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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Greenup County Fiscal Court for the fiscal year ended June 30, 2017. 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 Greenup 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 noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

The county did not follow the bidding requirements in its administrative code: The county did not follow bidding requirements in its administrative code, including the following:

- The fiscal court purchased three Mack trucks without first advertising for competitive bids. The bid files maintained by the fiscal court did not have documentation that the trucks were purchased under a state price contract. The purchase price for each truck was more than $20,000.

- The jailer paid a total of $49,367 to a vendor for electronic cigarettes purchased for resale through the jail commissary fund without competitively bidding or preparing an invitation for bids notice. Two of six separate purchases were individually more than $10,000.

The county's administrative code contains two sections addressing bid requirements that state different bidding thresholds, with one section indicating competitive bids are required for items over $20,000 and one section stating a $10,000 threshold. Additionally, a resolution was adopted by the fiscal court to amend the administrative code to "…abide in accordance with the State Procurement Code Standards for purchases made by the County." The resolution is not clear enough to determine if the fiscal court intended to adopt the state Model Procurement Code (KRS 45A.344 to KRS 45A.460) or other procurement requirements addressed in state statute. The lack of clear competitive bid policies to follow leads to a lack of competition in purchases of goods and services. As a result, the county cannot demonstrate that it procured these items at the best available price.

Section 9.2(C) of the county's administrative code states, "Any expenditure or contract for material, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure or [sic] more than Twenty Thousand Dollars ($20,000) shall be subject to competitive bids."

Section 9.6(B) of the county's administrative code states, "Competitive Sealed Bids-Bidding will be employed with detailed specifications for the goods or services to be procured can be prepared. When the cost of a contract, lease, or other agreement for materials, supplies, equipment, or contractual services other than those personal or professional exceeds $10,000 an Invitation for Bids notice will generally be prepared."

Additionally, KRS 424.260 requires newspaper advertisement for bids for expenditures of goods greater than $20,000, except perishable goods.

We recommend the county update its administrative code to remove conflicting information regarding required bid thresholds for the procurement of goods and services. The administrative code should also clarify whether or not the county adopted the Model Procurement Code, and also clarify any requirement that is intended to be more restrictive than state statutes. Additionally, we recommend the fiscal court and jailer adhere to the policies adopted for all applicable purchases of goods and services. We further recommend that any purchases that are exempt from the advertisement and bidding process be properly documented in the fiscal court's bid files and the official minutes recorded in the county clerk's office.

County Judge/Executive's Response: Administrative Code is being corrected and all necessary bids will be required for purchases of $20,000 or more.

Jailer's Response: The official did not provide a response.

The fiscal court did not adequately design internal controls over the expenditures process and did not comply with requirements prescribed by the state local finance officer: The design of the expenditures process by the county judge/executive's office allows designated department heads for the road fund, jail fund, landfill fund, and E-911 fund to issue and approve

purchase orders, issue checks, and post expenditures to the appropriations ledger. In addition, the department heads are responsible for making sure there is sufficient fund balance and adequate cash balance in the bank to cover the check. Checks issued by department heads are brought to the fiscal court meeting and are signed by the county judge/executive and county treasurer. However, no one is comparing the checks issued by the department heads to the invoices and purchase orders before the checks are signed.

The county judge/executive's office knew the requirements and key controls prescribed by the state local finance officer, but designed internal controls over the expenditure process that did not meet the requirements and omitted key controls.

Without properly designed internal controls over the expenditures process, undetected errors, misappropriation of assets, and inaccurate financial reporting could occur.

Good internal controls over the expenditures process dictates that there is a system of review before checks are entered into the accounting records. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* lists the duties of the finance officer and county treasurer. Duties of the finance officer require the finance officer to prepare all checks on claims reviewed by the fiscal court and to maintain an appropriations ledger. Duties of the county treasurer require the treasurer to countersign checks only if the following conditions exist: claim reviewed by the fiscal court, sufficient fund balance and adequate cash in the bank to cover the check, and adequate free balance in a properly budgeted appropriation account to cover the check. These duties cannot be delegated to department heads.

We recommend the fiscal court redesign the controls over the expenditures process to meet the above requirements prescribed by the state local finance officer. In addition, we recommend the fiscal court provide oversight by establishing a system of review before checks are signed and entered into the accounting records.

County Judge/Executive's Response: We have already implemented proper changes to comply with requests. A new position of Finance Officer is writing all checks after proper approval of County Judge and Fiscal Court. An employee appointed by the County Judge verifies all purchase orders and invoices match before checks are approved, written, and entered into accounting records.

