements from the Jail Commissary Fund, determined sufficient supporting documentation was not available for seven disbursements totaling \$6,865. Effective internal controls would require supporting documentation for all disbursements made from the Jail Commissary Fund. The lack of adequate segregation of duties over Jail Commissary accounting functions allowed this finding to occur without detection. As a result, the former Jailer cannot provide documentation that all disbursements from the Jail Commissary Fund were to enhance the well being of inmates. The former Jailer should have improved internal controls by maintaining documentation to support all jail commissary disbursements.

County Judge/Executive's response: No response.

Current Jailer's response: No response.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

