



Auditor of Public Accounts
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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, 2016. 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 the 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: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The following findings were noted with Ballard County's health reimbursement account for the fiscal year ending June 30, 2016:

- The former treasurer received duplicate payments totaling \$233.
- The county made reimbursements that do not qualify under IRS guidelines to employees, including non-prescription massages and over-the-counter medicine.
- Lack of fiscal court approval for reimbursements.
- During the first half of the year, employees were not required to submit reimbursement forms prior to being reimbursed for medical expenses.
- No formal policy over health reimbursements.
- A lack of segregation of duties over the health reimbursement account.

During Fiscal Year 2016, the health reimbursement account was maintained by the county treasurer for those employees who waived the county's health insurance coverage. Each month, the county contributed \$500 for each employee who participates. These funds were 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.

County Judge/Executive's Response: The Health Reimbursement Account has been closed. All employee health benefits are maintained by a vendor, and the treasurer reconciles monthly vendor statements.

The Ballard County Fiscal Court has material weaknesses over cash and financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The 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 \$341,174 as of June 30, 2016. The former county treasurer's annual settlement for fiscal year 2016 reported a total fund balance of \$374,190 for budgeted funds, a variance of \$33,016 between the two reports. The audited financial statement reports an ending fund balance of \$1,000,631 for budgeted funds, a variance of \$659,457 with the Fourth Quarter Financial Report and \$626,441 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 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. Internal 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 current county treasurer submits all monthly and quarterly reports for review to the fiscal court and Judge Executive. The reports are true and accurate statements of accounts, and are reconciled with current bank balances, and the budget is balanced monthly. Budget transfers are all submitted, reviewed, and approved by the fiscal court. These reports are reviewed by other County officials and the fiscal court, periodically, to cross check that the monthly and quarterly statements are correct and reconciled with bank balances.

The Ballard County Fiscal Court is not properly maintaining the payroll revolving account: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. Ballard County's payroll revolving account had a June 30, 2016, known reconciled balance of \$106,751, consisting of the following:

Bank Balance	\$ 241,809
Less:	
Outstanding Checks	(880)
Liabilities	<u>(134,178)</u>
Reconciled Balance	<u>\$ 106,751</u>

The noted known liabilities consist of \$61,412 of payroll withholdings and county contributions, including federal, state, and local income taxes, Social Security, Medicare, retirement, insurance, and deferred compensation. Liabilities also consist of \$72,766 in amounts owed to operating funds for July 2016 payroll. The county failed to realize the importance of strong internal controls over the payroll account, and instead relied on a single employee without sufficient oversight. The payroll revolving account and records have not been properly maintained, resulting in the above balance. Because the county has failed to properly maintain the payroll revolving account, the county's fourth quarter financial statement maybe misstated.

Due to the nature of revolving accounts, the reconciled balance of the payroll fund should be \$0, or possibly a small reserve balance if the county so chooses. Strong internal controls over the account should be implemented to ensure that proper amounts are transferred timely. Should a balance accrue in the payroll revolving account, the county should allocate this balance to the appropriate funds.

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 withholdings amounts and county contributions are handled properly, and paid over to the proper authorities timely, and that any accumulated balance is properly allocated and reflected on the county's financial statement.

County Judge/Executive's Response: Before payroll checks are issued to any individual employees, the Treasurer issues withholding checks to the each proper authority, and the judge executive signs off on the withholding checks. After these checks are issued to the proper authority for withholdings, the payroll checks are signed by the treasurer and finance officer or county judge and distributed to the individual employees. The payroll and payroll expenses are reviewed monthly by the Fiscal Court, as a third system of checks and balances. To strengthen internal controls, the treasurer, finance officer, and judge will not sign and issue any individual employee checks, until after the proper withholding checks are issued.

The Ballard County Fiscal Court has material weaknesses and noncompliances regarding payroll and timekeeping: This is a repeat finding and was included in the prior year audit report as Finding 2015-006. During Fiscal Year 2016, the Ballard County Fiscal Court had material weaknesses and noncompliances surrounding payroll and timekeeping.

The following findings were noted with Ballard County's payroll:

- Of the individuals selected for testing, three employees' pay did not agree with the rate approved by the fiscal court.
- 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 two ambulance service employees as required by KRS 337.285(1).

