



Auditor of Public Accounts  
Mike Harmon

FOR IMMEDIATE RELEASE

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### **Harmon Releases Audit of Kenton County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Kenton 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 Kenton 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 Kenton County Golf Course had lax internal controls which increased opportunities for misappropriations of assets.** There are internal control weaknesses at the Kenton County Golf Course which significantly increase the risk of fraud and misappropriation of funds, and decrease the assurance of accuracy of records provided.

This condition is a result of poorly designed policies and procedures, inconsistent, incomplete, and inaccurate implementation of controls as well as lack of segregation of duties of key processes. There are no written policies and procedures for significant golf course activities such as raincheck redemption, inventory counts, and refund approvals/authorizations. There is also a lack of management oversight and involvement.

The former golf course manager was able to override and bypass internal controls because the controls were weak, easily manipulated, and in some cases, nonexistent. He was able to alter accounting records provided to the county that hid cash shortages, initiate negative transactions for unauthorized refunds, use customer checks received from one day to replenish the shortages of another day, allow rainchecks to be used for store inventory, and have unrecorded golf course receipts and disbursements. It is not clear whether he identified the weaknesses already in existence when he began working as manager of the golf course in July 2012, or created these weaknesses by segregating duties and/or circumventing and removing controls.

Good internal controls dictate that strong supervisor review and oversight can reduce the risk of misstatement and uncorrected errors. Because the Kenton County Golf Course had such significant internal control weaknesses, the county should implement improvements as soon as possible. The following recommendations are supplemented by additional recommendations presented throughout this report. The county should:

- Implement internal controls that ensure an adequate internal control structure, including management oversight, provides reasonable assurance that assets are safeguarded, transactions are processed in accordance with applicable laws and regulations, transactions are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial data;
- Develop policies and procedures to address all significant functions of the Kenton County Golf Course;
- Segregate duties so that no one person can both create and conceal fraudulent activity or commit a material error that would go undetected;
- Structure the golf course accounting controls so that the manager does not post transactions, but instead serves as oversight and supervisory review of other staff in these duties;
- Implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing; and
- Increase direct oversight of financial reporting for all receipts and disbursements.

*Kenton County Judge/Executive, Kris Knochermann's Response: All internal controls, policies and procedures have been reviewed and all necessary changes implemented. These have been reviewed by an outside committee and the State Auditor's Office. On July 1, 2016, the County entered into a lease agreement with [a vendor] for the golf course property, equipment and improvements for a three year term with three annual renewal terms. [The vendor] assumed all operations and all financial risk of operations.*

Auditor's Reply: The Auditor of Public Accounts office would not be able to do a complete test of the newly implemented controls until the audit of Fiscal Year 2016. Auditors performed a review up to the report date and noted that many, but not all, of the newly implemented controls were adequately functioning as intended.

**The former golf course manager acted as IT administrator of the Kenton County Golf Course accounting system.** The former golf course manager acted as the IT administrator for the accounting system, point of sale system, and had complete access to user information.

The former golf course manager set up all user IDs and passwords. Further, the former golf course manager denied access to the golf course's accounting system to other authorities such as the fiscal court and local CPAs performing annual audits. Additionally, he created timesheets for some of his employees, listing eight hours each day without lunch breaks. Lastly, he permitted the user ID used to log in to the cash register each morning to be used all day by anyone using that register.

This unfettered access resulted in transactions occurring after hours with user IDs belonging to employees who had already clocked out for that work day. Further, it allowed a supervisor to create timesheets that should have been created by each employee, reflecting actual time worked.

Good internal controls dictate that someone independent of collecting and recording cash be administrator for the accounting system.

We recommend the county ensure the golf course has segregation of duties, ensure staff sign out of a cash register when he or she is not using it and before clocking out, and require all user IDs and passwords be set up by the county's IT administrator. This function should not be under the control of the golf course manager.

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**The Kenton County Golf Course did not have adequate controls over receipts and reconciliations.** The Kenton County Golf Course did not comply with the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*.

