



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

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

The fiscal court lacks adequate segregation of duties over cash, receipts, reconciliations, and payroll reporting. The Allen County Fiscal Court lacks adequate segregation of duties over cash, receipts, bank reconciliations, and payroll reporting. These control weaknesses are present because the county treasurer is responsible for preparing deposits, posting to the receipts ledger, reconciling all bank accounts, preparing monthly reports for the fiscal court and quarterly reports for the Department for Local Government, and performing all payroll reporting procedures. While some compensating controls are in place, including the preparation of receipt listings by the occupational tax administrator and finance officer, the comparisons of these listings to the quarterly report(s) are not sufficient to ensure all receipts are properly recorded. No additional procedures have been implemented to verify the bank reconciliations agree to

monthly or quarterly reports, or to ensure payroll reports are accurate and properly recorded in the disbursement ledger.

Lack of adequate segregation of duties can result in misstatements and inaccurate financial reporting that is not detected in a timely manner. To adequately protect assets, effective internal controls require separation of duties involving deposit preparation, recording of receipts, reconciling the bank accounts, and preparation of payroll reports should be separated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to limited staff, duties cannot be segregated. Effective internal controls dictate essential duties should be separated.

Compensating controls may be implemented to reduce the risks associated with a lack of adequate segregation of duties. We recommend the duties over cash, receipts, bank reconciliations and payroll reporting procedures be separated. The fiscal court can also strengthen internal controls by implementing the following compensating controls:

- An independent employee could compare the listing of receipts to the county treasurer's deposit and receipt ledger. The comparison should be documented.
- An independent employee could review the county treasurer's bank reconciliations for accuracy and compare to the ending fund balances. This review should be documented on the bank reconciliations.
- An independent employee could review payroll reports prior to distribution of payroll checks. The comparison should verify amounts such as gross wages, withholding amounts, amounts transferred to the payroll revolving account, and should be documented on the applicable payroll reports.

County Judge/Executive response: No response.

The fiscal court did not deposit receipts timely. The Allen County Fiscal Court did not deposit receipts timely for garbage collections, occupational taxes, reimbursements received from the City of Scottsville, and other daily receipts. In addition, Transfer station receipts were not accounted for numerically to ensure all receipts were deposited. Eighteen receipts were deposited in the first week of July 2016 which is Fiscal Year 2016 and were dated in June when they should have been recorded in Fiscal Year 2015. Due to some departments being located offsite, receipts are not always brought to the county treasurer's office in a timely manner. Delaying the deposit of receipts or not accounting for all receipts in the proper period can be used to conceal theft of payments, which ultimately can result in less funds being available for expenses of the fiscal court. The practice of making daily deposits and accounting for receipts reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirement for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made intact daily. We recommend the fiscal court strengthen controls by depositing receipts intact on a daily basis. We also recommend the fiscal court account for all receipts in numerical order.

County Judge/Executive response: Due to offsite locations we had lag in deposits. Working to improve that time between offsite cash and deposits.

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

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