



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Jackson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Jackson County Fiscal Court for the fiscal year ended June 30, 2017. 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 Jackson 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 Jackson County Fiscal Court’s annual financial statement contained inaccuracies: The Jackson County Fiscal Court’s annual financial statement was not supported by the appropriation condition report for the general or road funds. The sum of the line item detail for the appropriation condition report had a mathematical difference of \$3,935 when compared to the disbursement amount reported for the general fund, and a mathematical difference of \$21,577 when compared to the disbursement amount reported for the road fund. Auditors were able to identify where the differences were by using check register detail from the county’s software.

The general fund was also misstated by \$5,013 due to the balance of a certificate of deposit (CD) being omitted from the final balance reported on the financial statement. This was a prior year issue noted in Finding 2016-017.

The fiscal court also failed to maintain a listing of and to report encumbrances as required.

The aggregate difference of the errors did not rise to a material level; however, the errors were not identified by the county's management or accounting personnel.

The errors relating to posting differences were caused by issues with the county's financial reporting software. It is unknown if the errors were due to a failure in the software or due to user error. Regardless of the underlying cause, the county did not have adequate procedures to identify that the discrepancy had occurred. The CD being omitted from the general fund balance was due to accounting personnel not recognizing the error. The encumbrance listing was not maintained due to the fiscal court not having an effective purchase order system implemented.

This has resulted in the financial reporting errors for county funds.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit annual financial reports in six sections. Section I is a summary and reconciliation of county funds. Included in that amount is the cash balance, including any investments attributable to a fund. Section IV is an appropriation condition report that supports the disbursement amounts reported on the summary and reconciliation section of the annual financial report.

KRS 68.360(2) states, "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund." Those encumbered balances are required to be reported on the county's annual financial report.

We recommend that the Jackson County Fiscal Court improve procedures over financial reporting to ensure accurate reporting of the county's financial status.

County Judge/Executive's Response: The Jackson County Fiscal Court Treasurer and Finance Officer is working with the software company to correct inaccuracies in the Financial Statement.

The Jackson County Fiscal Court had deficit balances in the road and jail funds: This is a repeat finding and was included in the prior year report as Finding 2016-003. The financial statement for the Jackson County Fiscal Court reflects a deficit balance in two funds. The road fund and the jail fund balances were (\$14,696) and (\$119,109), respectively.

The Jackson County Fiscal Court failed to adequately monitor the budget to ensure the county maintained expenditures within available revenues. Expending more money than is available

could result in the Jackson County Fiscal Court not being able to meet monthly obligations, thereby jeopardizing daily operations of the county.

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.”

We recommend the Jackson County Fiscal Court closely monitor the annual budget and maintain expenditures within the county’s available revenues.

County Judge/Executive’s Response: The official did not provide a response.

The Jackson County Fiscal Court commingled Chemical Stockpile Emergency Preparedness Program funds with the county’s general fund: This is a repeat finding and was included in the prior year report as Finding 2016-037. The Jackson County Fiscal Court received one reimbursement from the Chemical Stockpile Emergency Preparedness Program/Emergency Management program in the amount of \$131,540. These funds were deposited to the Chemical Stockpile Emergency Preparedness Program/Emergency Management (CSEPP/EM) fund, then subsequently transferred to the general fund during Fiscal Year 2017. The fiscal court used an established line item in the general fund to pay emergency management’s claims associated with the county’s CSEPP program. Total CSEPP disbursements for Fiscal Year 2017 totaled \$434,337.

In Fiscal Year 2017, the county was paying liabilities that were due from Fiscal Year 2016. The general fund was responsible for paying 100 percent of the CSEPP expenses because the majority had been already covered by advance reimbursement payments from the prior year. The transfer of funds from the CSEPP/EM account to the general fund, along with many of the disbursements, had been made prior to the completion of the Fiscal Year 2016 audit.

The transfer of funds into the county’s general fund to pay claims commingles federal funds with other, non-federal funds, which is prohibited.

