



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Henderson 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 Henderson 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 Henderson County Fiscal Court’s payroll revolving account was not properly reconciled: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. During the current year, the ending balance in the payroll revolving account did not accurately reflect the actual position of the county with regards to the payroll funds due to improper reconciliation that caused activities of different accounts to comingle with the payroll funds. According to the county treasurer’s June 30, 2018 reconciliation, the payroll revolving account had a balance of \$264,942, when in reality it had a negative balance of \$433,669, the difference of \$698,611, was the balance of the self-insurance fund.

The maintenance of payroll records was inadequate as there were no ledgers supporting all of the activity that was taking place in the fund during the year. Because the payroll activity was comingled with self-insurance payments, an accounting for all transactions was practically impossible.

As a result of poor reconciliation, the respective cash balances of the self-insurance fund and the payroll revolving account were inaccurately reported. The payroll revolving account should zero out at the end of the year or reconcile to a minimal carrying balance. However, because of the improper handling of the payroll activities, the payroll revolving account had a negative \$433,669 ending balance as of June 30, 2018.

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 monthly bank reconciliations. Additionally, strong internal controls over bank reconciliations are vital in ensuring that cash balances have been accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them.

We recommend the payroll revolving account be properly reconciled on a monthly basis. In addition, we recommend the fiscal court maintain the activity of the self-insurance fund in a separately budgeted fund. Such activity should not be comingled with that of the payroll revolving account, which will reduce the complexity of the reconciliations as well as to ensure the proper handling of these funds. The county should also ensure that the payroll revolving account maintain a zero or minimum positive cash balance at the end of each period. Additionally, the self-insurance fund should be included on the financial statement as a budgeted fund, and post transfers to the self-insurance fund as expenses in the proper funds.

County Judge/Executive's Response: January 2017, the county began employee HRA funding with a separate account. February 2018 the county began utilizing a separate account for self-funded employee health insurance. Action is currently being taken to resolve this finding; with the June 25, 2019 court meeting approval the payroll and self-health insurance funds should be completely segregated and with court approval a minimum balance established for the payroll revolving account. Effective July 1, 2019 the self-insurance fund will be included on the financial statement as a budgeted fund.

Weak internal controls over debt and debt service resulted in the misstatement of outstanding debt balances: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. Material weaknesses existed over the reporting of liabilities and the debt of Henderson County, including a lack of segregation of duties. As a result, the June 30, 2018 outstanding debt balances reported on the fourth quarter financial report were materially misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$7,665,000 as of June 30, 2018. This figure excludes three debt agreements totaling \$5,569,801 and understated the reported liabilities by \$210,000. The combined misstatement is \$5,779,801.

The county failed to implement a strong internal control system over liabilities and debt service, and instead relied on a single person without adequate oversight. This lack of internal controls resulted in the county's fourth quarter financial report being materially misstated. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding liability balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's Response: With the accounting software conversion and more timely completion of prior year audits, the treasurer's knowledge has increased and progress continues implementing compensating controls over insight and segregation of duties.

The Henderson County Fiscal Court lacks internal controls over cash processes and financial reporting: The Henderson County Fiscal Court had internal control deficiencies and noncompliances regarding cash processes and financial reporting. The following findings were noted with Henderson County Fiscal Court's cash processes and financial reporting:

- Monthly bank reconciliations were inaccurate for the general and jail funds, as well as the payroll revolving account. The general fund June 30 reconciliation included a deposit in transit in the amount of \$260,697, which actually cleared the bank on June 29. The jail fund had a \$250 deposit in transit, which wasn't a real deposit in transit, but rather an adjustment made by the county treasurer when switching accounting software. Lastly, the payroll revolving account included an outstanding check in the amount of \$660, which cleared the bank on October 6, 2017.
- Interest earned on certificates of deposit in the amount of \$1,422 was not posted to the general fund receipts ledger, but rather, when the treasurer converted software in October 2017, she brought on the CDs at their current value.
- The financial activity for the Public Properties Corporation (PPC) had not been maintained. The Administrative Office of the Courts (AOC) paid debt service payments on behalf of the Henderson County Fiscal Court in the amount of \$330,111.

The cause of these issues was the county treasurer's lack of understanding and inability to grasp all accounting concepts and responsibilities. The Henderson County Fiscal Court's lack of controls resulted in the general fund and jail fund cash balances being overstated by \$260,697 and \$250, respectively, as well as, the financial activity of the PPC being understated by \$330,111. Additionally, receipts for the general fund were understated by \$1,422.

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internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them.

We recommend:

- Accurate monthly bank reconciliations should be performed for all funds of the Henderson County Fiscal Court.
- All interest earned on certificates of deposit should be recorded to the appropriate fund's receipts ledger.
- All financial activity for the PPC should be maintained by the county treasurer.

County Judge/Executive's Response: The accounting software conversion presented issues that were not identified immediately, but as the treasurer became more familiar with the software the issues were corrected. With ongoing procedures, more accurate bank reconciliations are being done, interest on certificate of deposits being posted, and a spreadsheet listing PPC activity has been developed by the treasurer.

The Henderson County Fiscal Court lacks adequate controls over their bid process and was not in compliance with bid laws: The Henderson County Fiscal Court failed to bid out fuel for Fiscal Year 2018. Henderson County purchased fuel from a vendor multiple times throughout the fiscal year, and these purchases combined exceeded \$200,000. The Henderson County Fiscal Court also failed to bid out four capital asset additions over \$20,000 in Fiscal Year 2018.

According to the county treasurer, the county was unaware that they were supposed to bid out a cost (fuel) that exceeded \$20,000 for the entire year. They thought since each individual purchase was less than \$20,000 it was not necessary to bid. Additionally, it was an oversight due to different departments handling the purchases of capital assets.

Since bidding procedures were not followed, it is possible that the county did not get the lowest rate for fuel purchased or lowest price on the capital assets. This also puts the county at higher risk for potential fraudulent purchases.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws, and to keep good records of all bid transactions. 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 the fiscal court monitor all disbursements to ensure that bidding procedures are followed for all qualifying disbursements. The fiscal court should also document these procedures in the fiscal court minutes.

County Judge/Executive's Response: Currently a committee of court members and the Judge are reviewing and updating county codes and policies. Information is being gathered for a workshop in the future detailing bidding procedures and purchases, requirements for following state contract pricing purchasing, and changes to these.

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

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