



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Ballard County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Ballard 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 Ballard 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. The fiscal court may also present its financial statements in accordance 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.

Ballard County's Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis, includes the fund balance of the payroll revolving account as part of the general fund. The payroll revolving account did not have adequate supporting accounting records to determine the accurate amount of receivables and liabilities. Since the accounting records for the payroll revolving account were not adequate, the financial information presented for the fund balance of the Ballard County General Fund cannot be determined to be reasonably accurate. Therefore, we have issued a qualified opinion on Ballard County's financial statement.

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 Ballard County Fiscal Court has material weaknesses over the health reimbursement account which resulted in misuse: The following findings were noted with Ballard County's health reimbursement account (HRA):

- Prescriptions were reimbursed more than once, and in some cases up to four times, including reimbursements for the former county treasurer who received duplicate payments totaling \$2,136.
- The county made reimbursements that do not qualify under IRS guidelines to employees, including finance charges, over-the-counter medication, and items for a non-dependent child.
- Lack of proper supporting documentation for reimbursement amounts.
- Lack of fiscal court approval for reimbursements.
- Employees were not required to submit reimbursement forms prior to being reimbursed for medical expenses.
- No formal policy for health reimbursements.
- A lack of segregation of duties over the health reimbursement account.

The health reimbursement account was maintained by the former county treasurer for those employees who waived the county's health insurance coverage. Each month, the county contributes \$500 for each employee who participates. These funds are then used to reimburse participating employees for medical expenses.

Strong internal controls and a written policy governing the health reimbursement account are vital in ensuring that it is accounted for properly and that all reimbursement amounts are appropriate and qualify under federal guidelines. They are also important in protecting the county's assets and those given the responsibility of accounting for them. Lack of strong internal controls and written policies resulted in the weaknesses identified above.

In response to these findings, we make the following recommendations:

- Ballard County should adopt a formal policy, in compliance with federal guidelines, that governs health reimbursement accounts offered to employees who waive the county's health insurance.
- The county should implement strong fiscal court oversight and monitoring of the account and ledgers, ensuring all disbursements are properly supported, properly approved, properly recorded, and valid according to the county's HRA policy.
- All claims submitted by employees for reimbursement should be subject to review and approval in order to ensure employees are only reimbursed once for any medical expenses.
- The county should maintain accurate ledgers, detailing reimbursement amounts issued to employees who waive the county's insurance coverage.
- The county should eliminate all reimbursements for non-qualifying expenses according to IRS guidelines.
- Employees should be required to submit reimbursement forms, accompanied by proper supporting documentation, prior to any reimbursement check being issued.

County Judge/Executive's Response: The Medical Reimbursement Account has been closed. We are using an outside contractor [name redacted].

The Ballard County Fiscal Court has material weaknesses over cash and financial reporting: The Ballard County's Fourth Quarter Financial Report and the County Treasurer's Settlement were both materially misstated. According to the county's Fourth Quarter Financial Report, the total fund balance of all budgeted operating funds was \$576,473 as of June 30, 2015. The former county treasurer's annual settlement for fiscal year 2015 reported a total fund balance of \$139,941 for budgeted funds, a variance of \$436,532 between the two reports. The audited financial statement reports an ending fund balance of \$569,354 for budgeted funds, a variance of \$7,119 with the Fourth Quarter Financial Report and \$429,413 with the former treasurer's settlement.

The variances and misstatements noted are the result of a weak internal control system over the cash and financial reporting system. Because of this weak internal control system, the transactions posted to the receipts and disbursements ledgers are not always in agreement with the actual transaction amounts, especially with payroll transactions and transfers. When the amounts posted to the receipts and disbursements ledgers do not agree with actual transactions, these misstatements occur.

Strong internal controls over cash and financial reporting are vital in ensuring the county's annual financial reports accurately reflect the financial activity of the county. To remedy the misstatements associated with cash and financial reporting, we recommend the county implement stronger internal controls. Controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact, and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can strengthen its internal control system, and help ensure accurate financial reporting.

