



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Lewis County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Lewis 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 Lewis 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 jailer did not have adequate segregation of duties over jail commissary accounting functions: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. A lack of segregation of duties existed over jail commissary receipts, disbursements, and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the monthly receipts ledger, recorded entries on inmate accounts, prepared checks for disbursements, prepared the monthly disbursements ledger, and performed the monthly bank reconciliations. The official did not have controls in place to ensure the same person did not perform all jail commissary accounting functions.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. A proper segregation of duties over jail commissary accounting functions, or implementing compensating controls, is essential for providing protection from undetected errors. Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations and would have prevented the same person from having a significant role in these incompatible functions.

The following are examples of other controls the jailer could implement:

- Triplicate receipts could be compared to the inmate account sheets and attached to deposit slips and reviewed by an independent person.
- Commissary sales amounts could be compared to inmate accounts in the system for agreement. Any differences should be reconciled.
- Any voided receipts should state the reason why and then be reviewed, initialed, and dated by an independent person.
- Supporting documentation for disbursements and invoices should be reviewed by the jailer prior to payment.
- The jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliations for accuracy.

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 limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date on applicable documentation.

County Jailer's Response: As of Oct. 2017 additional staff was hired to correct this issue.

Inmate monies are not deposited intact on a daily basis: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. During the fiscal year ending June 30, 2017, we noted the jailer does not deposit inmate monies received intact on a daily basis. Inmates and other people bring funds to be deposited on behalf of the inmates in their accounts to be used to pay for housing, booking fees, medical charges, and to purchase items from the jail commissary. Deposits are made a couple times a week instead of daily. This was due to a lack of knowledge regarding deposit requirements.

When inmates' receipts are not deposited timely there is an increase in the risk of misappropriation of cash. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn increases.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made daily.

We recommend that inmate monies be deposited intact on a daily basis.

County Jailer's Response: The additional staff is helping prepare and make daily deposits.

The fiscal court did not properly disclose debt balances on the quarterly financial report:

This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The fiscal court did not report correct debt balances on the quarterly financial report. The liabilities journal contained misstatements for six of the county's seven debt issues for the fiscal year ending June 30, 2017. According to the county this appears to be due to a lack of oversight that resulted in the improper amounts being reported.

Debt payment activity was not always posted to the liabilities journal. The total principal outstanding balance was overstated by \$74,467, and the total interest outstanding balance was understated \$5,251. Liabilities information is not accurately presented to fiscal court, the Department for Local Government (DLG), and any other individuals interested in the county's financial condition.

Auditors compared debt payments and ending balances confirmed by debt holders to the county's liabilities journal and noted the variances listed above. Good internal controls require that liabilities be reported accurately. Furthermore, the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires that all debt be disclosed on the quarterly reports.

We recommend the county treasurer prepare and maintain an accurate liabilities journal to ensure proper disclosure on the quarterly financial report.

County Judge/Executive's Response: This was an oversight and has since been corrected.

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

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