- Receipt ledgers maintained at the golf course did not agree to the records provided to the county (cash shortages were omitted).
- There were undeposited receipts (cash shortages) in the amount of \$34,290 during Fiscal Year 2015. The county believes there were substantial undeposited receipts from July 2012 to October 2015. The county immediately contacted law enforcement and have cooperated fully in their investigation.
- Deposits were not made intact or on a timely basis.

- Supporting documentation for daily deposits was not organized or always available.
- Cash/check per deposit tickets did not always agree to cash/check per daily checkout sheets.
- Point of sale (POS) functions were not being utilized (cash drawers were not balanced with POS and deposits were not calculated with POS at the end of each day).
- There were no reconciliations of cash collections/deposit tickets to the point of sale totals.
- Restrictive endorsements were not immediately put on checks.
- The safe was left unlocked all day.
- Keys to cash drawers were left in the drawers at all times.
- Security cameras were not operable.
- Cash receipts from events were not always properly reported or posted to ledgers.
- There was a lack of adequate segregation of duties over receipts at the golf course.

This condition is due to poorly designed policies and procedures, inconsistent, incomplete, and inaccurate implementation of controls, and lack of management oversight/involvement.

Based on the minimum accounting and reporting standards as prescribed by the *County Budget Preparation and State Local Finance Officer Policy Manual* pursuant to KRS 68.210, the golf course should maintain daily checkout sheets and a receipts journal. At the end of each business day, receipts should be separated into categories listed on the checkout sheet. The total of each category should be entered in the appropriate space provided. The daily checkout total should equal the amount of money on hand at the end of each day, less startup cash. When total collections match the total cash on hand, receipts should be posted to the receipts journal on a daily basis. The total amount category should agree with the deposited amount on the daily checkout sheet, which should agree to the amount per the point of sale system. All collections should be in a secure location with access only allowed for pertinent individuals. Further, good internal controls dictate that the same person should not balance the receipts, prepare the deposits, make the deposits, and then verify/reconcile the deposits to the bank and accounting system.

The cumulative effect of the control weaknesses increases the risk of material misstatement caused by error or fraud and resulted in \$34,290 undeposited receipts. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the Kenton County Golf Course.

We recommend the county ensure the following at the Kenton County Golf Course:

- Accurate accounting records should be maintained for all transactions processed at the golf course.
- All funds should be deposited intact on a daily basis. The amount deposited should agree with the corresponding day's checkout sheet and amounts per the point of sale system.
- Sufficient supporting documentation should be maintained for all transactions.
- Total cash/checks per deposit tickets should agree to total cash/checks per daily checkout sheets.
- Point of sale functions should be utilized in preparing daily checkout sheets and deposit tickets and in preparing reconciliations.
- Restrictive endorsements should be immediately put on checks.

- The safe should be locked at all times of the day.
- Keys to cash drawers should be in the care of a responsible supervisor or manager.
- Security cameras should be functioning properly and reviewed as needed.
- Receipts from all events should be properly reported and recorded.
- Appropriate segregation of duties should be implemented.

*Kenton County Judge/Executive, Kris Knochelmann's Response: All internal controls, policies and procedures have been reviewed and all necessary changes implemented. These have been reviewed by an outside committee and the State Auditor's Office. On July 1, 2016, the County entered into a lease agreement with [a vendor] for the golf course property, equipment and improvements for a three year term with three annual renewal terms. [The vendor] assumed all operations and all financial risk of operations.*

Auditor's Reply: The Auditor of Public Accounts office would not be able to do a complete test of the newly implemented controls until the audit of Fiscal Year 2016. Auditors performed a review up to the report date and noted that many, but not all, of the newly implemented controls were adequately functioning as intended.

**The Kenton County Golf Course manager overrode the county's disbursements policy.** It is the county's policy that all invoices should be timely remitted to, properly authorized, and paid by the county treasurer's office. Interviews and testing revealed that the former golf course manager did not abide by the county's purchasing policies and procedures.