The Catalog of Federal Domestic Assistance (CFDA) establishes requirements for administering federal funds. CFDA #97.060 states “CSEPP funds may not be commingled with other non-CSEPP funds.” This requirement is meant to provide accurate accounting of the receipts and disbursements of federal funds.

We recommend the Jackson County Fiscal Court discontinue the practice of transferring federal funds from the CSEPP/EM fund to the general fund. We also recommend the fiscal court properly budget for expenditures from the CSEPP/EM fund and discontinue the practice of budgeting CSEPP/EM disbursements from the general fund.

County Judge/Executive’s Response: The County has a properly functioning Chemical Stockpile Emergency Preparedness account that is no longer commingled with the General Fund.

The Jackson County Fiscal Court did not have adequate controls over cash transfers between funds: This is a repeat finding and was included in the prior year report as Findings 2016-18 and 2016-19. The Jackson County Fiscal Court did not have adequate controls over cash transfers between funds during Fiscal Year 2017. Cash transfers were not consistently approved by the fiscal court prior to being transferred. Additionally, the fiscal court transferred \$370,300 from the road fund to the general fund during the fiscal year ending June 30, 2017. State truck license distribution receipts for Fiscal Year 2017 totaled \$228,977, which is the maximum amount allowable for the road fund to transfer to the general fund, meaning the general fund was overpaid by \$141,323. During the year, a total of \$54,700 was transferred back to the road fund from the general fund, leaving a total of \$86,623 yet to be reimbursed to the road fund. It was noted that the general fund did reimburse the prior year amount of \$82,800 due to the road fund.

The Jackson County Fiscal Court did not account for all Local Government Economic Assistance (LGEA) program receipts and disbursements separately from the general fund. The county transferred out of the LGEA fund a total of \$60,000, \$55,000 to the general fund and \$5,000 to the road fund. There was also one deposit that was deposited to the general fund instead of the LGEA fund in the amount of \$7,116. While auditors were able to substantiate expenditures on LGEA allowable purposes to account for these amounts, the requirements from DLG require separate handling of LGEA program funds.

Road fund monies are transferred to the general fund to offset administrative costs incurred to manage the road fund. Management did not adequately monitor transferred funds to ensure the total amounts transferred were within an allowable limit. LGEA fund transfers were caused by the county having new accounting personnel in Fiscal Year 2017 that did not recognize the necessity of the funds being segregated from other funds.

The transfer of road fund monies to the general fund reduces the amount of funds available to maintain county roads. The LGEA transfers resulted in the fund not reflecting the complete financial activity for all LGEA funds received by the county.

The Jackson County Fiscal Court prepares a road fund cost allocation sheet during the budgeting process to calculate the percentage of costs incurred (and ultimately the amount to transfer) by the general fund in the management of road fund activities. The maximum allowable transfer in a given fiscal year is limited to the amount a county receives from the state for truck license distribution. The fiscal court should have a process to monitor amounts transferred from the restricted road fund into the unrestricted general fund to ensure that amounts transferred do not exceed what is allowable.

KRS 42.455(5) states, “[t]he Department for Local Government shall be responsible for the promulgation of rules and regulations necessary to implement the grant programs[.]” The Department for Local Government (DLG), by way of the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires that LGEA monies are to be accounted individually in separate funds.

We recommend the Jackson County Fiscal Court establish procedures to restrict transfers of restricted funds to the amount allowable. We also recommend the fiscal court reimburse the road

fund \$86,623 from the general fund. We further recommend that all LGEA expenditures be paid from the LGEA fund to eliminate the need for LGEA funds to be transferred to other funds.

County Judge/Executive's Response: Cash Transfers are now being presented to Fiscal Court each month.

The Jackson County Fiscal Court did not have adequate procedures for reporting county liabilities: The Jackson County Fiscal Court had posting errors related to debt service payments. The principal and interest relating to debt service payments were not classified correctly when the payments were issued. The liabilities section of the financial statement was misstated. Of the three debts listed, the principal balances for two of the debts were not reported correctly, resulting in a difference of \$35,168. The interest balances on all three debts were different, resulting in a difference of \$181,131.