- Of the individuals selected for testing, one employee's timesheet did not agree with the payroll earnings report.
- Of individuals selected for testing, one employee did not have a timesheet as required by KRS 337.320(1)(b), four employees' timesheets were not signed by the employee or the supervisor, and four employees' timesheets were not signed by the supervisor signifying approval.
- Personnel files were incomplete as to withholdings authorizations.
- FICA wages did not agree with the amounts reported on the 2015 IRS W-2 forms for four of the individuals selected for testing.
- The backs of cancelled checks, to verify proper endorsements, were not provided with the payroll fund bank statements.
- Of individuals selected for testing, leave balances were not maintained for two employees.
- 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 implement controls to ensure employees' pay agrees to the rate on the salary schedule approved by the fiscal court. Any adjustments to this schedule should be properly reflected in the fiscal court minutes and included in employees' personnel files.
- Overtime should be awarded to all employees based on hours actually worked, including any applicable overtime in accordance with KRS 337.285(1).
- 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.
- Personnel files should be complete as to all withholding authorizations and updated when any changes occur.
- Year-end IRS Form 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.
- Leave balances should be maintained for all employees.
- 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 payroll discrepancies.

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

County Judge/Executive's Response: We have began to implement a pay scale for the road dept, ambulance service, and 911 center. The treasurer reviews all employees time cards before issuing payroll checks. We have had numerous meetings, soon to be five, with dept. heads to correct errors in payroll, over time, c-time, sick time, and vacation time and how all these areas will be paid. The fiscal court reviews all time cards of the treasurer and finance officer. We have implemented a new policy manual effective 07/01/2017, to help employees and dept heads to correct payroll and time keeping errors, from the past.

The Ballard County Fiscal Court did not distribute federal tax liabilities properly: This is a repeat finding and was included in the prior year audit report as Finding 2015-007. During Fiscal Year 2016, federal tax withholding and employer contributions were not properly turned over to the Internal Revenue Service (IRS) correctly or timely. For most pay periods, federal tax withholdings and employer contributions were held more than one month before being turned over to the IRS. Additionally, there was at least one pay period that auditors could not determine if these amounts were ever turned over.

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. In addition, *Publication 15 Employer's Tax Guide (Circular E)* and *Notice 931 Deposit Requirements For Employment Taxes* issued by the IRS require employers who are semiweekly schedule depositors to deposit federal taxes accumulated on taxes for payroll paid on Wednesday, Thursday, or Friday by the following Wednesday and federal taxes accumulated on taxes for payroll paid on Monday or Tuesday by the following Friday. The Ballard County Fiscal Court failed to implement such internal controls and instead relied on a single employee without sufficient oversight. As a result, federal taxes, including Social Security and Medicare, were not distributed in accordance with the federal deposit withholding deposit schedule as determined by *Employers Tax Guide* published by the IRS.

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: We have implemented proper payroll withholding system, that is double checked before payroll is issued to individual employees, to pay withholdings to the IRS. We have hired a private accounting firm to contact the IRS for Ballard Co. to resolve past years federal withholding issues. We are in the process of resolving all past issues with federal withholdings.

The Ballard County Fiscal Court did not properly withhold retirement from employee's checks and did not properly report and pay withholdings to CERS: This is a repeat finding and was included in the prior year audit report as Finding 2015-008. Retirement was not properly reported or withheld from Ballard County employees.

The following errors or problems were noted with the county's retirement benefits:

- The amounts reported for gross salaries on the retirement reports did not agree with gross salaries per the payroll summaries.
- The county's retirement contribution amount paid per the Fourth Quarter Report did not agree with the retirement reports for the fiscal year.
- The county's retirement contribution for three retired employees was not reported nor paid on the retirement reports to the County Employees Retirement System (CERS).
- The additional one percent employee contribution for employees hired on or after September 1, 2008, was properly withheld from four employees' wages, but it was not properly reported or turned over to CERS.
- Two employees had withholdings and matching reported on the monthly CERS reports, but amounts were not withheld from employee's wages.
- Two employees' retirement withholdings and matching were not reported on the monthly CERS report.
- Two employee's retirement withholdings did not agree with the monthly CERS report.
- One employee was excluded from the retirement report.

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 internal controls over retirement benefits, and instead relied on a single employee without sufficient oversight, 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 timely.

Because of their nature and severity, the findings associated with retirement will be referred CERS.

County Judge/Executive's Response: We have been in contact with CERS. We are currently being audited by CERS for past years improper payroll withholding problems. When the CERS audit is complete, we will submit to any findings they may have with our agency. Currently we are compliant with CERS withholding requirements.

The Ballard County Fiscal Court has material weaknesses over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2015-010. Material weaknesses exist over the disbursements of Ballard County.

The following exceptions were noted during testing:

- Seven disbursements, totaling \$20,332 had no supporting documentation.
- Eight disbursements, totaling \$2,506 had insufficient supporting documentation.
- 36 disbursements, totaling \$345,277 were not presented to the fiscal court prior to payment.
- 75 disbursements, totaling \$64,483 did not have a properly executed purchase order as required by the county's administrative code.

