



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Knox County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Knox County Fiscal Court for the fiscal year ended June 30, 2019. 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 Knox 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 Knox County Fiscal Court did not provide the same level of health insurance benefits to all county employees: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The Knox County Fiscal Court employees are not receiving the same level of health insurance benefits. Elected officials are receiving family health insurance coverage paid for by the county, while non-elected employees only receive single health insurance coverage paid for by the county. The discrepancy in monthly expense between family health insurance coverage and single health insurance coverage is \$1,644 per month, per employee.

The Knox County Fiscal Court believes they can separate elected officials and county employees. According to the County Administrative Code, "The County pays the premium for all individual

health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials.” Due to differing levels of health insurance coverage being provided to county employees’ discrimination exists; which can affect employee morale and the overall control environment. Additionally, county funds are being spent for the personal benefit of select employees that could have been expended on other items to benefit the entire county.

OAG 94-15 states, “The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute.”

We recommend the Knox County Fiscal Court discuss the discrimination of health insurance coverage between elected and non-elected county employees with the Knox County Attorney, and follow the advice as expressed in OAG 94-15.

County Judge/Executive’s Response: This has been cited in the past and we are taking this under advisement.

The jail commissary lacks adequate segregation of duties over receipts and disbursements:

This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The jail has a lack of segregation of duties over receipts and disbursements. The bookkeeper prepares deposits and posts these deposits to the receipt’s ledger. The bookkeeper also prepares, and signs checks and posts these disbursements to the disbursement’s ledger. By allowing the same employee to perform all functions relating to receipts and disbursements, the risk increases that errors or fraud could occur without being detected. The jail has a small staff size available to segregate duties in the financial processes. Without proper segregation of duties, inaccurate financial reporting and/or fraud can occur. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and/or 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 disbursement’s ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.

County Judge/Executive’s Response: The official did not provide a response.

Jailer’s Response: We will attempt to implement controls over all transactions.

The Knox County Fiscal Court did not budget all county funds: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. The fiscal court did not budget debt payments related to the Taxable General Obligation Bond Anticipation Refunding Notes, Series 2016. The payment of the debt by the Knox County Hospital Taxing District was recorded as a receipt and disbursement in the general fund. The activity for the debt payment should have been budgeted and recorded in the Hospital Sinking fund.

The fiscal court was under the impression since the debt is paid directly by the Knox County Hospital Taxing District, they did not have to budget for the debt. The disbursements exceeded budgeted appropriations by \$579,198 after the recording of the debt payment.

According to KRS 68.240(1), “[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.” All county funds are required to be budgeted and reported in the quarterly financial reports according to the *County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government (DLG). In addition, all funds should be recorded in receipts and appropriation ledgers. It may be necessary to amend the budget to reflect the receipt and expenditure of funds received if item was not part of the original budget.

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary. We recommend the payment of the debt by Knox County Hospital Taxing District be recorded as a receipt (contribution from hospital - miscellaneous revenue) and disbursement (debt service) in the hospital sinking fund.

County Judge/Executive’s Response: We agree and will implement corrective measures to prevent this from reoccurring.

The Knox County Fiscal Court did not have internal controls over Disbursements: Internal controls over disbursements were not operating as intended. Based on items tested, disbursements were not paid timely, supporting documentation was not maintained, disbursements exceeded budgeted appropriations for social services in the general fund, and proper procedures were not followed.

This control deficiency occurred due to a lack of monitoring of controls which can diminish the effectiveness of the controls put in place over disbursements by the fiscal court. As a result, the following exceptions were noted:

- Two invoices for asphalt totaling \$356,455 were paid without any supporting documentation or haul tickets.
- Purchase orders were not prepared for 27 out of 74 invoices tested. Items could have been ordered or services rendered without prior approval to ensure adequate funds were available in each account.
- Credit card payments during the month of January 2019 included \$40 in late fees.
- Invoice pricing for radio equipment did not agree to the state master agreement.

- One invoice purchased from a vendor other than the approved bidder was overcharged \$170.
- Disbursements totaling \$15,597 exceeded budgeted appropriations for social services in the general fund.

Proper internal controls over disbursements are important to ensure purchase orders are created with sufficient funds available, are approved by fiscal court, include proper supporting documentation, and are paid in a timely manner. Strong internal controls over financial reporting are also vital in ensuring the fiscal court's actual expenditures do not exceed the budgeted expenditures in each fund. Furthermore; the fiscal court should maintain proper documentation of state contract listings to ensure they are being billed appropriately.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all disbursements to be accompanied by a purchase order and sufficiently documented.

KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.”

KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend fiscal court implement proper internal controls over disbursements and ensure they are operating effectively. We also recommend the fiscal court comply with the State and Local Finance Officer by creating a purchase order for all disbursements and ensure that all disbursements are within budgeted appropriations as required by statute.

County Judge/Executive's Response:

- *As of January 2019, asphalt invoices have been paid with proof of supporting documentation only.*
- *This relates to approved standing orders. We are now issuing purchase orders for all standing orders.*
- *This relates to Jailers credit card; Jailer had failed to provide proper documentation on time. Jailer has been notified to produce receipts on time to prevent this from reoccurring.*
- *Equipment purchased was thru the state master agreement and was improperly coded on the invoice. This will not reoccur. We will have more than one person review documentation.*
- *This was a clerical error; the vendor has since credited \$170.00 error. We have implemented oversight on monthly invoices.*
- *Victims Advocate was added during the budget cycle. This has now been corrected*

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

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