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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Trigg 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 Trigg 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 fiscal court lacks internal controls over receipt processes: The Trigg County Fiscal Court has not implemented adequate internal controls over receipt processes for the county. As a result, the following issues were noted during the audit.

The Trigg County Fiscal Court does not have segregation of duties over receipts or reconciliations. The county treasurer collects money, creates the deposit ticket, takes the deposit to the bank, records the receipt in the ledger, and reconciles the bank accounts. There are no independent reviews of these procedures currently in place.

Adequate documentation was not maintained over alcohol tax and transient room tax collections. Both types of receipts were not deposited daily. Deposits were being held by the county treasurer until all of the businesses had turned in their payment for the month. Some of the tax returns received were not stamped as to when received, which made it impossible to determine when it was received at the courthouse. There were also seven alcohol tax returns and one transient room tax return tested that were never received by the county treasurer. There was no documentation of follow-up on these missing returns. In addition, there were 11 transient room tax returns that the treasurer stated she had received that could not be located.

Additionally, there were insufficient internal controls implemented over off-site receipts. The fiscal court receives money from the recycling center, sports complex building rentals, and sports complex concession stand sales. Receipts were not issued to customers at the recycling center. Recycling receipts were remitted to the county treasurer on a weekly basis. The concession stand at the sports complex used a cash register for collecting sales, but the register tapes were illegible and could not be used by the county treasurer to verify sale amounts. Sports complex rental fees are placed on a receipt, however, the sports complex director does not maintain a record of these rentals as the two copies of the receipts are given to the customer and to the county treasurer.

These issues were due to the fact that the fiscal court has not implemented internal controls over all areas of the receipt process. The fiscal court lacked cognizance of the risks associated with these areas without the proper internal controls. Additionally, the fiscal court cannot ensure that all receipts are accounted for properly. Without requiring adequate documentation, proper collection procedures, and sufficient supervisor oversight, the fiscal court is increasing the risk of misappropriation of county assets and fraud occurring in these areas.

Good internal controls over receipts require that the fiscal court implement adequate procedures and checks over all types of receipts. Proper segregation of duties over these areas helps ensure that the risks of fraud are minimized and that no one individual has too much control over any process. By requiring proper collection procedures to be implemented over all receipts of the county, the fiscal court can ensure that all taxpayer funds are handled appropriately and are available for the needs of the county. Additionally, 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 *County Budget Preparation and State Local Finance Officer Policy Manual* require daily deposits. KRS 64.840 also requires that any receipt for a fine, forfeiture, tax, or fee to a county official should have triplicate receipt copies, with one copy given to the person paying the fine, forfeiture, tax, or fee, one copy retained for recordkeeping, and one copy placed with the daily bank deposit.

We recommend the fiscal court segregate the duties over the receipts processes whenever possible. When this isn’t feasible, compensating controls should be implemented and documented over the processes.

We also recommend the fiscal court strengthen internal controls over alcohol tax, transient room tax, and off-site receipts to ensure that these funds are accounted for properly throughout the entire process. Additionally, triplicate receipts should be issued for all receipts and deposits should be made daily.

County Judge/Executive's Response: The Fiscal Court is going to segregate some of these duties when possible, although sometimes lack of personnel creates an issue having the correct number of people to perform all task. There are now in fact daily deposits being done as suggested. The court will take every measure possible to insure internal controls will start immediately.

The fiscal court lacks internal controls over bank accounts and reconciliations: The fiscal court had no internal controls over bank accounts and reconciliations. The treasurer failed to maintain any types of ledgers for the financial activity, or reconcile the accounts of the Public Justice Center Corporation (PJCC). There was no financial statement prepared for the PJCC. Additionally, the year-end bank reconciliation for the county payroll account was inaccurate. Outstanding payroll checks that had not been cleared or voided were left off of the outstanding check list which overstated the payroll account by $1,974.

Failure to maintain proper records for these funds occurred due to lack of internal controls over bank accounts, a lack of understanding about the Public Justice Center Corporation accounting requirements, and a computer error on the accounting software. The lack of accounting records and related financial statements resulted in noncompliance with the Department for Local Government (DLG) reporting requirements. By not having adequate controls over bank accounts and reconciliations, the fiscal court cannot ensure that county funds are properly safeguarded and available for county use.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* documents the minimum requirements for handling public funds, which include monthly bank reconciliations and books of original entry for receipts and expenditures. In addition, good internal controls dictate that all funds handling financial obligations of the county be accounted for properly and reviewed on a regular basis. This would include receipts and disbursements ledgers, an accurate bank reconciliation, as well as a financial statement for the PJCC fund.