Also, two debts related to the Jackson County Public Properties Corporation (PPC) issued for the construction of the county's judicial center were not reported on the liabilities schedule.

Since the financial staff was new this year, the PPC debts were omitted from reporting because the accounting staff did not recognize that they should have been reported. The differences in the principal and interest balances are likely due to posting errors in prior years. The software used by the fiscal court calculates the balances for principal and interest based upon when debt service payments are issued. If the debt service payments were misclassified when issued, then the balances would not calculate properly.

This has resulted in the misstatement of county liabilities, making it difficult for management to easily determine where the county's debt balances stand.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to report all liabilities of the county, even when related to unbudgeted funds. The schedules should be reported with correct balances. Procedures should be in place at the fiscal court to ensure that all liabilities held at fiscal year-end are reported on the liabilities schedule and have accurate ending balances.

We recommend that the county improve procedures to ensure proper reporting of all county liabilities on the financial statement, including unbudgeted funds like the PPC. We also recommend that the county ensure that debt service payments are properly recorded on the disbursements ledgers.

County Judge/Executive's Response: Public Properties Liabilities are now being reported on quarterly to the Fiscal Court.

The Jackson County Fiscal Court had inadequate procedures over handling of disbursements: This is a repeat finding and was included in the prior year report as Finding 2016-022. During testing of disbursements, the auditor tested 98 disbursements and noted the following issues:

- Eleven disbursements did not have adequate documentation to support the disbursement, including one where no invoice could be located to determine if it was a liability of the court.
- Thirteen disbursements were not presented to the fiscal court before being paid.
- Three disbursements were not coded to the correct accounting code.
- Sixteen disbursements were not paid within 30 working days of receiving the invoice. The fiscal court does not document when an invoice is received. Auditors used invoice date to determine if the invoice was paid timely.
- Fifty disbursements did not have a purchase order made before purchase of the item.

Additionally, during review of the Treasurer's Office Supply Account (01-5040-445), the auditor noted ten of 41 disbursements were coded to the office supply account incorrectly. The disbursements, coded incorrectly, included payments for federal and state back taxes owed, payments for a prior year audit bill, brake pads for county vehicles, and reimbursement to employees for commercial driver's license physicals.

Auditors also identified four instances of bridge work by the same vendor without being competitively procured. Each of the individual payments to the vendor for these bridges were less than the \$20,000 threshold established by statute for competitive procurement; however, in aggregate, the four payments totaled \$71,845. The dates and amounts of the four payments were as follows:

- December 5, 2016 – \$13,685
- January 24, 2017 – \$18,500
- February 28, 2017 – \$19,710
- March 30, 2017 – \$19,950

The fiscal court failed to establish appropriate internal controls over disbursements and has failed to document review activities performed by the county judge/executive. According to conversations with management, accounting personnel during Fiscal Year 2017 were new, with limited guidance and were learning as they went. The fiscal court also failed to recognize the need for competitive procurement procedures for a transaction when aggregate payments exceeded \$20,000 for services that were not severable categories and could be reasonably estimated in advance. The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance reflected above.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* presents requirements for counties' handling of disbursements, including:

- Counties should have a purchase order system where all purchases are approved, and the budget is checked for sufficient available appropriation.
- Operating disbursements are required to have appropriate supporting documentation and be properly coded prior to inclusion on the monthly claims list.
- Claims against the county are required to be paid within 30 days pursuant to KRS 65.140.

KRS 68.275 requires the county judge/executive's office to prepare claims lists for presentation to the fiscal court. Good controls over disbursements are necessary to ensure proper reporting and ensure the county is conducting business that is compliant with required statutes.

