



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Warren County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Warren County Fiscal Court for the fiscal year ended June 30, 2018. 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 Warren 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 jailer did not maintain a comprehensive summary of inmate accounts: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. As of June 30, 2018, the inmate accounts had a combined balance of \$365,157 in the state inmate and county inmate accounts. The jailer was unable to produce a summary of each inmate’s balance; therefore, we were unable to compare the total amount owed to inmates to the total cash in the bank. A summary would ensure the jailer is aware of money owed each individual inmate, current or past, and ensure the amount owed agrees to cash in bank. The computer program cannot generate a report detailing the inmate account detail. The combined total balance in the inmate account cannot be reconciled to a list detailing the balance for each individual inmate. This allows an opportunity for cash to be diverted or misappropriated. Good internal controls dictate cash in the bank should be reconciled

to the total amount held for and owed to inmates. We recommend the jailer request a list of individual inmate balances to be compared to the total cash in bank from the current software provider.

County Judge/Executive's Response: See Jailer's comments.

Jailer's Response: This is a problem that has existed for years before my administration. The jail management system (software) had many deficiencies. We have since implemented a new jail management system that has corrected this problem.

Original budget and amendments do not agree to final budget reported on fourth quarter report: The original budget and budget amendments, approved by the Warren County Fiscal Court and state local finance officer for Warren County during Fiscal Year 2018, showed the following discrepancies when compared to the fourth quarter report columns for budget and final budget amounts:

- Final budget amounts reported on the fourth quarter report were understated by \$8,919,462 in receipts.
- Final budget amounts reported on the fourth quarter report were understated by \$1,550,442 in disbursements.
- One budget amendment for \$550,000 in the jail fund was approved on June 7, 2018, by the fiscal court; however, this amendment was not shown on the fourth quarter report although it was booked to the general ledger as budgeted.
- The original approved budget for the general fund included bond proceeds of \$7,000,000 but was not included in the exported fourth quarter report file sent to the Department for Local Government (DLG).
- Debt service payments of \$537,956 for the Series 2013B bonds were budgeted with the general fund instead of from the 2013B bond fund. A transfer out of the general fund was made to the 2013B bond fund to make these debt payments.
- Debt service payments of the transient room tax fund exceeded budgeted amounts by \$118,577 due to an interest payment made on the new Series 2017B crossover bonds issuance.
- General fund disbursements exceeded budgeted amounts by \$211,711 in general government, \$51,376 in capital projects, and \$35,464 in administration. The grants fund general government disbursements exceeded budgeted amounts by \$1,150.

The quarterly financial reports are prepared and entered manually by the county for reporting to the Department for Local Government (DLG), which has allowed for undetected errors to occur. Once exported into excel, the budgeted amounts were not compared to the original budget and budget amendments throughout the year to ensure the two agreed and to determine if budgeted amounts in any funds had been overspent. Furthermore, the fiscal court was not aware they needed to budget the Series 2017B crossover bond activity.

Due to this weakness in internal control over the budget process, the budget and budget amendments reported on the quarterly financial reports do not reflect the actual approved budgeted amounts when compared to the financial activity from the ledgers. In addition, excess of

disbursements over the final budget has been noted in the general fund, grants fund, transient room tax fund, and 2013B bond fund.

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 the county treasurer to “[p]repare a quarterly financial statement for the State Local Finance Officer.” The manual provides a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements, and total available in each line item. In addition, the manual provides a chart of accounts and states “[a]ll counties must use the account numbers from the chart of accounts.” KRS 68.300 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.” Strong internal controls over the budget process are vital in ensuring the fiscal court’s financials accurately reflect the budgeted to actual activity of the fiscal court.

We recommend the fiscal court implement stronger internal controls over the budget and quarterly reporting export process such as review of the quarterly financial reports and comparison to the budget and budget amendments by someone independent of the accounting function. This review could help detect misstatements and errors on the financial reports remitted to DLG and would prevent any excess of disbursements over budgeted appropriations from occurring.

County Judge/Executive’s Response: This happened due to a manual transmittal error. The accounting software used in the Treasurer’s office did not transmit the correct budgeted column in the report. The actual receipts and disbursements incurred by the county were reported correctly. To correct this problem going forward the county treasurer is looking at changing accounting software.

The Warren County Fiscal Court did not maintain accurate capital asset records: Weaknesses existed over the reporting of capital assets of Warren County. The fiscal court’s schedule of capital assets and infrastructure for the period of audit did not include all assets purchased throughout the year. The fiscal court’s schedule of capital assets for June 30, 2018, was understated (overstated) as follows:

- (\$64,566) Two vehicles were sold and not removed from capital asset listing
- \$180,561 Ten pieces of machinery and equipment were left off the capital asset listing
- (\$244,859) Building additions listed as construction in progress
- \$87,743 Project was left off construction in progress
- (\$36,403) Overstated two buildings in construction in progress
- (\$1,666,779) Included fleet leased vehicles
- \$57,396 Building addition left off capital asset listing

Furthermore, capital asset records did not include any supporting documentation such as invoices to support amounts recorded for assets included on the fiscal court’s capital asset schedule. The county’s capital assets listing was understated and overstated due to incorrect posting of purchase price for items, items were erroneously added or not included, and assets below the county’s capitalization threshold were included on county’s listing. Due to prior year errors, the beginning

balance for vehicles and equipment had to be restated. Prior year auditors included fleet leased vehicles on county's capital asset listing. By not having a proper review of capital asset records, misstatements were able to occur without detection.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting, to protect assets from misappropriation, and to ensure accurate insurance coverage. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government (DLG)'s *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. 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." Furthermore, the manual states "[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by the authorized personnel and documented accordingly."

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with DLG's requirements. Procedures should be implemented that will identify and track additions and deletions for the purpose of the capital asset schedule with adequate supporting documentation and procedures should be implemented to reconcile to the department inventory records annually for insurance coverage.

County Judge/Executive's Response: The Enterprise Fleet vehicles will be removed from the capital asset schedule going forward. Previous auditor had recommended that they be included in the listing. Changes are being made in the treasurer's office to correct any other discrepancies.

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

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