



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Powell 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 Powell 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:

Interfund payables result in a deficit for the jail fund: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The fiscal court had a deficit fund balance of \$37,970 in the jail fund on June 30, 2017, as shown in the table below:

Cash Balance	\$	215,570
Interfund Payables		(253,028)
Encumbrances		(512)
Fund Balance	\$	<u>(37,970)</u>

The jail fund deficit was due primarily to prior period transfers of restricted funds that have not been repaid.

In the past, the fiscal court transferred restricted money from the road and LGEA funds to the jail and general funds. A schedule of interfund payables is as follows:

<u>Due From</u>	<u>Due To</u>	<u>6/30/2016 Balance</u>	<u>Increase/ (Decrease)</u>	<u>6/30/2017 Balance</u>
Jail	Road	\$ 253,028	\$	\$ 253,028
General	LGEA	60,987		60,987
		<u>\$ 314,015</u>	<u>\$ 0</u>	<u>\$ 314,015</u>

The road fund is restricted for transportation, with the exception of the amount calculated on the road fund cost allocation worksheet. The LGEA fund is also restricted and can only be spent on allowable categories. KRS 42.455(2) states, “in no event shall grants obtained under this program be used for expenses related to administration of government.” Non-allowable disbursements made by the jail and general funds are due back to the road and LGEA funds, respectively.

Under the regulatory basis of accounting, fund balances are not adjusted on the financial statement for unpaid liabilities; however, the liability is still owed.

We recommend that the fund liabilities be repaid as money becomes available.

County Judge/Executive’s Reply: First of all I feel it is necessary to state once again that this was an issue that came about long before this administration. The auditors know this goes back to at least the early nineties and maybe earlier. It is our hope that with the progress Jailer Crabtree has made and continues to make with the jail that it will be able to start paying back what is owed to the road fund in the near future.

The Powell County Fiscal Court has weak internal controls over transfer station receipts:

This is a repeat finding and appeared in the prior year audit report as Finding 2016-004. The transfer station collects money from customers for garbage disposal but does not consistently issue receipts. The review of the cash receipt process for the transfer station revealed weaknesses in the implementation of internal controls that should be improved.

Based on inquiry, all transfer station employees use one cash register receipt tape on site at the transfer station to document the total amount of funds collected each day. Receipt books are used and receipts are issued to customers, but not on a consistent basis. Collections for the day are batched and recorded on checkout sheets. The transfer station delivers collection monies, a checkout sheet, and the cash register receipt tape to the county treasurer on a daily basis, but without a copy of the individual receipts.

Receipts are not reviewed and reconciled to ensure that transfer station collections are accounted for completely.

Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Effectively implemented, internal controls also enhance the accuracy and

reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

Due to the high volume of cash transactions, we recommend the transfer station consistently follow the following procedures:

- Pre-numbered receipts should be written and maintained for all monies collected, regardless of whether the customer requests a receipt.
- All monies and a copy of batched receipts should be given to the county treasurer on a daily basis.
- The treasurer should review all receipts to check for missing receipt numbers and compare the total to the moneys collected each day to ensure all transfer station collection receipts are accounted for properly.

County Judge/Executive's Reply: We have implemented some policies that have improved the process but agree there can be further improvements made. Recently through a recycling grant we were able to obtain scales and these should help facilitate each customer having to weigh in and out which will require a receipt to be made to determine amount owed. This should take care of any concerns associated with the Transfer Station.

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

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