



Auditor of Public Accounts
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Harmon Releases Audit of Leslie County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Leslie 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 cash and cash equivalents of the Hopkins 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 fiscal court did not obtain bids as required by statute. During fiscal year 2015, the fiscal court contracted with three different vendors who received payments for more than \$20,000 without bidding for projects. The county failed to advertise for bids in compliance with KRS 424.260.

In addition, the fiscal court's 2015 illegal dump remediation grant application consisted of at least four dump site locations with estimated total project costs exceeding \$20,000. Multiple projects including road repairs, bridge repairs, and dumpsite cleanups were given to vendors without bidding, which may have led to the county not receiving the best price. Furthermore, by

not obtaining bids for dumpsite cleanups with estimated costs over \$20,000 the fiscal court was not in compliance with initial grant requirements. Total project costs for these four dump site locations ranged from \$19,700 to \$19,995.

According to KRS 424.260, “no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000), without first making newspaper advertisement for bids.” According to the fiscal court’s 2015 illegal open dump remediation grant agreement, “if a contractor is to be used to perform the cleanup of the illegal open dump, competitive sealed bids are required for an individual dumpsite estimated to exceed \$20,000.” We recommend the fiscal court ensure any purchases for \$20,000 or more are bid in compliance with KRS 424.260. We also recommend the fiscal court ensure they are in compliance with all applicable grant agreement requirements.

County Judge/Executive’s response: Any invoices paid without being let out for bid and above \$20,000 were in response to emergency circumstances.

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 weakness 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 inaccurate 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. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

If duties cannot be adequately segregated due to a limited staff, 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 may also choose to implement the following compensating controls:

- An independent employee could compare the listing of receipts to the county treasurer’s deposits and receipts ledger. The comparison should be documented.

- An independent employee could review the county 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: Subject to financial and staffing limitations the Leslie County Fiscal Court will implement the necessary compensating controls.

The jail commissary lacks adequate segregation of duties over all jail commissary accounting functions. A lack of adequate segregation of duties existed over all jail commissary accounting functions. The jailer's commissary bookkeeper receives the mail, prepares the deposits, issues receipts, prepares checks, and co-signs checks. Although, the jailer said he reviews supporting documentation, there is no documentation of his review. 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.

Effective internal controls dictate that essential duties should be separated. 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. If these duties could not be segregated due to a limited number of staff or budget, strong oversight should be provided by the jailer or an employee not responsible for these duties.

We recommend the jailer separate duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If the jailer chooses, he may implement compensating controls to reduce the risks associated with this weakness. The following are examples of compensating controls that can be implemented:

- The jailer, or his designee, can periodically recount and deposit cash receipts. This should be documented by initialing and dating the daily checkout sheet and deposit slip.
- The jailer, or his designee, can periodically review the daily checkout sheets and compare to the receipt ledger. This can be documented by initialing and dating the daily checkout sheet.
- The jailer, or his designee, can open bank statements and review them for unusual items. This can be documented by initialing and dating the bank statement.
- The jailer, or his designee, can complete the bank reconciliation or review the bookkeeper's bank reconciliations for accuracy. This can be documented by initialing and dating the bank reconciliation and bank statement.

Current Jailer's response: As indicated in the Report, I have one individual assigned to oversee the Jail Commissary. [Jail employee's name] is the Supervisor of the Commissary. [Jail employee's name] was appointed by me to the commissary supervisor position in January 2015. Working with [Jail employee's name], however, are several individuals: [Jail employee's name, Jail employee's name, and Jail employee's name]. While [Jail employee's name] oversees them,

each of them perform sales related functions. With regard to the accounting issues, [Jail employee's name] and I have been the two who have had oversight responsibilities. Due to a limited budget, I am unable to hire another individual to work in commissary. Given that budget restriction, during the relevant time period, no check was issued without my signature on it as well as the signature of [Jail employee's name]. In addition, [Jail employee's name], as well as other supervisors, provide a weekly report to me during a specifically designated time (Monday evenings at 4:00 p.m.)

Further, the following controls are in place:

- 1) [Jail employee's name] and I co-sign all checks;*
- 2) [Jail employee's name] provides a weekly report to me, as well as to other supervisors, on the commissary account. She answers any questions asked of her during that meeting;*
- 3) Beginning approximately one month ago, I am reviewing and initialing all cash receipts;*
- 4) I, or my Human Resources Supervisor [Jail employee's name], have begun and will continue to open bank statements and review them prior to providing them to [Jail employee's name] for reconciliation;*
- 5) I, or my Human Resources Supervisor [Jail employee's name], will periodically recount the cash deposits. We have already engaged in this practice with regard to the vending machine account; and*
- 6) I, or my Human Resource Supervisor [Jail employee's name] will review the bank reconciliations for accuracy.*

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

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