We recommend the fiscal court prepare and maintain ledgers for receipts and disbursements of the PJCC Fund. We also recommend the fiscal court require the preparation of accurate year-end financial statements for the PJCC fund in order to ensure compliance with DLG requirements and also to ensure fiscal debt responsibilities will be met. We also recommend that a bank reconciliation be performed for all bank accounts owned or managed by the fiscal court. This reconciliation should include a comparison of ledger amounts recorded to the figures presented by the bank. We recommend that all bank reconciliations should be checked for accuracy and outstanding checks should be followed up timely.

County Judge/Executive's Response: The Fiscal Court will maintain ledgers and receipts of the PJCC Fund. Going forward we will take every measure possible to ensure compliance with DLG requirements. All proper reconciliations will be done and checked for accuracy from this point forward.

The fiscal court failed to approve all cash transfers: There were four cash transfers made within the funds of the Trigg County Fiscal Court totaling $359,598. Two cash transfers totaling $250,000 were never approved by the fiscal court. One of the two approved cash transfers, in the amount of $29,598, was not approved by the fiscal court until the transaction had already taken place. This was caused by an oversight by the county treasurer and a lack of understanding on the applicable requirements on cash transfers. By not having all cash transfers approved by the fiscal court, the fiscal court might not be able to evaluate the current financial standing of the county. Issues such as lower revenue generation could be overlooked.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, all transfers require a court order. This means that court orders are to be obtained prior to cash transfers being made. Additionally, good internal controls dictate that cash transfers be approved by the fiscal court prior to being made so that the fiscal court is aware that cash is being moved from one fund to another.

We recommend the fiscal court require the treasurer obtain fiscal court approval for cash transfers prior to funds being moved from one fund to another.

County Judge/Executive's Response: The court has corrected the action and did so immediately upon notification from audit staff. All transfers from that point forward have and will continue to be approved by Fiscal Court.

The fiscal court did not advertise for bids in accordance with KRS 424.260: The fiscal court failed to follow bidding procedures for the renovation of their convention center. The fiscal court sent bids out for the convention center renovation and accepted the lowest bid. However, before starting the project, the contractor came back and said he had underbid. This prompted the fiscal court to throw out all bids. The fiscal court then decided they would get a county employee to act as general contractor and subcontracted out the individual jobs on the project. However, more than $20,000 was spent on supplies for this project, which should have been bid.

The county judge/executive believed that they had accepted bids on this project already and the lowest bid seemed too high at this point, and that it would be best for the taxpayers to have the services performed by county employees. By failing to bid all assets purchased, the county is not in compliance with state laws and regulations. By not following these procedures, the fiscal court cannot ensure that they received the best prices on the needed materials.

KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or 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 all purchases greater than $20,000 are bid in accordance with KRS 424.260 and that documentation of the bid process is maintained.

County Judge/Executive's Response: The Fiscal Court did actually bid the entire job for all contractors to have the same opportunity to bid. The Court received three bids and awarded bid to [name redacted]. [Name redacted] owner called two days later and said he could not complete the project for the amount he bid and removed himself from bidding. At this time the Fiscal Court decided to allow our Buildings & Grounds Director to subcontract this project out and oversee it. Near the end of the project we were still under budget and decided to replace worn out cabinets creating a situation of spending over $20,000.00 with one business; going forward we will take every action possible to assure that doesn't happen.

The fiscal court failed to disclose outstanding debt on quarterly financial statements: The county treasurer did not include a listing of outstanding county debt on the quarterly financial reports. This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The county had outstanding debt principal of $11,910,544 that was omitted from the fiscal court's quarterly financial statements. According to the county, this was due to oversight by the county treasurer and a lack of understanding of debt disclosure requirements.

By not including outstanding debt owed by the fiscal court along with the quarterly financial statements, a complete picture of the financial status of the county cannot be obtained. By including outstanding debt principal amounts with the other financial data for the year, management can make better decisions going forward about budgeting county funds and citizens can have a clearer picture of the stability of county finances.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires that a listing of all outstanding debt be included with the quarterly report when being submitted and approved by the fiscal court and the Department for Local Government. Additionally, good internal controls dictate a full disclosure of outstanding debt to all financial statement users.

We recommend the fiscal court require the county treasurer include an accurate listing of all outstanding county debt on quarterly reports.

