



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Marshall County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Marshall 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 Marshall 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:

**Internal control deficiencies over cash resulted in an unauthorized cash transfer.** The Marshall County Fiscal Court has deficiencies in internal controls over cash that resulted in an unauthorized cash transfer. Of the 16 cash transfers that were tested, one was not properly approved by the fiscal court, resulting in a \$500,000 unauthorized transfer.

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 oversight by the fiscal court did result in an unauthorized transfer and could 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 Neal's Response: Our budget reflected \$2,012,953 of approved for transfer from Occupational Tax Administrator Account to the Road Fund for Fiscal Year 2015. Due to expenses a \$500,000 transfer from the Occupational Tax Administrator Fund to the Road Fund was made prior to Fiscal Court approval. This occurrence was 1 out of 16 transfers.*

**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 Marshall County. The county's schedule of capital assets for the audit period failed to recognize all asset purchases that occurred throughout the year.

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, they are left vulnerable to misappropriation or misstatement. Because the county failed to emphasize strong internal controls over the reporting of capital assets, these misstatements were able to occur without detection.

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. 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 Neal's Response: We recognize this finding as a valid weakness in our internal controls and will take your recommendations into consideration to strengthen our capital assets schedule.*

**The Marshall County Fiscal Court failed to report all receipts and disbursements associated with all county activities.** During Fiscal Year 2015, Marshall County had multiple bank accounts that were excluded from the county's 4<sup>th</sup> quarter financial report and budget process. These accounts included activities associated with E-911, the Office of Emergency Management, the Marshall County Animal Shelter, and Geographical Information Systems. Due to the nature of these accounts and sources of funding, the county elected not to include the corresponding receipts and disbursements in the county's budget process or on the county's 4<sup>th</sup> quarter financial report. As a result, the county's 4<sup>th</sup> quarter financial report was misstated.

According to KRS 68.020(1), "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.” Furthermore, having “off the books” accounts without fiscal court oversight leaves these funds susceptible to misappropriation.

We recommend the county comply with KRS 68.020 by including all receipts and disbursements associated with the county in the budget process and on the 4<sup>th</sup> quarter financial report. By doing so, the fiscal court can exercise its proper authority over said receipts and disbursements and reduce any risks associated with them.

*County Judge/Executive Neal’s Response: 911, GIS, and Emergency Management Accounts have all been closed and should not affect any financial or budgeting reporting in the future. The Marshall County Animal Shelter Donation Fund Account will operate with greater oversight and reporting to Fiscal Court.*

**The Marshall County Fiscal Court lacks adequate segregation of duties over receipts and receivables.** Due to a limited number of staff and the diversity of operations, the county treasurer is required to perform multiple tasks such as posting to the receipts ledger, preparing bank deposits, preparing bank reconciliations, and preparing financial reports.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by the number of staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

As a result, we recommend the county implement compensating controls to offset the lack of segregation of duties. Routine controls such as the comparison of the daily/monthly revenue journals to deposits as well as fiscal court or other review of the receipts ledger and bank reconciliations are controls that can be implemented by the county to reduce the risk that fraud or errors go undetected.

*County Judge/Executive Neal’s Response: We have implemented practices outside of the Treasurer’s Office to strengthen the process for which revenues are received and deposited.*

**The Marshall County Detention Center has a lack of segregation of duties over jail commissary operations.** The Marshall County Detention Center lacks adequate segregation of duties over the jail commissary operations. Due to a limited number of staff and the diversity of operations, the bookkeeper is required to perform multiple tasks such as posting to the receipts and disbursements ledgers, preparing bank deposits, preparing bank reconciliations, and preparing financial reports.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by the number of staff, is essential for providing protection from asset misappropriation

and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately prevent the misappropriation of assets, we recommend the jailer separate the duties of collecting receipts, deposit preparation, bank reconciliations, and other accounting functions. If these duties cannot be separated due to a limited number of staff, then strong oversight should be provided to the employee or employees responsible for these duties.

*Jailer's Response: The official did not respond.*

**The Marshall County Fiscal Court has internal control weaknesses and non-compliances surrounding payroll and timekeeping.** The following findings were noted with Marshall County's payroll:

- Multiple employees were not paid in accordance with the salary order approved by the fiscal court. This was due to miscalculations made on the annual salary order.
- Timesheets were not maintained for all county employees. Therefore, auditors could not determine if certain employees qualified for county benefits.
- All timesheets were not signed by supervisors.
- Raises awarded to detention center employees were not documented in the fiscal court minutes.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in protecting the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. Because the county failed to have either in place, the aforementioned findings occurred. In response to these findings, we recommend the following:

- The fiscal court strengthen internal controls over the approval of employees' salaries by comparing approved amounts to current pay rates and recalculating any approved raises. Such comparisons and calculations should be performed by individuals outside of payroll preparation.
- Timesheets should be properly maintained for all county employees.
- All timesheets should be signed by the corresponding employee and his or her supervisor.
- All raises and pay increases should be documented in the minutes of the fiscal court meetings.

By implementing the above recommendations, the county can strengthen its internal control system over payroll and timekeeping and reduce the risks of non-compliance and payroll errors, as well as protect itself against disputes regarding payroll amounts and employee benefits.

*County Judge/Executive Neal's Response: We concur with this finding and are purchasing software to strengthen these controls and eliminate non-compliance with timekeeping.*

**Decentralized Receipts Were Not Properly Turned Over To The County Treasurer.** The following findings were noted with the county's decentralized receipts:

- Fees collected at the Marshall County Detention Center were turned over to the county treasurer once a week.
- Fees collected at the Marshall County Animal Shelter were turned over to the county treasurer once a week.

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 and the *County Budget Preparation and State Local Finance Officer Policy Manual* include daily deposits intact into a federally insured banking institution. Because the county allowed decentralized receipts to be turned over to the county treasurer once a week, the county was not in compliance with KRS 68.210. Furthermore, not depositing receipts regularly leaves them more susceptible to misappropriation and theft.

We recommend the fiscal court comply with KRS 68.210 and the *County Budget Preparation and State Local Finance Officer Policy Manual* by requiring all funds collected in locations other than the Treasurer's office to be deposited on a daily basis.

*County Judge/Executive Neal's Response: We will implement changes to improve timely processing of receipts to comply with KRS 68.210.*

**The Marshall County Jailer failed to maintain minimum accounting records for the jail commissary resulting in noncompliance with KRS 68.210.** The Marshall County Jailer failed to maintain the minimum accounting records prescribed by the state local finance officer pursuant to KRS 68.210 and the *County Budget Preparation and State Local Finance Officer Policy Manual* to be utilized by county jailers for jail commissary funds, including daily checkout sheets and detailed receipts and disbursements journals. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, "At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet" and deposit them on a daily basis. These receipts should then be posted by category to the jail commissary receipts journal. Each check written from the jail commissary account must be posted to the proper category listed on the jail commissary disbursements journal. Because the jailer did not utilize daily checkout sheets and the receipts and disbursements journals were not categorized, he was not in compliance with KRS 68.210.

We recommend the jailer comply with the minimum accounting and reporting standards of KRS 68.210 by implementing daily checkout procedures. We also recommend the jailer use detailed receipts and disbursements journals to properly report the activities of the jail commissary.

*Jailer's Response: The official did not respond.*

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

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