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. The fiscal court failed to place an emphasis on having a strong internal control system over disbursements. By having weak internal controls over disbursements, the above exceptions occurred. Also, 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 controls system and reduce the risks associated with disbursements.

County Judge/Executive's Response: We have implemented a new po system, which should remedy past disbursement issues.

The Ballard County Fiscal Court failed to advertise for bids as required by the Ballard County Administrative Code and KRS 424.260: This is a repeat finding and was included in the prior year audit report as Finding 2015-012. The county approved disbursements for road resurfacing without going through the bid process. Three disbursements for road resurfacing totaling \$475,928 were made without first making an advertisement requesting 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 materials or services "involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." The county overlooked this requirement because of the lack of resurfacing contractors in the area; therefore, the county is noncompliant with their administrative code and KRS 424.260.

We recommend the county follow 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: When we realized we were not compliant, we began implementing the KRS 424.260 bid process. The 2017 audit will reflect we were not compliant as well. We have started a system of bidding and future audits should reflect total compliance.

The Ballard County Fiscal Court failed to pay invoices within 30 working days: This is a repeat finding and was included in the prior year audit report as Finding 2015-013. The Ballard County Fiscal Court failed to pay all invoices within 30 working days as required by KRS 65.140. Out of the 95 disbursements that were tested, three disbursements, totaling \$303,403 were not paid within 30 days. Additionally, six invoices were not stamped when received; therefore, no determination could be made if these invoices were paid within the 30-day period. 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 the county failed to pay claims within 30 working days of the receipt of an invoice with no evidence of a contract between the county and its vendors or a written letter of disapproval, the county was 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: In September of 2017, the Ballard Fiscal Court began conducting two monthly meetings to comply with paying invoices in a timely manner, as required.

The Ballard County Fiscal Court did not pay off short term notes by the end of the fiscal year as required: This is a repeat finding and was included in the prior year audit report as Finding 2015-014. The Ballard County Fiscal Court took out three short-term notes payable during the 2016 fiscal year. As of June 30, 2016, two notes totaling \$510,000 remained outstanding. Two of these notes were taken out to pay off previous notes. The other note was used to fund county operations. 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.”

The fiscal court failed to pay off two of the notes that were initiated during the fiscal year and as a result, the county was not compliant 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: The bank notes have been paid in full. In the future, we will not borrow any monies without notifying all parties, and we will make timely payments as required by KRS 65.7707.

The Ballard County Fiscal Court failed to properly notify the state local debt officer before entering into short term notes: The Ballard County Fiscal Court took out three short-term notes payable during the 2016 fiscal year without giving the proper notification to the state local debt officer. Two of these notes were taken out to pay off previous notes. The other note was used to fund county operations. While such short-term notes are allowable under statute, KRS 65.117(1) states, “[n]o city, county, urban-county, consolidated local government, charter county, or special purpose governmental entity as defined in KRS 65A.010 shall enter into any financing obligation of any nature. . .without first notifying the state local debt officer in writing.” The fiscal court failed to know and understand the state statutes governing short-term notes, and as a result, the fiscal court is not compliant with KRS 65.117. We recommend the fiscal court comply with KRS 65.117 by making the proper notification to the state local debt officer prior to issuing any sort of debt instrument.

County Judge/Executive’s Response: The bank notes have been paid in full. In the future, we will not borrow any monies without notifying all parties, as required by KRS 65.117.

The Ballard County Fiscal Court has material weaknesses exist over the reporting of liabilities and debt: This is a repeat finding and was included in the prior year audit report as Finding 2015-015. Material weaknesses existed over the reporting of liabilities and debt of Ballard County. The June 30, 2016 outstanding debt balances reported on the Fourth Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders. According to the Fourth Quarter Financial Report, total long-term liabilities were \$1,324,207 as of June 30, 2016. Long-term liabilities had an audited balance of \$620,489, which caused a variance of \$703,718.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. The county failed to have a strong internal control system over liabilities and debt service, and instead relied upon a single employee without sufficient oversight. As a result, the county’s Fourth Quarter Financial Report was materially misstated. 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 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 have implemented controls over borrowing for future projects. All past unreported liabilities have been repaid in full. All monthly and quarterly reports are closely monitored by other county officials and are published for review. The reports include all investments and all liabilities.