County Judge/Executive's Response: The Finance Officer OR Judge Executive will also check monthly statements.

The Ballard County Fiscal Court is not properly maintaining the payroll revolving account: Ballard County's payroll revolving account had a June 30, 2015 known reconciled balance of \$91,415, consisting of the following:

Bank Balance	\$ 20,769
Plus:	
Receivables	166,405
Less:	
Outstanding Checks	(5,149)
Liabilities	<u>(90,610)</u>
Reconciled Balance	<u>\$ 91,415</u>

The noted known receivables consist of payroll obligations of the general fund, jail fund, and ambulance fund that were not transferred to the payroll revolving account in a timely manner. The noted known liabilities consist of payroll withholdings and county contributions, including federal and state income taxes, Social Security, Medicare, and retirement. The county was unable to make these payments in a timely manner because the former treasurer failed to make timely transfers from the operating funds to the payroll revolving account.

Due to the nature of revolving accounts, the reconciled balance of the payroll fund should be \$0, or possibly a small reserve if the county so chooses. Strong internal controls over the account should be implemented to ensure that proper amounts are transferred timely. Strong internal controls should also be implemented to ensure that withholdings and county contributions are paid over to the proper authorities timely. Because the county failed to realize the importance of such controls, and instead, relied on a single employee without sufficient oversight, the payroll revolving account and records had not been properly maintained, resulting in the above balance. Because the county has failed properly maintain the payroll revolving account, the county's financial statement may be misstated.

We recommend the fiscal court implement strong internal controls over the payroll revolving account. These controls should include somebody independent of the payroll function verifying proper payroll amounts are transferred to the payroll revolving account from the corresponding operating funds prior to each pay period. These controls should also include verifying that withholding amounts and county contributions are handled properly, and paid over to the proper authorities timely.

County Judge/Executive's Response: Transfer checks are cut the same day as payroll. We have resolved the issue.

The Ballard County Fiscal Court expended funds in excess of revenues collected resulting in fund deficits: As of June 30, 2015, Ballard County had fund deficits in both the jail fund and ambulance fund. These deficits were caused by disbursements in excess of revenues as a result of inaccurate financial reporting. In the jail fund, disbursements totaling \$950,057 were offset by revenues and financing sources totaling \$935,976, resulting in an ending fund deficit of \$14,081. In the ambulance fund, disbursements totaling \$799,724 were offset by revenues and financing sources totaling \$785,517, resulting in an ending fund deficit of \$14,207.

KRS 68.110(1) states "[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose." Because the county disbursed funds in excess of the revenues collected, the

county was not in compliance with KRS 68.110. We recommend the county comply with KRS 68.110 by monitoring fund balances closely and not appropriating funds which are not available.

County Judge/Executive's Response: We will keep accurate receipts and disbursement ledgers.

The Ballard County Fiscal Court failed to approve cash transfers: Ballard County has deficiencies in internal controls over cash that resulted in unauthorized cash transfers. Due to a lack of proper oversight and emphasis placed on proper accounting procedures, inter-fund transfers occurred that were not approved by the fiscal court or reported in the fiscal court minutes. Of the 28 cash transfers that were tested, auditors were unable to find fiscal court approval of five transfers totaling \$269,552. Without proper approval, county funds could be misappropriated and restricted funds could be misused.

Good internal controls over cash should include documented approval of inter-fund transfers by the fiscal court prior to transferring any county funds. Therefore, we recommend the fiscal court require all cash transfers be approved by the fiscal court prior to the transfer being made. We also recommend such approvals be adequately documented in the fiscal court minutes.

County Judge/Executive's Response: We will and have been getting Fiscal Court approval of all fund transfers and including F/C minutes.

