



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Boyd County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Boyd 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 Boyd 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 Boyd County Fiscal Court did not comply with bid procedures for leased vehicles:** The fiscal court did not comply with bid procedures for leased vehicles. The fiscal court entered into an agreement to lease 17 vehicles with a value of \$552,790 for county use. During the fiscal year ending June 30, 2016, the fiscal court paid \$68,204 towards these leased vehicles. According to the county judge/executive, the fiscal court was unaware that entering into the lease would require them to advertise for bids. As a result, the vehicle procurement process was not open to all vendors, which may have resulted in the fiscal court not receiving the best possible terms. Furthermore, a public bid process is more transparent. KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement of bids, no city, county or district, or board or commission of a city or county, or a sheriff or county clerk,

may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” We recommend the county comply with bid procedures as stated in KRS 424.260(1).

*County Judge/Executive’s Response: Assumed [vndor] contract was a professional service not requiring the bid process. No local agency (Boyd County) was capable of providing this service. Will comply as directed by KRS 424.260(1) in future.*

**The Boyd County Fiscal Court did not report employer-provided vehicles as a taxable fringe benefit and does not have written procedures in place to address the use of the vehicles:** As noted in the chart below, there are 15 county employees that drive an employer-provided vehicle. This benefit was not included as a taxable fringe benefit on these employees’ IRS W-2 forms. Also, the county’s administrative code does not address employee use of county-owned vehicles, and there are no mileage or gasoline logs maintained.

Animal Control Director	GMC 1500
Animal Control Officer	F-150
Animal Control Officer	F-150
Animal Control Officer	F-250
Road Foreman	F-250
Road Assistant Foreman	F-250
Road Assistant Foreman	F-250
Road Assistant Foreman	F-250
Jailer	F-150
Chief Deputy Jailer	F-350
Lt. Canine Advisor	Ford Explorer
Code Enforcement Officer	Ford Explorer
Code Enforcement Officer	Ford Explorer
Construction Manager	F-250
County Judge/Executive	Ford Explorer

According to the county judge/executive, the fiscal court was informed of this IRS requirement, but they chose not to include it on the employee’s W-2 forms. As a result, 15 county employees have been receiving an employer-provided benefit without paying the required taxes on the benefit. Also, without written procedures in place, it is unclear when it is appropriate for employees to use their county-provided vehicles outside of normal work hours. Without mileage and gasoline logs, there is no way for the fiscal court to determine if a vehicle is being used in excess of what is reasonable. Per IRS Publication 15-B, an employer-provided vehicle is to be included as a taxable fringe benefit for most employees. The exception would be any vehicle the employee isn’t likely to use more than minimally for personal purposes because of its design. It appears that none of

these vehicles meet that exception. Additionally, written procedures would allow the fiscal court to ensure the benefit of an employer-provided vehicle is not abused. We recommend the fiscal court review the IRS regulations and take appropriate action to ensure the taxable fringe benefit is included on the employee's W-2 form as long as the employee is provided a county vehicle to use for personal purposes. Furthermore, we recommend the county amend the current administrative code to include a policy on the authorization and use of county vehicles. The policy should address the tax implications of using a county vehicle for personal use or commuting travel, as well as establish procedures to require employees to maintain mileage and gasoline logs. The logs should be signed by the employee and reviewed and signed by a department head or designated employee. The fiscal court should periodically review the logs to determine if usage is acceptable.

*County Judge/Executive's Response: Fiscal Court will be informed of the IRS requirement. Procedures will be put in place, along with a BCFC policy, to comply with the IRS Publication 15-B requirement.*

