



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of McCracken County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the McCracken 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 McCracken 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:

Material weaknesses over cash resulted in unauthorized cash transfers. McCracken County Fiscal Court has material weaknesses in internal controls over cash that resulted in unauthorized cash transfers. Of the 25 cash transfers that were tested, \$6,201,118 was transferred between the operating funds. Fiscal court only approved the transfer of \$3,805,790, resulting in \$2,395,328 of unauthorized cash transfers.

Good internal controls over cash should include documented approval of cash transfers by the fiscal court prior to transferring any county funds. Without this approval, county funds could be misappropriated or misused. While of the items tested no funds were determined to be missing,

the lack of proper fiscal court oversight did result in the unauthorized transfers and therefore may have resulted in funds being used for purposes other than what they were intended.

We recommend the fiscal court require all cash transfers be approved by the fiscal court prior to the transfer being made. We also recommend such approvals be adequately documented in the fiscal court minutes.

County Judge/Executive response: Corrective action has been taken.

Decentralized receipts were not properly turned over to the county treasurer. The following findings were noted with the county's decentralized receipts:

- Planning Commission receipts were not submitted to the county treasurer to be recorded in the county treasury.
- Fees for building and electrical permits were turned over to the county treasurer once a month.

KRS 68.020(1) states, "The county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury, and shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefor. All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive." Because the Planning Commission chose not to turn their receipts over to the county treasurer, cash balances were omitted from required financial statements, supporting documentation for monies collected was not maintained, and disbursements of these funds were not approved by the fiscal court. As a result, the county was not in compliance with KRS 68.020(1).

In addition to KRS 68.020, KRS 68.210 states, "The administration of the county uniform budget system shall be under the supervision of the state local finance officer..." Minimum accounting requirements pursuant to KRS 68.210 include daily deposits intact into a federally insured banking institution. Because the county chose to turn fees for building and electrical permits over to the county treasurer once a month, the county was not in compliance with KRS 68.210.

We recommend the fiscal court comply with KRS 68.020(1) and KRS 68.210 by requiring all funds collected in locations other than the Treasurer's office to be submitted to the county treasurer for recording in the county treasury and deposited intact into a federally insured banking institution on a daily basis.

County Judge/Executive response: The Planning commission account was closed September 2014. We have instructed the building and electric staff to turn over receipts on a timely basis.

Weak internal controls over debt and debt service resulted in the misstatement of outstanding debt balances. Material weaknesses exist over the reporting of liabilities and debt

of McCracken County. The June 30, 2014 outstanding debt balances reported on the 4th Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive response: Corrective action has been taken.

Weak internal controls over capital assets resulted in the omission of capital asset additions from the county's schedule of capital assets. Material weaknesses exist over the reporting of capital assets of McCracken County. The county's schedule of capital assets for the period of audit failed to recognize all asset purchases that occurred throughout the year. Furthermore, at least one of these asset additions did not appear to be added to the county's insurance policy.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, those assets are left vulnerable to misappropriation or misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired, as should the county's insurance coverage. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

County Judge/Executive response: Updated software has allowed for more accurate reporting of capital assets.

The McCracken County Jailer failed to implement internal controls over the service organization handling inmate funds. For the fiscal year ended June 30, 2014, the McCracken County Jail contracted with a 3rd party service organization, to handle the operations of the jail commissary as well as inmates' funds. While such a contract is allowable by statute, the jailer is still considered the custodial agent for the inmates' funds and therefore is responsible for internal controls over them. However, because of the reliance placed on the service organization, the jailer exercised no internal controls over the inmates' funds, leaving them susceptible to potential errors and misappropriation.

We recommend the jailer establish internal controls over the activities of the service organization in order to protect the McCracken County Jail from loss or liability related to inmates' funds. At a minimum, these internal controls should include the following:

- Requiring the service organization to provide documentation of daily batched receipts, daily checkout sheets, and daily deposits.
- Requiring the service organization to provide supporting documentation for all amounts disbursed from the inmates' funds.
- Monthly reconciliations of the inmates' account balances to the bank balance to determine if inmates' funds maintained in this account are properly accounted for as required by statute.
- Having a knowledgeable jail employee review the work of the service organization handling the inmates' monies.

By implementing these internal control procedures, the jailer can strengthen the controls over jail inmate funds and reduce the risks of errors and misappropriation associated with them.

County Jailer's response: We have utilized this company for many years. We have always followed recommendations made by the auditors. However this is the first for some of the recommendations made. We have contacted the vendor and made necessary arrangements ask [sic] for.

The McCracken County Fiscal Court should improve internal controls over payroll and payroll related payments. The following findings were noted with the county's payroll system:

- Not all timesheets were signed by employees and supervisors.
- Documentation of Flexible Spending Account and Health Reimbursement Account (FSA/HRA) benefits was not found in the minutes of the fiscal court.

Strong internal controls and proper documentation of employees' benefits are vital in ensuring that payroll and benefits are properly accounted for. They are also important in protecting the county and its employees from potential disputes. Because the county failed to have either in place, the aforementioned findings occurred. In response to these findings, we make the following recommendations:

- McCracken County should require all timesheets to be signed by both the employee and his or her supervisor.
- Flexible Spending Account and Health Reimbursement Account (FSA/HRA) benefits should be properly approved, with said approval being documented in the minutes to the fiscal court meetings.

County Judge/Executive response: Documentation of FSA/HRA has been run through FC.

Weak internal controls over credit card disbursements resulted in late fees and potential misuse. The following findings were noted with the County's credit card disbursements:

- Two instances where finance charges were incurred.
- Six disbursements had no supporting documentation.
- Ten disbursements did not have adequate supporting documentation.
- The former EMA director made multiple food purchases by credit card that were undocumented and could not be explained.

KRS 65.140 requires payment of bills within 30 days. KRS 68.275(2) states, “The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.” Disbursements should be necessary, adequately documented, reasonable and beneficial to the business of the county. Additionally, the county’s policies and procedures state that “The county will reimburse for meals, with receipts only, at the rate of \$10 per meal or \$30 per day.”

Due to a lack of detailed review of receipts supporting disbursements and credit card charges, the reasonableness and/or allowability of the disbursements could not be determined; thus fiscal court cannot ensure purchases are valid and credit cards are not being abused. Because purchases on credit cards are not sufficiently documented, it is likely the members of the fiscal court are unaware of the nature and volume of items purchased with these cards. Meal charges exceed amounts allowable for an individual and meals possibly provided at training sessions were not properly documented.

We recommend the fiscal court address the aforementioned issues by:

- The fiscal court should require date stamp of all invoices when received and ensure that all invoices are paid within 30 days as required by KRS 65.140.
- The fiscal court should require copies of all paid invoices be maintained. All invoices should be for allowable expenses that have been properly approved, paid timely and in compliance with budget and legal requirements.
- The fiscal court should require all receipts be submitted to support the charges on the credit card bill. Any charges without supporting receipts will be the responsibility of the user to pay.
- All claims should be presented to fiscal court for approval in accordance with KRS 68.275.
- Every payment should show evidence of sufficient review and approval before payment.
- Once the credit card statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the fiscal court for approval.
- The fiscal court should perform detailed reviews of credit card receipts and bill statements to ensure all purchases are necessary, reasonable, were properly requested and approved, sufficiently documented and recorded.

County Judge/Executive response: The County Judge Executive has instructed any employee utilizing county credit card to be issued a PO prior to transaction.

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

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