The jail inmate account balance could not be obtained: The inmate account could not be reconciled to bank records. Auditors were unable to get a cumulative report with amounts of each inmate's account that could be compared or reconciled to the inmate bank account balance.

According to the jail bookkeeper, she is unable to retrieve a report that represents the amount in the inmate bank account.

As a result, auditors were unable to verify the accuracy of the jailer's accounting records or determine if misappropriation or fraud had occurred.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* lists the minimum requirements for handling public funds. One of those requirements is to perform a monthly bank reconciliation on all of the jailer's official bank accounts. The inmate bank account should agree or reconcile to the amounts held for inmates as recorded in the jailer's accounting records.

We recommend the jailer obtain a cumulative report showing the total of all individual inmate account balances recorded in the jailer's accounting system and reconcile the total to the inmate bank account balance on a monthly basis.

Jailer's Response: Inmate totals balance. Due to the audit being later we were unable to get the reports to be exactly what the auditor was wanting. Working with [vendor] on this problem.

Auditor's Reply: As noted in the finding, without appropriate documentation maintained by the jailer, the accuracy of the inmate balances could not be determined.

Accounts receivable of jail inmate fees are not properly accounted for and reconciled: Financial records to substantiate accounts receivable were not available for the audit period. Also, monitoring of accounts receivable balances or collections of accounts receivable is not done by the jailer or fiscal court. There is currently no cumulative total for funds owed the jail by inmates. According to the jail bookkeeper, they are unsure how to begin monitoring accounts receivable of inmate fees because there have been no accurate records maintained in the past. There is currently no cumulative total for funds owed the jail by inmates and amounts billed to released inmates could remain uncollected, resulting in lost revenue for the county.

Strong internal controls require procedures to be implemented to accurately and consistently account for funds due to the county from released inmates and to attempt to collect those funds.

We recommend the fiscal court and jailer implement policies and procedures to ensure accounts receivable from inmates are maintained and collected.

These policies and procedures should include but not be limited to:

- Policies and procedures to track and collect amounts receivable from inmates
- A formal collection process, i.e. turn over to the county attorney or designate a staff member to actively attempt collection
- Maintenance of accounts receivable records and collection of amounts due from returning former inmates

Jailer's Response: We can run a report for the cumulative total for inmates, but gives all dates with no option to change that. Working with [vendor] on this. As for collecting outstanding fees we are looking into an outside company to help with that process.

The Greenup County Fiscal Court did not maintain a complete and accurate fixed assets schedule: Auditors were not provided a complete and accurate fixed asset schedule. During our audit, we noted the following:

- The county did not maintain records for additions and disposals.
- Key controls were not in place to prevent inaccurate financial reporting, fraud, or misappropriation of assets.

The fiscal court is not adequately monitoring and tracking capital assets. Two assets that met the criteria for capitalization were not added to the fixed asset schedule and required auditor adjustments.

The county treasurer does not have reliable procedures in place to ensure that all additions and deletions are accurately reflected on the fixed asset schedule and the insurance policies. The treasurer stated that she maintains a fixed asset folder in which she keeps all addition and deletion information throughout the year and then adjusts the fixed asset schedule only once per year rather than at the time of the purchase or disposal.

By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court may not properly determine insurance needs, which could result in financial losses. Furthermore, not performing physical inventories increases the risk of misappropriation of assets.

The Department for Local Government (DLG), under the authority of KRS 68.210, requires the state local finance officer to create a system of uniform accounts for all counties and county officials. *The County Budget Preparation and State Local Finance Officer Policy Manual* requires for purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have useful life of greater than one year. The asset inventory listing should provide the following detail:

- Property Tag number
- Asset description
- Serial number - if applicable
- Quantity - if applicable
- Cost (or FMV of donated asset at date of donation)
- Date of acquisition
- Date of disposal (track all disposals for entire fiscal year)
- Property location (by department, building & room number)
- Manager/individual responsible

The manual further explains that an annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented. The asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset listing modifications.

We recommend the fiscal court implement procedures to identify and track fixed asset additions, retirements, and disposals in order for fixed asset schedules to be complete and accurate. A complete and accurate fixed asset schedule should be presented to the fiscal court at least once a year. The fixed asset schedule should also reconcile to the physical inventory of county assets at the end of each year and to the county's list of inventoried assets and insurance policy.

County Judge/Executive's Response: The new County Treasurer is currently working to correct all asset reports. The Fiscal Court has purchased an asset control system.