**The Boyd County Fiscal Court's fourth quarter report reported a negative balance in the jail fund of \$30,129 as of June 30, 2016:** A payroll check in the jail fund was written by mistake, never cleared the bank, and should have been voided. The county treasurer did not void a \$63,393 check that was issued in error in August 2015. The check continued to appear as an outstanding check of the jail fund as of the June 30, 2016, thus lowering the reconciled balance on the bank reconciliation. This appears to have been caused by an error that was not corrected prior to the audit. The fiscal court did not question why this check remained on the outstanding check list when they reviewed the monthly reports, nor did they question the negative jail fund balance as of June 30, 2016. As a result, the jail fund reported a negative balance of \$30,129 on the fourth quarter report at year-end. During the audit, auditors discussed the negative fund balance with the county treasurer and she voided the payroll check. Therefore, auditors proposed an adjustment to correct the disbursements ledger and negative fund balance.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, purchase orders should not be issued unless adequate funds are available to cover the expenditure. Also, under duties of county treasurer, the county treasurer should only countersign checks if there is sufficient fund balance and adequate cash in the bank to cover the check. Furthermore, good internal controls dictate monthly bank reconciliations are performed that provide an accurate and complete record of the county's fund balance. This includes resolution of stale outstanding checks. Any checks not clearing within a reasonable amount of time should be investigated, and reissued or voided if necessary.

We recommend the fiscal court monitor fund balances to ensure sufficient funds are available prior to authorizing and approving payments. We also recommend that monthly reports be reviewed, and outstanding checks that have not cleared timely be resolved.

*County Judge/Executive's Response: Check has been properly recorded in the system and future transactions will be monitored closely to ensure there are no negative fund balances.*

**The Boyd County Fiscal Court did not issue purchase orders on all disbursements:** The fiscal court did not issue purchase orders on all disbursements. Out of 60 invoices tested on the test of disbursements, 34 invoices did not have a purchase order. Out of those 34 invoices, 17 were for utilities and the remainder consisted of sales tax, transporting morgue services, refunds, and cleaning supplies. The cause appears to be a lack of understanding of when a purchase order is needed. In addition, the county was not aware that although standing orders are allowed as payment approval for these types of disbursements, the Department for Local Government (DLG) strongly encourages all counties to use purchase orders for all county disbursements. As a result, appropriation line items may be depleted or have a negative balance due to not ensuring funds are available at the time of purchase. Failure to create purchase orders for all disbursements may not accurately reflect cash requirements and alert management to any possible cash flow issues. DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe the minimum requirements for handling public funds. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including required purchasing procedures for counties. These requirements prescribe that “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” Additionally, DLG issued a memorandum on August 4, 2016, in which it “highly recommends” implementation of issuing purchase orders for payroll and utilities. We recommend the fiscal court implement procedures to ensure purchase orders are issued on all disbursements, including utilities and payroll claims.

*County Judge/Executive’s Response: Purchase order system had not been initiated. Correct procedures are now in place.*

**The Boyd County Fiscal Court did not accurately report debt on the quarterly financial statement:** This is a repeat finding and was included in the prior year audit report as Finding 2015-006. The liabilities section of the fourth quarter financial statement (which also serves as the county’s year-end financial statements) did not reconcile to the county’s debt schedules, materially misstating debt obligations. This occurred due to lack of oversight of the quarterly financial statement preparation process. As a result, liabilities information is not accurately presented to management, regulatory agencies, and other users of the information. The principal balance of debt as of June 30, 2016 was understated by \$13,498,906, and the interest balance of debt as of June 30, 2016 was understated by \$2,236,506. The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the debt section of the fourth quarter financial report to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, government leasing act issues, and bond anticipation notes. The liabilities information reported needs to be accurate. We recommend the fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities section of the quarterly financial statement.

*County Judge/Executive’s Response: Financial statements had never reflected debt that was being paid through escrow accounts, but still in the county name. Financial statements will list this debt going forward.*

**The Boyd County Fiscal Court's capital assets are not being reported properly:** This is a repeat finding and was included in the prior year audit report as Finding 2015-007. Auditors were not provided a complete and accurate capital asset schedule. During our audit, we noted the following:

- The capital asset list provided to the auditors did not include transmission line equipment, infrastructure, and buildings.
- Vehicles and equipment were included that do not meet the capitalization threshold.
- A vehicle on the capital asset list could not be traced to the county's insurance policy.
- There was no evidence that a physical inventory of the county's capital assets had been completed.