The Ballard County Fiscal Court has material weaknesses and noncompliances regarding payroll and timekeeping: The following findings were noted with Ballard County's payroll:

- The fiscal court did not approve an annual salary order. Instead, they approved a one percent pay raise for each employee. The lack of an annual salary order appears to have resulted in employees being compensated at the wrong pay rate.
- Timesheets were not maintained for the former county treasurer or former finance officer as required by KRS 337.320(1)(b); however, overtime was paid to them despite the fact that there were no timesheets to document the additional hours worked.
- Of the individuals selected for testing, five employees did not have timesheets as required by KRS 337.320(1)(b), two employees' timesheets were not signed by the employee or the supervisor, and three employees' timesheets were not signed by the supervisor signifying approval.
- Three additional hours of overtime were given to the road supervisor each week regardless of the amount of hours actually worked.
- Overtime hours were not properly attributed to ambulance service employees as required by KRS 337.285(1).
- Personnel files were incomplete as to withholdings authorizations.
- FICA wages did not agree with the amounts reported on the 2014 W-2's for nine employees that were tested.
- The backs of cancelled checks, to verify proper endorsements, were not provided with the payroll fund bank statements.
- The former county treasurer was compensated twice for the same training incentive.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 337.320(1) requires that "[e]very employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information the commissioner requires." Also, KRS 337.285(1) states "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." Rather than implement a strong internal control system, the Ballard County Fiscal Court relied on a single employee without sufficient oversight. As a result, the aforementioned findings occurred.

We make the following recommendations to address these findings:

- The fiscal court should approve a salary schedule, fixing the compensation of county employees consistent with KRS 64.530. Any adjustments to this schedule should be properly reflected in the fiscal court minutes and included in employees' personnel files.
- Timesheets should be maintained by all non-exempt employees as required by KRS 337.320(1)(b). Timesheets should document the hours worked each day and each week by each employee.
- All timesheets should be signed by the corresponding employee and his or her supervisor.
- Overtime should be awarded to all employees based on hours actually worked, including any applicable overtime in accordance with KRS 337.285.
- Personnel files should be complete as to all withholdings authorizations and updated when any changes occur.
- Year-end W-2 reports should agree with annual earnings records.
- The fiscal court should require the bank to provide the backs of cancelled checks with the bank statements.
- An individual independent of the payroll process should review payroll transactions, including payroll checks, to verify that amounts have been calculated properly and that they are properly supported.
- The fiscal court should consult with the county attorney about seeking reimbursement from the former county treasurer for being compensated twice for the same training incentive, and regarding the payroll discrepancies.

By implementing the above recommendations, the county can strengthen its internal control system over payroll and timekeeping and reduce the risks of non-compliance and payroll errors. Such procedures will also protect the county against potential payroll disputes.

County Judge/Executive's Response: We are continuing to work on these issues and have resolved most of these weaknesses and non-compliances. As of July 18th we have update our Administrative Codes.

The Ballard County Fiscal Court did not distribute federal tax liabilities properly: During Fiscal Year 2015, \$69,577 of federal tax withholdings and employer contributions were not properly turned over to the Internal Revenue Service (IRS). Additionally, \$34,823 of federal tax withholdings and employer contributions were turned over twice.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities. Because the Ballard County Fiscal Court failed to implement internal controls and instead relied on a single employee without sufficient oversight, federal taxes, including Social Security and Medicare, were not distributed in accordance with the federal deposit withholdings deposit schedule as determined by *Employers Tax Guide* published by the IRS. As a result, the fiscal court incurred \$30,286 in penalties for the fiscal year.

We recommend the fiscal court implement internal controls over federal tax liabilities. Internal controls such as a thorough review of payroll earnings records should be performed by an individual independent of the payroll process. This review should include a comparison of the federal tax payment report worksheets to payroll summaries of each pay period to verify that federal taxes are properly submitted to the IRS. Once completed, the review should be signed by the individual performing the review, and submitted to the county judge/executive and fiscal court.

County Judge/Executive's Response: The Federal Tax Liabilities will be reviewed at the time.

