



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Clinton County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Clinton County Fiscal Court for the fiscal year ended June 30, 2015. 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 fund balances of the Clinton 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 comment:

The fiscal court lacks adequate segregation of duties over receipts, disbursements, record keeping, report preparation, and reconciliations. A lack of segregation of duties exists over the following accounting functions: receipts, collection and processing, record-keeping, disbursement processing, report preparation, and reconciliations.

The county treasurer prepares and deposits the receipts, posts to the ledgers, prepares reports from those ledgers for submission to the Department for Local Government, and performs the bank reconciliations. The occupational tax administrator receives and documents payments received for occupational tax and net profits tax. The finance officer prepares a listing of bills for

the fiscal court's approval and prints the checks. The county judge/executive and county treasurer sign the checks without evidence of a comparison to the invoices.

Lack of segregation of duties could result in inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this. We also recommend the county treasurer and county judge/executive compare checks against the original invoices prior to signing them. This comparison could be documented by both the county judge/executive and county treasurer initialing cancelled invoices. Additionally, we recommend the ledgers maintained by the county treasurer and finance officer be reconciled monthly with documentation of the reconciliation noted.

County Judge/Executive's response: No Response.

The fiscal court should improve purchase and procurement procedures. The fiscal court has a lack of segregation of duties and weak internal controls over purchase and procurement procedures. As a result, the following deficiencies were noted:

- One invoice was not paid within 30 days from receipt of invoice.
- Adequate documentation was not maintained to support fuel disbursements of \$1,378.
- Haul tickets were not signed by a county employee nor were they turned into the finance officer by a county employee. All haul tickets were turned in by the vendor to the finance officer.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, agreed to the corresponding purchase order, and cancelled upon payment. All purchase orders should be approved and issued before the work or service is performed. KRS 65.140 states in part, "Unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor...."

We recommend the fiscal court maintain all original vendor invoices, including any supporting documentation, and comply with KRS 65.140 by paying vendors within 30 working days unless the purchaser and vendor otherwise contract. In addition, we recommend all haul tickets be signed by a county employee, with one returned to the driver and the second turned into the finance officer to be matched to the vendor's invoice before the invoice is paid.

County Judge/Executive's response: No Response.

The fiscal court should improve controls over service organization. Ambulance service user fees are billed and collected by an independent contractor. Accounting standards refer to this arrangement as a service organization contract. The fiscal court was unaware of the total being billed, collected and forwarded to the collection agency due to a lack of information sharing between the county treasurer, ambulance director, and contractor. The ambulance service logs information for each user on a run sheet which is picked up by the contractor three days a week. The ambulance director and contractor regularly review the run sheets to ensure all runs are accounted for and turned over to the contractor. The contractor then bills the user, who forwards their payments to the ambulance's post office box which is picked up daily by the contractor and forwarded to the county treasurer. The contractor collects the monies on behalf of the ambulance service, but all funds collected and reports issued by the contractor are given to the county treasurer. The county treasurer and ambulance director do not compare information, which could allow bills to be under paid, unpaid, or unaccounted for. When outstanding bills are considered uncollectible by the contractor, they are transferred to a collection agency on behalf of the county. Those uncollected bills are not being properly accounted for. Based on information provided by the contractor, the county has \$1,670,634 outstanding receivables as of June 30, 2015. In addition, it was noted the current agreement on file between the contractor and the fiscal court has expired.

The process used for billing could result in the fiscal court receiving less revenue than it should. This could further lead to fraudulent billing or lack of billing.

The service organization arrangement does not relieve the fiscal court of its responsibility to maintain internal accounting controls designed to reduce the risk of material misstatements in the financial statements.

We recommend that the fiscal court institute monitoring procedures to ensure adequate control over the ambulance billing and collection process. We further recommend the fiscal court require the service organization to have an audit, and also update contracts as necessary to keep them current.

County Judge/Executive's response: No Response.

The fiscal court should maintain accurate capital asset records. The fiscal court is not maintaining an accurate asset schedule. Because the fiscal court is not providing adequate oversight in this area, numerous audit adjustments were made to the fiscal court's asset schedules. These adjustments resulted in total decreases of the beginning balances of land by \$10,605,164 and infrastructure by \$42,910. The adjustments also resulted in totals of buildings increasing by \$2,504,742, vehicles by \$78,063, and equipment by \$49,044.

By not maintaining an accurate schedule, there is a risk that capital assets may not be insured or that the fiscal court pays insurance premiums for assets they no longer own.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper valuation, adequate and accurate insurance

coverage, internal control, and long range planning for property replacement. The manual states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, useful life of the asset, salvage value, depreciation expense, accumulated depreciation, and proceeds from sale or disposal of assets. In addition, the manual states that a capital asset record should be prepared for each acquisition.

We recommend the fiscal court appoint an employee in charge of maintaining capital assets. The employee should maintain records throughout the year of purchases and retirements of assets, and provide periodic updates to the fiscal court. Purchases should include the date the asset was acquired, a description of the asset, the vendor name, the amount, salvage value and useful life. Invoices for asset acquisition should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. We further recommend that as an asset is retired or disposed of, it be removed from the listing. The fiscal court should also improve procedures to ensure that all changes to the insurance for additions or deletions be completed timely and documentation should be maintained evidencing the requested changes to the insurance. If possible, an inventory count at June 30 of each fiscal year should be conducted. The fiscal court should provide the necessary oversight needed to perform this important function.

County Judge/Executive'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.

