



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the McCracken 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 McCracken 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:

Material weakness over cash resulted in unauthorized cash transfers. The McCracken County Fiscal Court has material weaknesses in internal controls over cash that resulted in unauthorized cash transfers. Of the 29 cash transfers that were tested, \$7,306,308 was transferred between the operating funds. The fiscal court only approved the transfer of \$5,114,869, resulting in \$2,191,438 of unauthorized cash transfers.

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 no funds were determined to be missing, the lack of proper

fiscal court oversight did result in the unauthorized transfers and therefore 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 a transfer being made. We also recommend such approvals be adequately documented in the fiscal court minutes.

County Judge/Executive Bob Leeper's response: The audit comment concerning material weakness over cash transfers was addressed after being brought [sic] the county's attention during out [sic] 13/14 FY audit, however, due to the timing of the 13/14 FY audit completion we were not able to address the issues until the end of the 14/15 FY audit.

Weak internal controls over debt and debt service resulted in the misstatement of outstanding debt balances. Material weaknesses exist over the reporting of liabilities and debt of McCracken County. The June 30, 2015 outstanding debt balances reported on the 4th Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive Bob Leeper's response: Corrective action taken.

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 McCracken County. The county's schedule of capital assets for the period of audit failed to recognize all asset purchases that occurred throughout the year. Furthermore, some of these asset additions did not appear to be added to the county's insurance policy.

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, those assets are left vulnerable to misappropriation or misstatement.

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, as should the county's insurance coverage. 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 Bob Leeper's response: Recent software update has allowed for proper reporting of capital assets.

The McCracken County Jailer failed to implement internal controls over the service organization handling inmate funds. For the fiscal year ended June 30, 2015, the McCracken County Jail contracted with a service organization to handle the operations of the jail commissary as well as inmates' funds. While such a contract is allowable by statute, the jailer is still considered the custodial agent for the inmates' funds, and therefore is responsible for internal controls over them. However, because of the reliance placed on the service organization, the jailer exercised no internal controls over the inmates' funds, leaving them susceptible to potential errors and misappropriation.

We recommend the jailer establish internal controls over the activities of the service organization in order to protect the McCracken County Jail from loss or liability related to inmates' funds. At a minimum, these internal controls should include the following:

- Requiring the service organization to provide documentation of daily batched receipts, daily checkout sheets, and daily deposits.
- Requiring the service organization to provide supporting documentation for all amounts disbursed from the inmates' funds.
- Monthly reconciliations of the inmates' account balances to the bank balance to determine if inmates' funds maintained in this account are properly accounted for as required by statute.
- Having a knowledgeable jail employee review the work of the service organization handling the inmates' monies.

By implementing these internal control procedures, the jailer can strengthen the controls over jail inmate funds and reduce the risks of errors and misappropriation associated with them.

County Jailer Bill Adams response: All recommendations have been resolved and are in place now.

Decentralized receipts were not properly turned over to the county treasurer. The following findings were noted with the county's decentralized receipts:

- Fees for building and electrical permits were turned over to the county treasurer once a month.
- Fees collected at Carson Park were turned over to the county treasurer once a month.
- Fees collected at the McCracken County Jail 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 include daily deposits intact into a federally insured banking institution. Because the county chose to decentralize receipts and these receipts were not turned over to the county treasurer daily, 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 by requiring all funds collected in locations other than the treasurer's office to be deposited on a daily basis.

County Judge/Executive Bob Leeper's response: The County Judge/Treasurer have instructed all staff collecting fees to turn said fees over for deposit to County Treasurer on a daily basis.

County Jailer Bill Adams response: All fees collected at the jail will be turned in daily, recorded and signed for.

McCracken County's failure to comply with its own policies and procedures and state statute resulted in significant payroll liabilities. On May 19, 2014, the former McCracken County Judge/Executive signed an executive order permitting his former office manager to accrue vacation days beyond the 40 day carryover limit established by the county's policies and procedures ordinance until December 31, 2014. This order also permitted his former office manager to carryover compensatory time beyond the zero-carryover amount also established by the county's policies and procedures ordinance until December 31, 2014.

On February 26, 2015, the former office manager was paid \$32,873 for 170 vacation days and \$11,357 for 569 accrued compensatory hours. While the county was legally bound to make said payments to the former office manager, the accrual of 569 hours of compensatory leave was in violation of state statute. Because the former office manager accrued the majority of this vacation and compensatory time prior to the signing of the executive order, the county was in violation of its own policies and procedures ordinance.

According to KRS 337.285(5)(a), upon request of the county or city employee, and as provided in subsection (4) of this section, compensatory time shall be awarded as follows:

1. A county or city employee who provided work in excess of forty (40) hours in a public safety activity, an emergency response activity, or a seasonal activity as described in 29 C.F.R. sec. 553.24, may accrue not more than four hundred eighty (480) hours of compensatory time; or
2. A county or city employee engaged in other work in excess of forty (40) hours, may accrue not more than two hundred forty (240) hours of compensatory time.

We recommend the county establish policies regarding the accumulation of vacation and compensatory leave balances. Such policies should be in writing, communicated to all employees, and in compliance with state statute. Furthermore, we recommend the county abide by such policies in order to avoid this type of situation in the future.

County Judge/Executive Bob Leeper's response: Corrective action taken.

The fiscal court failed to implement adequate internal controls over subrecipient monitoring.

Federal Program: CFDA 14.228 – Community Development Block Grant – State’s Program

Award Number and Year: 13-015/2013

Name of Federal Agency and Pass-Through Agency: US Department of Housing and Urban Development – Department For Local Government

Compliance Requirements: Subrecipient Monitoring

Type of Finding: Material Weakness

Amount of Questioned Costs: None

The fiscal court failed to properly monitor or establish internal controls over monitoring for the Community Development Block Grant (CDBG) subrecipient and participating party activities.

OMB A-133 Subpart D §___.400 requires grant recipients to “Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

The fiscal court contracted with the Purchase Area Development District (PADD) to act as grant administrator. PADD performed some monitoring activities for the fiscal court. The fiscal court placed complete reliance upon PADD and had no internal controls in place to determine if the subrecipient, Greater Paducah Economic Development (GPEDC), was in compliance with applicable laws, regulations, and provisions of the grant agreement.

As a result of the internal control deficiency, the following non compliances were noted during testing:

- The Participating Party has not fulfilled lease payment requirements as per Exhibit B-1 Article 1.c. of grant agreement 13-015.
- Original bid documents were destroyed; therefore, they were unavailable to the County as required by Exhibit B-1 Article 6 of grant agreement 13-015.
- GPEDC did not follow the guidelines for financial and compliance audits of federally assisted programs which are OMB Circular A-133 as per the Subrecipient Agreement.
- Subrecipient agreement did not contain all the information required by OMB A-133/CFR 200.
- GPEDC has not created a revolving loan fund, in which it is to account for the Participating Party lease payments.

The fiscal court should implement internal controls over subrecipient monitoring to determine if subrecipients are in compliance with applicable laws, regulations, and provisions of contracts or grant agreements. The fiscal court should implement procedures that identify what compliance issues it is responsible for and also implement procedures to determine that all compliance areas are properly monitored by the grant administrator. The fiscal court will be responsible for issuing a management decision on the subrecipient audit findings within six months after receipt

of the subrecipient's audit report and should ensure that subrecipients took appropriate and timely corrective action on all audit findings.

County Judge/Executive Bob Leeper's response: Corrective action taken.

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

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