The Ballard County Fiscal Court did not properly withhold retirement from employees' checks and did not properly report and pay withholdings to CERS: The following errors or problems were noted with the county's retirement (CERS) benefits:

- One employee was excluded from the retirement report.
- One employee had withholdings reported on the monthly CERS report, but amounts were not withheld from the employee's wages.
- Gross wages reported on the CERS report differed from the earnings records for two employees.
- The county's retirement contribution for three retired employees was not calculated on the payroll earnings records.
- The county's retirement contribution rate in the payroll software did not agree with the actual contribution rate for CERS.
- One employee's withholdings did not agree with the monthly CERS report.
- The additional one percent employee contribution for employees hired on or after September 1, 2008, was properly withheld from three employees' wages, but was not properly reported or turned over to CERS.
- The additional one percent employee contribution for employees hired on or after September 1, 2008, was not withheld from one employee's wages, but was reported on the monthly retirement report.
- Retirement withholdings and contributions for at least one month were not turned over to CERS timely, resulting in a \$1,000 penalty.

- Total retirement paid per the Fourth Quarter Financial Report does not agree with the retirement reports.

A strong internal control system over retirement is essential in ensuring that retirement benefits are calculated, reported, and paid over to CERS properly. Because the county did not devote sufficient resources to such controls, the aforementioned errors occurred. In order to strengthen internal controls over retirement, we recommend an individual independent of the payroll process reconcile the monthly retirement reports to monthly payroll summaries. This reconciliation should include tying all wage and retirement amounts on the retirement report to the payroll summary. This reconciliation should then be reviewed by the County Judge/Executive and/or the fiscal court. Once the retirement report and payroll summary are deemed accurate, retirement benefits should be submitted to CERS on a timely basis.

Because of their nature and severity, the findings associated with retirement will be referred to the County Employee Retirement System (CERS).

County Judge/Executive's Response: We will have personnel reconcile on monthly basis and produce copy to magistrates. Retirement has been very good to work with on resolving this issue.

The Ballard County Fiscal Court did not properly withhold health insurance from employees' checks: The Ballard County Fiscal Court was not withholding enough from employees' wages to cover the cost of health insurance. Therefore, the county was incurring more of the cost of employees' insurance than was approved by the fiscal court. According to the former county treasurer, the county was to contribute \$325 per month for those employees that enrolled in the county's health insurance coverage. In addition to that, the county contributed \$225 per month towards a health reimbursement account (HRA) for those employees, plus the \$6 HRA administrator's fee, for a total monthly contribution of \$556. Employees were responsible for any amount in excess of the county's contribution. Our examination of health insurance premiums and payroll records revealed the proper amount of funds was not being withheld from employees' wages, resulting in the county overpaying for employees' health insurance coverage.

This overpayment was the result of weak internal controls over payroll and health insurance withholdings, including not having proper reviews of employees' withholding calculations. Strong internal controls over payroll withholdings, including health insurance, are vital in ensuring that proper amounts are withheld from employees' earnings, and that they are turned over to the appropriate parties. Strong internal controls also protect those individuals responsible for processing payroll. Because of their importance, we recommend the county strengthen internal controls over payroll withholdings. Controls such as a review of payroll earnings records, employee withholdings authorizations, and county personnel policies should be performed by an individual independent of the payroll process. This review should include a recalculation of withholding amounts and verification that these amounts are properly deducted from employees' earnings. This review should also include verification that withholding amounts are reported properly and turned over to the appropriate parties. Once completed, the

review should be signed by the individual performing the review and submitted to the county judge/executive and the fiscal court.

County Judge/Executive's Response: The new Treasurer will implement balance sheet to be reviewed monthly by the Fiscal/Court.

The Ballard County Fiscal Court has material weaknesses over disbursements: Material weaknesses exist over the disbursements of the Ballard County Fiscal Court. For Fiscal Year 2015, the county had 12 disbursements that did not have proper supporting documentation and 28 disbursements that did not have proper fiscal court approval out of the 106 disbursements in our test samples.

Strong internal controls over disbursements are essential in ensuring disbursements are properly approved and recorded. They are also vital to ensuring that all disbursements are for the official business of the county. Because the fiscal court has failed to place an emphasis on having a strong internal control system, the above exceptions occurred. By having weak internal controls over disbursements, the county assumes a higher risk of misstatement and fraud.