KRS 424.260 requires that when procuring services at a cost exceeding \$20,000, the county should make a newspaper advertisement for bids. A county should determine its reasonable and anticipated needs for at least a year. The fiscal court cannot divide the necessary purchases so as to reduce purchases below the required level for bidding.

We recommend the fiscal court improve procedures over disbursements to ensure the proper handling of disbursements. We also recommend the fiscal court ensure compliance with bid laws governing competitive procurement.

County Judge/Executive's Response: All Disbursements are presented to the Fiscal Court Monthly and recorded. The Fiscal Court viewed each bridge as a single project, unaware that it would be combined and total over \$20,000. We were unaware that we needed to bid the project.

The fiscal court lacks adequate segregation of duties over receipts, record keeping, report preparation, and reconciliations: This is a repeat finding and was included in the prior year report as Finding 2016-001. Segregation of duties did not exist over the fiscal court receipts process including collection and processing, record-keeping, report preparation, and reconciliations. The county treasurer and assistant treasurer perform all receipting functions, including preparing and depositing receipts, posting to ledgers, preparing reports, and performing bank reconciliations. The county has implemented compensating controls, including the county judge/executive reviewing deposits and bank reconciliations; however, these reviews are not documented.

The fiscal court operates with a small staff, making it very difficult to adequately segregate responsibilities. This deficiency increases the risk of misappropriation of assets, errors, and financial reporting going undetected.

The segregation of duties over various accounting functions such as collecting receipts, preparing deposits, report preparation, and bank reconciliations are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this by signing or initialing the supporting documentation.

County Judge/Executive's Response: The official did not provide a response.

The Jackson County Fiscal Court lacks internal controls over transfer station receipts and deposits: This is a repeat finding and was included in the prior year report as Finding 2016-028. The following issues were noted with regard to internal controls over receipts and deposits at the county transfer station:

- Appropriate daily checkout procedures have not been established.
- Daily check-out sheets were not prepared.
- Receipts were not accounted for in numerical sequence.
- Employees have regularly taken transfer station receipts home overnight.

The Jackson County Judge/Executive and the fiscal court have failed to establish internal controls over receipts and deposits from the county's transfer station. By allowing employees to take cash and checks home, the fiscal court incurs greater risk of misappropriation of funds. Inaccurate financial reporting and misappropriated funds may occur when receipts are not accounted for on a daily basis, daily checkout sheets are not prepared, and receipts are not accounted for in numerical sequence.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* establishes several procedures to institute a strong internal control environment, including issuing pre-numbered three-part receipts for all receipts and ensuring that deposits are made daily intact.

We recommend the Jackson County Judge/Executive and fiscal court strengthen internal controls to ensure daily check-outs are performed, receipts are processed in order, and cash and checks are not taken home by employees.

County Judge/Executive's Response: The Transfer Station brings deposits for the Treasurer to review and Deposit.

The Jackson County Fiscal Court lacks internal controls over occupational taxes: This is a repeat finding and was included in the prior year report as Finding 2016-027. The Jackson County Fiscal Court does not have adequate controls over occupational tax collections. The occupational tax administrator performs all duties associated with occupational taxes. There are no procedures or controls in place to provide oversight of the functions of the occupational tax administrator. The occupational tax administrator makes payments to the fiscal court on an as needed basis and the payments do not relate to the actual receipts collected over any defined period. According to personnel, the county judge/executive does review monthly bank statements; however, this review has not been documented, so it is impossible to determine if this is happening.

This has been caused by the fiscal court's failure to establish internal controls to mitigate the risk involved with collection of occupational tax receipts. Without proper internal controls, the county is exposed to the risk of not receiving all occupational license taxes and erroneous recording of receipts. Also, without occupational taxes being paid periodically and being supported by receipt documentation, it is impossible for the treasurer to determine if amounts being transferred are complete or accurate.

