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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Carroll 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 Carroll County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The fiscal court does not have sufficient controls over their ambulance service organization. Ambulance service user fees are billed and processed by an independent contractor. The fiscal court receives ambulance fees directly from the patients and insurance carriers, but all billing and receivable tracking is performed by the contractor. Accounting standards refer to this arrangement as a service organization relationship. The fiscal court does not adequately monitor the activity performed by the service organization, nor does it require a service organization internal control review by an independent accountant.

The fiscal court has not been able to receive a report from the service organization because they do not have a review done. The fiscal court is no longer using this contractor because they have gone out of business, but has a similar arrangement with a new contractor. By not implementing sufficient internal controls and monitoring of the service organization, the fiscal court is subjecting the activity performed by the service organization to unnecessary risk. An error or fraud could occur at the service organization that would affect the fiscal court's receipts; however, this would go unnoticed by the county treasurer without sufficient internal controls.

The service organization agreement contract does not relieve the fiscal court of its responsibility to maintain internal accounting controls designed to reduce the risk of material misstatements in the financial statement. Good internal controls dictate sufficient direct oversight by the fiscal court of all financial and reporting processes.

We recommend the fiscal court provide oversight and monitoring over the activity provided by the service organization to adequately oversee the arrangement. We further recommend that the fiscal court request the new service organization to annually undergo a review in accordance with auditing standards section AU-C 402 (formerly SAS-70) and provide a service organization internal control report.

County Judge/Executive's response: *We have contacted vender and will comply.*

There is a lack of segregation of duties in receipts processing. The same person collects most receipts, prepares the deposit ticket, takes the deposit to the bank, records receipts in the ledger, and reconciles the bank account without independent review by another person of these procedures. The fiscal court has not implemented a policy to ensure segregated duties or sufficient compensating controls. A lack of adequate segregation of duties and too much control by one individual could result in undetected misappropriation of assets, errors, and inaccurate financial reporting. When controls procedures are performed by the same employee and no compensating controls are in place, the risk of undetected material misstatements due to error or fraud significantly increases.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the county cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling, and reporting receipts. If segregation is not possible, we recommend further compensating controls such as a receipt listing prepared by another person to compare to deposit tickets and ledger postings, and documentation of oversight and review by a second person.

County Judge/Executive's response: *Will comply.*

The fiscal court did not ensure timesheets were prepared and approved for all employees. Of the 13 timecards tested, four were not signed by the employee and eight were not signed by the supervisor. One salaried employee was paid without any verification of time worked in the form of a timecard. Some departments do not ensure that employees and supervisors have reviewed and signed timecards before submitting them for processing. When the policy regarding timecards is not consistently followed and timecards are not properly reviewed and approved, risk increases that hours worked are not accurately reported and employees are not paid correctly. In addition, accurate employee records should be maintained for proper reporting to external agencies such as the IRS and Kentucky Retirement System. KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee (except elected officials). Without maintaining all timecards with the signatures of both employee and supervisor, documentation of actual hours worked is not verified by employee and approved by supervisor. We recommend the fiscal court comply with KRS 337.320, by requiring all employees (except elected officials) have a properly approved timecard. We also recommend that all timecards are maintained, are signed by the employee and supervisor, and agree to the hours paid.

County Judge/Executive's response: *Will comply.*

The audit report can be found on the auditor's website.

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