The jailer did not implement adequate segregation of duties and oversight for receipts, disbursements, and reconciliations: The jailer did not maintain adequate segregation of duties over receipts, disbursement, and reconciliations. The bookkeeper prepares deposits, takes the deposit to the bank, prepares and signs checks, posts these disbursements to the disbursements spreadsheet that is utilized in preparation of the annual financial statement submitted to the fiscal court, and performs the monthly bank reconciliation.

Due to the limited number of employees, the jailer was unable to maintain adequate segregation of duties over receipts, disbursements, and reconciliations. Failure to maintain adequate segregation of duties or implement compensating controls could lead to misstatements or theft. Without strong oversight and limited segregation of duties, this increases the risk for fraud or theft. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. Without proper segregation of duties, inaccurate financial reporting and misappropriation of assets can occur.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements written to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

Jailer's Response: I, Jailer Mike Worthington, will sign off on spot checks of deposits, disbursements, and reconciliation of these accounts.

The jailer did not comply with all laws relating to his drug forfeiture account: This is a repeat finding and was included in the prior year audit report as Finding 2013-002. On February 14, 2013, the Greenup County Jailer opened and began operating a drug forfeiture account for the deposit of

funds received from forfeiture proceedings authorized under KRS Chapter 218A. In Fiscal Year 2017, the jailer receipted in $5,798 and disbursed $3,945 with an ending cash balance of $3,219.

The jailer did not seek the guidance of the Kentucky Department of Criminal Justice Training in the Justice and Public Safety Cabinet (DOCJT) before opening and operating a drug forfeiture account.

By not seeking the advice of (DOCJT) the jailer's drug forfeiture operations is contrary to Kentucky Revised Statutes (KRS).

Drug forfeiture policies and procedures are regulated by KRS Chapter 218A. KRS 218A.420(4)(a) states that "proceeds from the sale of property forfeited shall be . . . paid to *the law enforcement agency or agencies* which seized the property, to be used for direct law enforcement purposes. (Emphasis in italics added). "Law enforcement agency" is defined in 500 KAR 9:010 as "any governmental body or agency which employs one (1) or more law enforcement officers" as that term is defined in KRS 15.310. We question whether the Jailer is a "law enforcement officer" as defined in KRS 15.310, as well as whether a County, by which the Jailer is employed, is a "law enforcement agency."

KRS 218A.420(6) requires each "local law enforcement agency" that seizes property subject to forfeiture must, prior to receiving any forfeited property, adopt policies relating to the seizure, maintenance, storage, and care of property pending forfeiture that comply with the model policy for seizure of forfeitable assets published by the Kentucky Department of Criminal Justice Training in the Justice and Public Safety Cabinet (DOCJT). We found no evidence that either the jailer, or the county on behalf of the jailer, had adopted any forfeiture policies.

Also, KRS 218A.420(7) requires each local law enforcement agency that seizes property for forfeiture to have one or more officers currently employed attend asset-forfeiture training approved by the DOCJT. We found no evidence that the jailer or any of his deputies had undergone such training.

The county cannot negate or ignore a judicial court's order of forfeiture that orders assets to be forfeited to the county jailer. Such assets, however, belong to the jailer's agency that employs him, which is the county, and not to him as jailer, or to the jail or detention facility. Thus, the county is responsible for ensuring the proper handling of those court ordered forfeiture funds ordered forfeited to the jailer.

We recommend the county take an inventory of the asset forfeiture account and all assets to include bank accounts, cash, vehicles etc., and include those in the county's asset schedule. We also recommend the county comply with KRS 218A.420(6) and (7) relating to the requirement to adopt asset forfeiture policies, and relating to the requirement to receive DOCJT asset forfeiture training.

If the jailer continues to maintain an asset forfeiture account, then we recommend the jailer obtain an opinion from the Kentucky Attorney General's office whether a county jailer is a "law enforcement officer," and whether a county is a "law enforcement agency," as those terms are used in KRS Chapter 218A, and administrative regulations promulgated thereunder.

Jailer's Response: The Jailer has provided the documentation to the state auditor of compliance of the Drug Forfeiture Account from the Kentucky Department of Criminal Justice Training and Public safety Cabinet. This class was completed on Dec 20, 2016. We were informed by DOCJT the training we had previously from the Commonwealth was sufficient.

Auditor's Reply: The documentation provided by the jailer did not provide proof that DOCJT agreed with their position.

The audit report can be found on the auditor's website.

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