



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 LaRue County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the LaRue 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 LaRue 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 LaRue County Fiscal Court lacks adequate segregation of duties over cash and receipts. The LaRue County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. The fiscal court has not implemented a policy to ensure segregated duties or sufficient compensating controls. The lack of adequate segregation of duties and too much control by one individual could result in the undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate

segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend further compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting, and implementing reconciliation of ambulance receipts with other personnel by the county treasurer.

Judge/Executive's Response: Lack of Segregation of Duties is a somewhat standard comment found in most small and medium county audits. The resolution to this audit comment is the hiring of additional personnel, which counties cannot afford. We understand the requirement to place this comment in most county audits.

The LaRue County Fiscal Court lacks strong internal controls over disbursements. The LaRue County Fiscal Court had a deficiency in internal controls over disbursements which caused the county to be out of compliance with state budget law. The LaRue County Fiscal Court approved claims and made appropriations in excess of budgeted appropriation amounts 283 times during the fiscal year without approval of budget transfers prior to overspending. These claims were approved and paid even though the budget line item did not have sufficient budgeted free balance. The fiscal court does not have sufficient internal controls in place to ensure compliance with state budget laws. Strong internal controls over disbursements are important to ensure the budget is not overspent. The lack of internal controls increases the risk of material misstatement due to fraud or error.

KRS 68.275(1) states, "Claims 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." Strong internal controls dictate that fiscal court approve budget transfers prior to disbursing funds to prevent overspending budget line items.

We recommend the fiscal court implement strong internal controls over disbursements to ensure that budget transfers be obtained prior to disbursing funds to prevent overspending budget line items.

Judge/Executive's Response: This comment has been made in prior audits and refers to the accounting procedure/program used by the Fiscal Court. The current program used will cause a negative balance to appear on the ledger sheet prior to a transfer to the account resulting in a positive balance. Sufficient funds are available for disbursement but by having the negative balance show, even for only a matter of minutes, the ledger appears to have a claim paid without a corresponding positive balance on the ledger sheet. The vendor of the program has worked with staff to implement procedures to address the error and correct the issue in the comment.

The LaRue County Fiscal Court lacks adequate controls over capital assets. The capital asset schedule prepared by the county did not include all additions or disposals to accurately reflect the prior year audit. The auditor noted there is no annual inventory count review or reconciliation of the inventories to the capital asset schedule to ensure accuracy. Insufficient records and management oversight resulted in noncompliance with the Department for Local Government's policy documented in the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. Not implementing an annual inventory count or maintaining an accurate list of capital assets could result in new assets not being insured and retired assets not being removed from the insurance. Further, the capital asset schedule included in the financial statements could be materially incorrect. Per the Department for Local Government's policy the asset inventory listing should provide the following detail: property tag number, asset description, serial number (if applicable), quantity (if applicable), cost, date of acquisition, date of disposal, property location, and manager/individual responsible. Good internal controls over compliance dictate adequate supporting documentation be maintained for assets and the capital asset schedule be updated regularly throughout the year to ensure accurate information is recorded.

In order to strengthen controls over capital assets and infrastructure, we recommend the fiscal court conduct annual inventories and require departments to submit completed inventory sheets to the county judge/executive's office. The submitted inventory should then be reconciled to the capital asset schedule. We recommend the county's capital asset schedule include the date of acquisition and the additions, disposals, and retirements be documented accordingly.

Judge/Executive's Response: GASB (Governmental Accounting Standards Board) principles have changed and required additional inventory accounting. All major capital assets are have been, for years, inventoried and documented. However, GASB now requires the inventory of assets, many formerly considered minor in nature, that were not inventoried in the past. Inventories will be updated to include all that meet the requirement threshold.

The LaRue County Fiscal Court lacks adequate controls over reconciliation of the payroll revolving bank account. The county has not completed regular, accurate reconciliations for this bank account, resulting in a balance at June 30, 2015 of \$110,639. This includes interest earned over several years. In addition, the account was overdrawn several times during the year causing overdraft fees totaling \$925. Insufficient records and management oversight resulted in a control weakness over the payroll revolving bank account. Not reconciling the payroll revolving bank account monthly could result in misappropriation of funds and inaccurate financial reporting. Good internal controls require timely, accurate reconciliations to ensure all funds are properly accounted for.

We recommend the county complete monthly reconciliations of the payroll revolving bank account and reconcile the account to zero every month. A listing of outstanding checks and liabilities should be attached to each monthly report. Sufficient funds should be transferred to pay payroll to avoid overdraft charges. We recommend that funds remaining in the payroll revolving fund totaling \$110,639 be transferred to the general fund.

Judge/Executive's Response: Upon resignation of the Sheriff in February 2013, an advancement account had not been established by the Sheriff for payment of his office payroll expenses. This required funds to be advanced to the payroll account and the lack of the Sheriff's state advancement account caused the payroll account to be overfunded and underfunded for a period of time. The funds have now been transferred to the general fund and the issue no longer exists.

The LaRue County Jailer did not prepare an annual financial statement and maintain required records for the jail commissary fund. The annual report of the jail commissary fund was not provided to the county treasurer at the end of the fiscal year. The jailer did prepare a cash flow summary for the auditor. However, it did not accurately reflect the commissary's records. The cash flow summary does not indicate the source of receipts as required. It reflects only the deposits made as an account line item "cash on hand." The expenditures are listed by source, but do not separate jail commissary from jail inmate monies. These deficiencies in jail commissary fund for accounting and reporting were allowed to occur because the jailer's controls and oversight over reporting did not operate properly. Failing to maintain accurate records can result in inaccurate information as to funds available for use for benefit of the inmates. Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements. Kentucky Revised Statute (KRS) 441.135 requires the jailer to maintain records of receipts and disbursements of the Jail Commissary Fund and to prepare a report annually for the county treasurer. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The instructional guide for *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidelines to maintaining records for the jail commissary fund.

In accordance with these guidelines, the jailer should maintain the following records:

- Daily checkout sheets should include a category for all funds collected to be posted to the jail commissary's Receipts Journal.
- Jail commissary receipts journal should agree with the daily checkout sheets and include a category for all funds collected.
- Jail commissary disbursements journal should include every check written. Each check written should be posted to the proper category.
- Jail commissary summary and reconciliation can be used as a monthly cash reconciliation and as the year-end report to be submitted to the county treasurer. The year to date summary section of this report will provide a cash balance at any time during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The reconciliation section of this report reconciles the bank balance to the cash balance.

We recommend the jailer comply with the applicable statutes by maintaining required records and preparing and submitting an accurate annual commissary report to the county treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts ledger and disbursements ledger.

Judge/Executive's Response: The comment must be addressed by the Jailer who is in charge of jail operations and accounting.

Jailer's Response: None.

The LaRue County Jail lacks adequate segregation of duties. A lack of segregation of duties exists over all jail commissary fund accounting functions. The bookkeeper receives the mail, prepares and deposits the receipts, and writes checks. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. If one employee is solely responsible for the receipt, disbursement, the reconciling process, and reporting, the risk of misappropriation of assets and inaccurate financial reporting increases. The jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the jailer cannot ensure all receipts and disbursements are properly recorded and accounted for.

We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to a limited number of staff or a limited budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

County Judge/Executive's Response: The comment must be addressed by the Jailer who is in charge of jail operations and accounting.

Jailer's Response: None.

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

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