



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Henry 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 Henry 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 the internal control over financial operations and reporting.

The audit contains the following comments:

**The Henry County Fiscal Court lacks segregation of duties over receipts and bank reconciliations.** This is a repeat finding that was included in the prior year report as Finding 2015-001. The same person collects receipts, creates the deposit ticket, takes the deposit to the bank, records the receipts in the ledger, and reconciles the bank account. There is no independent review of these procedures. The county does not have any other employees separate from the treasurer involved in checking deposits and bank reconciliations.

When control procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to undetected error or fraud. A proper segregation of duties over the accounting and reporting functions, such as

preparation of bank reconciliation reports or implementing compensating controls, when necessary because of limited staff, is essential for providing protection from undetected errors. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county separate the control functions related to receipts and bank reconciliations, or implement procedures to begin having these steps reviewed for accuracy. The review should be performed by someone not involved in the process and be confirmed by initials of the reviewer on all documents reviewed.

*County Judge/Executive's response: This is due to a lack of personnel in our office. These deposits require to be done in a timely manner and it is not always possible to have dual control over this matter.*

**The Henry County Fiscal Court lacks segregation of duties over payroll.** This is a repeat finding that was included in the prior year report as Finding 2015-002. In reviewing controls over payroll, we determined there is a lack of segregation of duties related to payroll. The same employee enters payroll data into the payroll system, reviews and compares it against timesheets, prints checks, requests funds for payroll from the operating account, signs the payroll checks, and reconciles the revolving payroll account. All of these procedures are performed without independent review.

The county has a lack of segregation of duties over payroll due to lack of personnel. When control procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement due to undetected 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.

We recommend the county separate the functions related to payroll: writing checks, posting to ledgers, preparing monthly bank reconciliation and comparing financial reports to ledgers. If, due to a limited budget, this is not feasible, cross-checking procedures could be implemented and documented by the individual performing the procedure.

*County Judge/Executive's response: Again, due to lack of personnel, it is not always feasible to have other personnel help with Payroll. [Finance officer] has taken over the payroll and is doing a tremendous job with it. Supervisor[s] have been informed that all time sheets be authorized by them and that time sheets all verified correct before they are turned in. The Judge Executive is reviewing the time sheets not reviewed by Supervisors or Payroll/Human Resources person.*

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

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