The Ballard County Fiscal Court has weak internal controls over capital assets resulted in the omission of capital asset additions and retirements from the county's schedule of capital assets: This is a repeat finding and was included in the prior year audit report as Finding 2015-016. Material weaknesses existed 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 that occurred throughout the year. Vehicles and equipment additions were understated by \$135,557. Infrastructure additions were overstated by \$55,332. Also, the county treasurer failed to remove a retirement of \$95,276 from vehicles and equipment.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. The county failed to emphasize strong internal controls over the reporting of capital assets and infrastructure, and instead relied on a single employee without sufficient supervision. By having weak internal controls over capital assets, they are left vulnerable to misappropriation or misstatement. In this case, 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 and 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 have implemented a capital asset schedule and maintain it with our county inventory files.

The Ballard County Detention Center has internal control weaknesses and noncompliances exist over the jail inmate account: This is a repeat finding and was included in the prior year audit report as Finding 2015-017. During Fiscal Year 2016, material weaknesses and noncompliances were noted for the jail inmate account.

The following findings were noted with the jail inmate account:

- Receipts are not issued in triplicate in accordance with KRS 64.840.
- Receipt forms are not batched daily in accordance with 68.210.
- Receipts and disbursements ledgers are not properly maintained.
- Receipts are not deposited daily.
- Detailed inmate reports are not maintained that document the nature of inmate transactions, therefore auditors were unable to determine the validity of inmate transactions.

Six days of receipts were tested in April while the jail was using one software program for a total of \$6,279. Of those six days, all six days' receipts were issued in duplicate, they were not batched daily, the numerical sequence was not accounted for, and no daily check out sheets were maintained. Five days of receipts were tested in November while the jail was using a different software program for a total of \$2,251. Of those five days, manual receipts were issued in duplicate, they were not batched daily, and the numerical sequence was not accounted for.

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 minimum accounting and reporting standards. These minimum accounting and reporting standards, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, require 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 system allows for a trail of funds from receipt to disbursement. Because the Ballard County Detention Center lacks adequate controls over receipts, the failure to maintain proper records over the jail inmate accounts could result in receipts being distributed incorrectly between the jail commissary account, county treasurer, and inmate accounts.

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 Judge/Executive's Response: Jailer and Chief Deputy reviewed and will implement recommendations.

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.

No changes were made from the 2015 audit during the 2016 budget. This was because the 2015 audit was not completed before the end of the 2016 budget. It was impossible to make changes during 2016 since we did not know any needed to be changed.

The Ballard County Detention Center lacks segregation of duties over jail commissary operations: This is a repeat finding and was included in the prior year audit report as Finding 2015-018. During Fiscal Year 2016, the Ballard County Detention Center lacked adequate segregation of duties over the jail commissary operations. Due to staffing restrictions and a limited budget at the Ballard County Detention Center, the jailer has elected to perform the accounting duties of the jail commissary fund himself.

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. Without the proper segregation of duties, fraud or errors could go undetected and uncorrected.

To adequately prevent the misappropriation of assets, we recommend the jailer separate the duties of collecting receipts, preparing deposits, 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. If the jailer elects to continue performing these tasks himself, this oversight should be performed by the county finance officer and the fiscal court.

County Judge/Executive's Response: Jailer and Chief Deputy reviewed findings and will implement recommendations.

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

No changes were made from the 2015 audit during the 2016 budget. This was because the 2015 audit was not completed before the end of the 2016 budget. It was impossible to make changes during 2016 since we did not know any needed to be changed.

The Ballard County Jailer failed to maintain the minimum accounting records for the jail commissary: This is a repeat finding and was included in the prior year audit report as Finding 2015-019. During Fiscal Year 2016, the Ballard County Jailer failed to maintain the minimum accounting records prescribed by the state local finance officer pursuant to KRS 68.210 to be utilized by county jailers for jail commissary funds, including daily checkout sheets, detailed receipts and disbursements journals, and a year-to-date summary report.

KRS 68.210, gives the State Local Finance Officer the authority to prescribe minimum accounting and reporting standards. These minimum accounting and reporting standards, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* state, "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 daily. These receipts should then be posted by category to the jail commissary receipts journal.

The manual also requires each check written from the jail commissary account to be posted to the proper category listed on the jail commissary disbursements journal. Because the jailer chose not to utilize daily checkout sheets, the receipts and disbursements journals were not categorized, and the year-end commissary report was not detailed he was not in compliance with KRS 68.210.

We recommend the jailer comply with the minimum accounting and reporting standards of KRS 68.210 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 Judge/Executive's Response: Jailer and Chief Deputy reviewed findings and will implement recommendations.

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.

No changes were made from the 2015 audit during the 2016 budget. This was because the 2015 audit was not completed before the end of the 2016 budget. It was impossible to make changes during 2016 since we did not know any needed to be changed.

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

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