Because of their importance, we recommend the county strengthen internal controls over disbursements. By requiring all disbursements to have proper supporting documentation and fiscal court approval prior to payment, the county can strengthen its internal control system and reduce the risks associated with disbursements.

County Judge/Executive's Response: Treasurer puts the information in and the Finance Officer prints the checks. The duties are split. Also, a new P.O. system has been implemented.

The former county judge/executive charged personal items to the county's charge account: On July 5, 2014, the former county judge/executive purchased \$309 worth of food at a local vendor using the county's charge account. On July 10, 2014, the former county judge/executive wrote a personal check, reimbursing the county for this charge.

According to KRS 64.850, "[i]t shall be unlawful for any county official. . .to withdraw public funds for any purpose other than that for which they were received and deposited." By purchasing personal items on the county's charge account, the former judge/executive was in violation of KRS 64.850. We recommend the county abide by KRS 64.850, and eliminate any practice of charging personal items to the county.

County Judge/Executive's Response: We shall abide by KRS 64.850 accordingly.

The Ballard County Fiscal Court failed to advertise for bids as required by the Ballard County Administrative Code and KRS 424.260: The county approved the purchase of oil and asphalt in the amount of \$119,300 and a chipper in the amount of \$21,000 without properly advertising for bids. Ballard County's administrative code states, "The Judge Executive, with the assistance of Department Heads, shall annually prepare a list of supplies and materials that the county expects to purchase where the value of which is \$20,000 or more. This list shall be made available to vendors who will be requested to submit their bids for such items for the

forthcoming fiscal year.” Additionally, KRS 424.260(1) prohibits a county from entering into a contract for material or services “involving an expenditure of more than twenty thousand dollars (\$20,000) without first making a newspaper advertisement for bids.” Given the fact that the fiscal court overlooked this requirement for the two items tested, the county is noncompliant with their administrative code and KRS 424.260. Therefore, we recommend the county abide by the administrative code set by the Ballard County Fiscal Court and KRS 424.260 by advertising for bids on all disbursements for applicable goods or services in excess of \$20,000.

County Judge/Executive’s Response: We will comply and have put into advertise for bids for 2018.

The Ballard County Fiscal Court failed to pay invoices within 30 working days: The Ballard County Fiscal Court failed to pay all invoices within 30 working days as required by KRS 65.140. In one instance, this resulted in the county paying \$1,396 in late fees. According to KRS 65.140(2), “[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.” Because there was no evidence of a contract between the county and its vendors, no written letter of disapproval, and the fact that the county incurred late fees and penalties, the county is not in compliance with KRS 65.140. We recommend the county comply with KRS 65.140 by paying all claims within 30 working days of the receipt of a vendor’s invoice. We also recommend the county stamp the date received on claims and invoices in order to help the county ensure compliance.

County Judge/Executive’s Response: As of September 2017, we are having 2 monthly meetings to meet compliance.

The Ballard County Fiscal Court did not pay off short term notes by the end of the fiscal year as required: Two short-term notes taken out in Fiscal Year 2014 were carried over into the 2015 fiscal year. Due to a lack of knowledge and understanding of state statutes and bank institutions agreements, the county’s short-term debt obligations were still outstanding as of June 30, 2015. These notes were initiated to meet the financial obligations of the Ballard County Fiscal Court. While such short-term notes are allowable, KRS 65.7707 requires the notes to “mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued.” Although an extension waiver agreement was signed by the county judge/executive and former county treasurer with the banking institution agreeing to extend the notes’ maturity dates to March 30, 2015, that agreement violates KRS 65.7707. The county did not meet the extended maturity date, even though that extended date was beyond the statutory maximum maturity period.

Because the 2014 notes were not paid off in fiscal year 2014, the county is noncompliant with KRS 65.7707. We recommend the fiscal court comply with KRS 65.7707 by satisfying short-term debt obligations by the maturity date set by the banking institution, which should be no later than the end of the fiscal year.