Due to a lack of direct oversight and a lack of segregation of duties at the Kenton County Golf Course, the golf course manager remitted invoices to the county in an untimely manner, resulting in payments for goods or services not being made within 30 working days. He gave cash to employees working at the Kenton County Golf Course Grill when they needed to replenish inventory/food items and paid invoices for large outings by cash or cashier checks. Unauthorized non-check disbursements resulted in off-the-record disbursements and misstated financial statements.

KRS 68.275 states: "(1) [c]laims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer. (2) 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. (3) The fiscal court may adopt an order, called a standing order, to preapprove the payment of recurrent monthly payroll and utility expenses. No other expenses shall be preapproved pursuant to this subsection without the written consent of the state local finance officer. . . ."

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, pursuant to KRS 68.210, requires all disbursements be made by check only.

KRS 65.140 states that all bills for goods or services shall be paid within 30 working days of receipt of a vendor's invoice. An interest penalty of one percent of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the 30 working days.

We recommend the county provide direct oversight and adequate segregation of duties at the Kenton County Golf Course in order to decrease the opportunity and ability of overriding controls over disbursements. We further recommend they ensure all invoices are paid timely, made by check, have proper authorization, and are properly recorded to the ledgers and financial statements.

*Kenton County Judge/Executive, Kris Knochelmann's Response: All internal controls, policies and procedures have been reviewed and all necessary changes implemented. These have been reviewed by an outside committee and the State Auditor's Office. On July 1, 2016, the County entered into a lease agreement with Davey Golf for the golf course property, equipment and improvements for a three year term with three annual renewal terms. Davey Golf assumed all operations and all financial risk of operations.*

Auditor's Reply: The Auditor of Public Accounts office would not be able to do a complete test of the newly implemented controls until the audit of Fiscal Year 2016. Auditors performed a review up to the report date and noted that many, but not all, of the newly implemented controls were adequately functioning as intended.

**The Kenton County Golf Course did not have adequate controls over rainchecks and gift cards.** The Kenton County Golf Course issues rainchecks to golfers who are unable to finish golfing due to rain delays. Golfers are able to redeem rainchecks only for playing time lost and for golf cart rentals. We noted that rainchecks were redeemed for things other than lost playing time and golf cart rentals.

The Kenton County Golf Course did not have adequate controls over the issuance and redemption of rainchecks. There was not a senior employee responsible for authorizing the issuance or redemption of rainchecks, and no one was comparing rainchecks issued versus rainchecks redeemed. There was no written policy over the issuance and redemption of rainchecks. Also, the raincheck redemption function in the point of sale accounting software used by the golf course was not being utilized.

Good internal controls dictate that strong controls be in place for items such as rainchecks that could be substituted for cash in the accounting system.

The lack of controls led to the following issues:

- Rainchecks were redeemed for purchases at the Kenton County Golf Course store (which increased the former golf course manager's commissions from the sale of inventory);
- Total rainchecks issued from 2009 through the end of Fiscal Year 2015 was \$141,193, while total rainchecks redeemed during Fiscal Year 2015 alone was \$130,776; and

- Several days there were multiple high-dollar rainchecks redeemed after the Kenton County Golf Course was closed.

We recommend the Kenton County Golf Course implement strong controls over the issuance and redemption of rainchecks. These should include strong oversight and authorization procedures. The policies they decide to put in place should be in writing and communicated to all golf course employees.

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**The county did not have a written agreement to protect deposits.** The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2015, the county had bank deposits of \$37,040,809; FDIC insurance of \$250,000; and collateral pledged or provided of \$39,166,230.

Even though the county obtained sufficient collateral, the pledge or provision of collateral was not approved by the board of directors of the depository institution or its loan committee, and there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral.

According to 12 U.S.C.A. §1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

The county failed to obtain a signed agreement after switching depository institutions. In the event of a depository institution failure, the county's deposits may not be returned.

We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. The agreement should meet the requirements of 12 U.S.C.A. §1823(e).

*Kenton County Judge/Executive, Kris Knochelmann's response: As stated, the County's bank deposits of \$37,040,809 were collateral pledged in the amount of \$39,166,230. The County is obtaining a formal written agreement with the depository institution. The agreement will be in compliance with 12 U.S.C.A. §1823(e).*

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

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