Appropriate internal controls would have additional personnel involved in the occupational tax process. With only one person involved in the process with no evidence of review or management oversight, it is impossible for the county to be able to detect errors, waste, fraud, and abuse.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* dictates that, “[t]he county treasurer is the sole officer bonded to receive and disburse county funds and could be liable on the county treasurer’s bond if correct records are not maintained and the procedures are not followed as required by law.” Without adequate support for occupational tax funds received, it is impossible for the treasurer to determine if the amount being deposited to the general fund is complete or accurate.

We recommend the fiscal court implement internal controls over the receipt and disbursement of occupational license taxes. The fiscal court should also ensure that occupational tax receipts are paid over to the fiscal court on a regular periodic basis and supported by receipt documentation to ensure the completeness of the transfer.

County Judge/Executive’s Response: Along with the Judge the Finance Officer is now reviewing Occupational receipts along with a statement to the Fiscal Court.

The Jackson County Fiscal Court has unpaid obligations to the Kentucky Retirement Systems: The Jackson County Fiscal Court has unpaid obligations to the Kentucky Retirement Systems (KRS). The county owes \$52,221 in outstanding invoices for pension spiking, expense allowance payments, and penalties. The county also owes an undetermined amount to KRS for retirement withholdings and employer contributions for nine months from Fiscal Year 2016. Although the exact amount of the liability is unknown because payroll data was not submitted to KRS by the county, the average payroll liability for the county is around \$50,000 per month. This issue was addressed in the prior year audit as Finding 2016-015.

The lack of review or monitoring of the payroll process in the prior year allowed county employees’ withholdings to go unpaid. Failure to pay obligations to KRS has resulted in penalties being assessed to the county, but can also result in collection via court action against the county.

KRS 78.625 states that retirement contributions for both employee and employer, along with a record of all contributions to the system are due on or before the tenth day of the month following the period being reported. If the agency fails to file all contributions and reports timely, interest shall be added to the delinquent contributions at the actuarial rate adopted by the KRS board compounded annually, but not less than \$1,000. The delinquent contributions, along with interest can be recovered by action in Franklin Circuit Court.

It is recommended that the county work with KRS officials to determine the amount due for past retirement obligations and establish a method of payment.

County Judge/Executive’s Response: The Fiscal Court is working toward a loan to pay the KY Retirement Systems in full for what is owed from the Previous Treasurer’s inaccuracies.

The Jackson County Fiscal Court did not have adequate controls over payroll processing:

This is a repeat finding and was included in the prior year report as Finding 2016-006. The Jackson County Fiscal Court did not have adequate controls over payroll processing. The lack of adequate controls resulted in the following issues:

- Timesheets were paid without a supervisory review/approval within one department.
- Local occupational taxes were not calculated based on gross wages, but rather based upon wages net of pre-tax items. Local occupational taxes were also not withheld for the judge/executive or magistrates' training incentive pay, nor for the magistrates' expense allowance payments.
- Leave balances for one employee were not updated to reflect leave time used during the pay period tested.
- Employee authorizations for payroll deductions were not up to date in personnel files.
- The fiscal court did not set and approve the salaries of all county officials in accordance with KRS 64.530(1). The fiscal court did approve the total amounts of payroll that were to be charged to each fund; however, the approved document did not list individual employees and wages.
- One employee's gross wages did not post to the correct financial statement line item during each pay period.
- Differences were identified between the monthly retirement reporting and the supporting payroll documentation. These differences were not identified by county payroll personnel.

Weak internal controls have allowed issues with the payroll process to go unnoticed. This has allowed for insufficient supporting documentation for payroll has been maintained and issues of non-compliance were noted with regard to the Jackson County Administrative Code and Kentucky Revised Statutes.

Timesheets should be reviewed and approved by a designated authorizing supervisor prior to being paid in order to ensure that time compensated for is accurate.

The Jackson County Fiscal Court's occupational license tax ordinance states, "[c]ompensation means wages, salaries, commissions" and also, "(b) includes any amounts contributed by an employee to any welfare benefit, fringe benefit or other benefit plan made by salary reduction . . . including but not limited to Section 125."