The fiscal court is not adequately monitoring and tracking capital assets. No individual has been directed to take responsibility for maintaining the capital asset schedule. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court cannot properly determine insurance needs, which could result in financial losses. Furthermore, not performing physical inventories increases the risk of misappropriation of assets.

The Department for Local Government (DLG), under the authority of KRS 68.210, requires the state local finance officer to create a system of uniform accounts for all counties and county officials. *The County Budget Preparation and State Local Finance Officer Policy Manual* states, “[f]or purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year. The asset inventory listing should provide the following detail:

- Property tag number
- Asset description
- Serial number - if applicable
- Quantity - if applicable
- Cost (or FMV [fair market value] of donated asset at date of donation)
- Date of acquisition
- Date of disposal (track all disposals for entire fiscal year)
- Property location (by department, building & room number)
- Manager/individual responsible

The manual further explains that, “an annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented. . .[t]he asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset inventory listing modifications.”

We recommend the fiscal court designate an individual to maintain the capital assets schedule. This individual should provide a complete and accurate capital assets schedule to the fiscal court

at least once a year. The capital assets schedule should also reconcile to the physical inventory of county assets at the end of each year and to the county's list of inventoried assets and insurance policy.

*County Judge/Executive's Response: Fiscal Court will designate a county employee to oversee each department assets and record properly.*

**The Boyd County Fiscal Court did not adequately segregate duties over receipts and reconciliations:** This is a repeat finding and was included in the prior year audit report as Finding 2015-004. During Fiscal Year 2016, the county treasurer prepared and deposited receipts, posted receipts and disbursements to the accounting system, maintained the purchase order listing, prepared checks for disbursement, prepared monthly reports for the fiscal court and quarterly reports for the Department for Local Government (DLG), made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. While some compensating controls are in place, including the preparation of a receipts log by the finance officer and the review of prepared checks by the county judge/executive or his designee, they are not sufficient. The county does not have procedures in place to adequately segregate these duties. As a result, too much control by one individual increases the risk of undetected misappropriation of assets and inaccurate financial reporting. A sufficient internal control structure requires adequate segregation of duties. Without proper segregation, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system. Good internal controls dictate that the same employee should not handle, record, and reconcile cash receipts. We recommend the county segregate incompatible duties or implement strong compensating controls to mitigate the risks identified above. The county should determine which duties should be performed by the judge/executive, his designee, or the treasurer to mitigate the risks and address these weaknesses.

*County Judge/Executive's Response: Accounts Payable employee assumes responsibility for preparation of check disbursements and purchase order system. Treasurer currently prepares deposits, transfers and bank recs.*

**The Boyd County Jail lacks adequate segregation of duties over jail commissary transactions:** This is a repeat finding and was included in the prior year audit report as Finding 2015-005. The jail lacks adequate segregation of duties over jail commissary transactions. A control deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper for the jail commissary prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, posts to the disbursements ledger, and prepares monthly bank reconciliations. The jailer has been informed of this issue and has failed to segregate duties, or to implement and document compensating controls sufficient to offset the weakness noted. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting. A strong internal control system requires the duties of receiving, recording, disbursing, and reporting be segregated in order to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the jailer has implemented some compensating controls, such as dual

signatures on checks and recounting the daily deposits, they do not eliminate the lack of segregation of duties. If these duties cannot be segregated, the jailer should implement additional compensating controls to help offset this weakness, such as:

- Recount the daily deposit and verify that it agrees to the daily checkout sheet.
- Agree daily checkout sheet to the receipts ledger and deposit slip.
- Review the monthly reports and agree them to the receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation and trace transactions to source documents.

The jailer should initial these documents as proof of his review. We recommend the jailer either segregate duties adequately or implement and document these compensating controls.

*County Jailer's Response: The monthly bank reconciliations are currently reviewed by Chief Deputy [name redacted]. Although there may be a need for a second bookkeeper at the jail the funding is not available to hire someone. Every attempt will be made to have a second person review the daily deposits and ledgers and have them initialed on a daily basis.*

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

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