County Judge/Executive's Response: This has been corrected by the Treasurer, once again after being notified by the auditor's office. [The county treasurer] began reporting outstanding debt on the quarterly financial statement. We will continue to do this going forward.

The fiscal court lacks adequate internal controls over payroll: There is a lack of internal controls over payroll. Four employee timesheets were not approved by the supervisor, employee reports did not agree to retirement payments made to CERS, employee W-2s were not accurate, and some employees were given lump sum payments in lieu of Flexible Spending Account (FSA) benefits. Although the county treasurer was preparing payroll and the finance officer was checking the figures and writing the checks, these payroll errors still occurred.

Per the county treasurer, these errors were caused due to oversight and a lack of prior experience with FSA accounts. By not having proper controls over payroll processes, employees could receive incorrect payments or erroneous tax records. A lack of oversight could also lead to the misappropriation of funds, such as overpaying FSA expenses.

KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires." Additionally, KRS 64.530(1) states, "[e]xcept as provided in subsections (5) and (6) of this section, 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 and the county attorney and jailer. The fiscal court may provide a salary for the county attorney." KRS 64.710 states, "[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly." Also, strong internal controls are essential to ensure that payroll is properly processed and that employees and retirement benefits are properly paid.

We recommend the fiscal court strengthen internal controls over payroll by monitoring time records and retirement payments. Internal controls such as supervisor review of all time cards and review of retirement contributions for each employee will help ensure compliance payroll requirements. We also recommend that no lump-sum payments be given to employees.

County Judge/Executive's Response: The Treasurer has begun reviewing each and every timesheet to be certain that we are doing everything possible to have adequate controls over payroll. The Treasurer also does a biweekly monitoring of retirement to ensure we are in compliance with contribution requirements to the state. There are no lump sum payments outside of those allowed by the Admin Code for vacation time upon retirement or leaving a position with the county. All of these actions have been implemented.

The county treasurer failed to sign all county checks: The Trigg County Treasurer does not sign payroll checks for the county. Instead, the county finance officer and the judge/executive are the two signatures on payroll checks. This is due to the fiscal court's attempt to segregate duties over payroll. Since the treasurer prepares the payroll for all employees of the county, the finance officer approves and signs the checks in place of the county treasurer. By not signing all checks for county disbursements, the county treasurer cannot verify that all checks processed are completed and delivered correctly. This could result in fraudulent checks or erroneous checks being created and processed, leaving an incorrect balance in the county treasury.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires that all warrants for the payment of funds from the county treasury be co-signed by the county treasurer and the judge/executive. The county treasurer is not authorized to designate anyone to sign checks on the treasurer's behalf.

We recommend that the county treasurer personally sign all checks created from any county bank account.

County Judge/Executive's Response: Treasurer now signs all checks, in previous audits we had been advised not to do this, but upon notification of audit staff Treasurer began immediately signing every check. Actions for correction of this is already in place.

Auditor's Reply: The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county treasurer and the judge/executive to sign all warrants. It is the fiscal court's responsibility to ensure they adhere to these policies.

The fiscal court did not have adequate controls over reporting of capital assets: The master capital asset listing provided to the auditors did not contain construction in progress of $49,282 and was missing one item from the vehicles and equipment category. The county does not maintain an Annual Inventory Master List. This is a repeat finding and was included in the prior year audit report as Finding 2015-001.

The fiscal court lacks adequate controls over reporting and valuation of capital assets. The fiscal court has not adequately monitored and tracked capital assets as required by the Department for Local Government (DLG). By not monitoring and tracking items purchased by the county, the fiscal court cannot determine if items have been stolen or misplaced.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation. Additionally, KRS 68.210 gives the State Local Finance officer the authority to prescribe a system of uniform accounts for all counties and county officials. The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[f]or purposes of internal control, a fixed 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 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 Asset Inventory Listing will include assets reported on the Capital Asset Listing, with the exception of infrastructure assets."

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." It further states, "[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."

In order to strengthen the county's internal controls over capital assets, we recommend the county reconcile asset purchases and disposals with the general ledger. The county should also reconcile the schedule to the physical inspection of county assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

County Judge/Executive's Response: Corrective action has been put into place and we have created a very thorough list of capital assets and done an update upon notification from the Audit staff. Going forward we will review the capital assets list and make any and all necessary changes or updates on a yearly basis. To ensure that we have a proper list. All office staff and department heads will review the Capital Assets list to ensure we have a detailed and accurate list.

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

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