County Judge/Executive's Response: In the future, we will obtain approval on ALL Loans from DLG and F/C.

The Ballard County Fiscal Court has material weaknesses over the reporting of liabilities and debt: Material weaknesses exist over the reporting of liabilities and debt of Ballard County. The June 30, 2015 outstanding debt balances reported on the Fourth 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's Response: We are currently reporting all liabilities and debts on monthly and quarterly reports.

The Ballard County Fiscal Court has weak internal controls over capital assets which 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 and infrastructure of Ballard County. The county's schedule of capital assets and infrastructure for the period of audit failed to recognize all asset purchases and disposals that occurred throughout the year.

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, they are left vulnerable to misappropriation or misstatement. Because the county failed to emphasize strong internal controls over the reporting of capital assets and infrastructure, these misstatements were able to occur without detection.

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. 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's Response: We are in process of making schedule for capital assets.

The Ballard County Detention Center has internal control weaknesses and noncompliances over the jail inmate account: Material weaknesses and noncompliances exist over the Ballard County jail inmate account including the following:

- Receipts are not issued in accordance with KRS 64.840.
- Receipt forms are not batched.
- Receipts and disbursements ledgers are not properly maintained.
- Receipts are not deposited daily.
- Auditor could not determine if procedures were in place for increases or reductions to inmates' cash balances.
- Auditor could not determine if all jail fees were turned over to the county treasurer properly, or if additional fee were due to the county.

According to KRS 64.840, all county officials shall issue receipt forms upon the receipt of any fine, forfeiture, tax, or fee. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires at the end of each business day, the jailer or assigned personnel, to separate receipts into categories and make daily deposits into a federally insured banking institution. In addition to state statute, a good internal control systems allows for a trail of funds from receipt to disbursement.

We recommend the jailer comply with KRS 64.840 and KRS 68.210 by issuing receipt forms for all receipts and depositing them daily. We also recommend the jailer maintain proper accounting records and reports to support the source of these funds, their intended purpose, and their use.

County Jailer's Response: Most of the issues listed pertained to problems from the prior administration and issues that arose during our vendor change that deals with our accounting software.

The Ballard County Detention Center lacks segregation of duties over jail commissary operations: The Ballard County Detention Center lacks adequate segregation of duties over the jail commissary operations. The chief deputy is responsible for reconciling the inmate fund. She also takes money out of the kiosks and posts receipts and payments to each inmate's account. She also prepares deposits, takes deposits to the bank, and writes checks to released inmates who have an available fund on their account. The jailer maintains ledgers for the commissary account. He also reconciles the commissary account and prepares all corresponding reports. The chief deputy reviews his work.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately prevent the misappropriation of assets, we recommend the jailer separate the duties of collecting receipts, deposit preparation, bank reconciliations, and other accounting

functions. If these duties cannot be separated due to limited staff, then strong oversight should be provided to the employee or employees responsible for these duties.

County Jailer's Response: The lack of segregation of duties was discussed during the exit and changes will be made to correct the issue.

The Ballard County Jailer failed to maintain the minimum accounting records for the jail commissary: The Ballard County Jailer failed to utilize daily checkout sheets and the receipts and disbursements journals were not categorized. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts as set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires the jailer to maintain accounting records for the jail commissary funds, including daily checkout sheets, detailed receipts and disbursements journals, and year-to-date summary report.

According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, at the end of each business day the jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet and deposit them on a daily basis. These receipts should then be posted by category to the jail commissary receipts journal. Each check written from the jail commissary account must be posted to the proper category listed on the jail commissary disbursements journal.

We recommend the jailer comply with the minimum accounting and reporting standards by implementing daily checkout procedures. We also recommend the jailer use detailed receipts and disbursements journals to properly report the activities of the jail commissary.

County Jailer's Response: The accounting records for the Jail Commissary account was discussed during the exit and changes will be made to correct the issue.

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

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