The Jackson County Fiscal Court's personnel policy, Section 3.44 G. states, "[v]acation may be accumulated to 10 days. All vacation accumulated beyond 10 days will not be granted to the employee." Section 3.44 H. states, "[t]he County Treasurer shall keep complete records of vacation leave. An employee fraudulently obtaining vacation leave or a department head falsely certifying vacation leave allowance may be suspended or dismissed." Without proper time reporting, it is impossible for the fiscal court to uphold its own policy.

Employee deduction authorizations should be maintained and current in order to ensure correct amounts are withheld on behalf of the employee. This protects both the employee being paid and the employee charged with payroll processing.

KRS 64.530(1) states, “the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 [county judge/executive, clerk, jailer who operates a full service jail, and sheriff] and the county attorney and jailer.”

Gross wages for each employee should be posted as budgeted to the proper financial statement line item. Monthly payroll reporting should be reconciled to payroll documents to identify differences and ensure accuracy.

We recommend the Jackson County Fiscal Court improve procedures over payroll by ensuring all timesheets are approved by a supervising official, ensuring local occupational taxes are calculated based upon the correct wages, ensuring leave balances are properly maintained, ensuring all employee deductions are adequately supported, and establishing an approved salary schedule fixing the compensation for every county officer and employee. We also recommend that each payroll run be examined to ensure that gross wages have been posted to the ledger properly and that monthly retirement reporting be reconciled to underlying payroll documents to ensure accuracy.

County Judge/Executive’s Response: Payroll is now done with both the Treasurer and Finance Officer overseeing the process and being signed off by the judge. Each transaction is recorded and documented after the Treasurer completes payroll by the Finance Officer.

The Jackson County Fiscal Court did not maintain accurate capital asset records or properly insure assets: This is a repeat finding and was included in the prior year report as Finding 2016-029. During the course of the audit, auditors noted the following material differences in Fiscal Year 2017 of the capital asset schedule (schedule):

- Land and Land Improvements was misstated by \$586,776 due to the cost of a building and land not owned by the county being included in the land category on the schedule.
- Building and Building Improvements was misstated by \$1,738,415, largely due to Fiscal Year 2016 additions to the Emergency Operations Center building of \$1,697,460 not being included.
- Infrastructure (Black Top) was misstated by \$185,235 due to additions not added to the schedule.
- Vehicles and Equipment was misstated by \$873,893. This misstatement was largely due to Fiscal Year 2016 additions to the radio tower project that were not added totaling \$642,738 and Fiscal Year 2017 additions for various items totaling \$295,796.
- Thirty-four assets, totaling \$216,718, had to be removed from the schedule for being below capitalization thresholds.
- Asset retirements totaling \$118,050 were removed from the listing without being tracked.

Additionally, the auditor noted two retired assets were not removed from the county’s insurance policy, and one asset purchased in the current fiscal year was not added to the county’s insurance policy.

The fiscal court lacks sufficient internal control procedures over capital assets. Additionally, staff maintaining the schedule had no prior training regarding capital asset procedures. By not maintaining an accurate schedule, capital assets may not be insured or the county could pay for insurance on assets no longer in use or owned by the county. Capital assets that are not properly insured expose the county to potential loss. Not maintaining an accurate schedule can also lead to over and under valuation of capital assets and an inability to plan for long-term asset replacement.

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. This uniform system of accounts, as outlined in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, provides capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. The manual states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, useful life of the asset, salvage value, depreciation expense, accumulated depreciation, and proceeds from sale or disposal of assets. In addition, the manual states that a capital asset record should be prepared for each acquisition.

We recommend the Jackson County Fiscal Court implement internal control procedures over capital assets and maintain an accurate capital asset listing. Additionally, the fiscal court should ensure all assets are listed on the county's insurance policies and all retired assets are removed from the county's insurance policies.

County Judge/Executive's Response: Treasurer and Finance Officer have been updated on Capital Asset procedures.

The Jackson County Jailer lacks adequate internal controls over the jail commissary processes: This is a repeat finding of the prior year audit Finding 2016-030. The jail bookkeepers are responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The bookkeepers are also responsible for purchases, preparing checks, and signing checks. No supervisory review procedures are in place over these processes. The jailer or another employee did not document oversight of bank reconciliations.

The jailer failed to implement adequate internal controls when the commissary was established. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the jailer segregate duties over receipts, bank reconciliations, and disbursements. At a minimum, the jailer should implement compensating controls and supervisory reviews.

Jail Administrator's Response: We will be checking each other's deposits and signing off on them. We will have two people going over orders for commissary before they are placed and signing off on those orders.

County Judge/Executive's Response: Jailer Oversees Commissary Transactions.

The Jackson County Jailer's jail commissary fund summary and reconciliation was not accurate: Auditors noted the following issues with the jail commissary fund summary and reconciliation (financial) report:

- The jailer did not submit a financial report to the treasurer, but rather submitted monthly ledgers. Prior year Finding 2016-031 previously reported the jailer did not submit a Jail Commissary Fund Summary report for the fiscal year ending June 30, 2016. Although this was not submitted to the treasurer, the financial report was given to auditors.
- Beginning cash balances on the financial report, for both the Profit and Cost Accounts, did not account for prior year outstanding checks that cleared during the year ending June 30, 2017.
- A mathematical error from the jailer's ledgers was carried forward to the Cost Account disbursement total.
- The total disbursement amount for indigent inmates was not included on the Profit Account report.
- The reconciliation to bank balances, for both Profit and Cost Accounts, was not accurate. Rather than subtracting outstanding checks as of June 30, 2017, the outstanding checks were added to the bank balances.

Staff responsible for creating the Jail Commissary Fund Summary did not understand how to properly complete the report. The staff was also unaware that the financial report had to be submitted to the county treasurer. The financial statement was not accurate, and cash balances reported on the financial statements were overstated. Additionally, the county treasurer was not provided a complete report.

Pursuant to KRS 68.210, the state local finance officer established minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. Requirements related to the jail commissary summary and reconciliation state, "[t]he year to date summary section of this report will provide a cash balance at any time during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The reconciliation section of this report reconciles the bank balance to the cash balance." Further, monthly cash reconciliations are to be maintained, and the year-end report is to be submitted to the county treasurer pursuant to KRS 441.135(2).

We recommend the Jackson County Jailer ensure that an accurate financial statement is maintained and presented to the county treasurer. Monthly cash reconciliations, along with ledgers for receipts and disbursements, should be accurate and maintained as required.

Jail Administrator's Response: We were not aware the report was being filled out incorrectly. We will be taking the appropriate actions to insure the document is filled out correctly.

County Judge/Executive's Response: Commissary Statement and Reconciliations have been corrected along with administration training in the commissary.

The Jackson County Fiscal Court did not have a balanced budget: The Jackson County Fiscal Court had an unbalanced budget at the end of Fiscal Year 2017. The original budget and the budget amendments balanced, but the budget transfers did not balance, creating a difference of (\$12,310).

The Jackson County Fiscal Court transferred budget appropriations from fund to fund in an attempt to ensure the county did not expend more than what the budget allowed. At some point, transferred amounts did not balance, and the issue was not identified by staff. This could have also been caused by the same issues identified in Finding 2017-001.

This left the fiscal court not compliant with KRS 68.300, which states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.” When a county fails to establish a balanced budget, this could result in funds being spent that are not available, leading to financial strains on the county due to the lack of funds to cover necessary expenditures.

Per KRS 68.220, “[t]he county budget shall provide for all the funds to be expended by the county from current revenue for each fiscal year.” In summary, the disbursements estimated for the county should not exceed the estimated receipts the county expects to receive for that fiscal year and should balance by fund.

We recommend the county strengthen management oversight with regard to the budgeting process to ensure a balanced and accurate budget is maintained throughout the fiscal year.

County Judge/Executive's Response: The official did not provide a response.

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

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

