



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

**Auditor Harmon Announces 75 Findings in 2015, 2016 Audits of Jackson
County Fiscal Court**

Findings related to former county treasurer to be referred to federal and state law enforcement

FRANKFORT, Ky. – Mike Harmon, Kentucky’s 47th Auditor of Public Accounts, announced today his office’s audits of the Jackson County Fiscal Court for Fiscal Years 2015 and 2016 have a combined 75 findings. Findings concerning overpayments to the county’s former treasurer will be referred to the FBI, Kentucky Attorney General, Kentucky State Police, and the Kentucky Department of Revenue.

“Taxpayers in Jackson County and across the Commonwealth should be thankful for our auditors who work hard each day to bring greater accountability and transparency to them. We urge Jackson County’s current fiscal court to move forward by bringing change to how their local government has operated in the past,” Auditor Harmon said. “We are referring both audits to federal and state law enforcement agencies because of the egregious conduct of the former county treasurer who improperly made numerous payments to herself.”

State law requires annual audits of county fiscal courts. Auditing standards require the auditor’s letter to communicate whether the financial statements 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 auditor’s letters express disclaimed opinions, meaning we cannot express an opinion on the financial statements of the county due to the unreliability of the county’s financial records.

Audit evidence indicates abuse and intentional override of internal controls by an employee that had a material effect on the county’s financial statements in 2015 and 2016. The fiscal court had serious weaknesses in the design and operation of its internal control procedures and failed to establish appropriate management oversight of the county’s financial activities. The absence of

internal control and management oversight created an environment in which funds were misappropriated and financial records were manipulated.

The Auditor of Public Accounts was also engaged to audit the compliance of the Jackson County Fiscal Court with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on its major federal program for Fiscal Years 2015 and 2016. The Jackson County Fiscal Court did not comply with federal compliance requirements regarding CFDA #97.040. Due to the unreliability of the underlying financial records, auditors were unable to express an opinion on the compliance requirements described in the U.S. OMB *Compliance Supplement*.

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 the internal control over financial operations and reporting.

The 2015 audit contained 35 findings. The 2016 audit contained 40 findings, including 35 findings repeated from 2015. The audits identified, among others, the following issues in 2015 and 2016:

- **The former Jackson County Treasurer was overpaid a combined total of \$114,506 in 2015 and 2016 from the payroll account and the Chemical Stockpile Emergency Preparedness Program (CSEPP) account.** The former treasurer received improper paychecks in the amount of \$54,326 beyond her approved salary. Additional checks of \$60,180 were written to the former treasurer from restricted CSEPP funds during this same period. CSEPP funds are federal grants that allow communities to improve emergency preparedness and response. There are additional missing funds and discrepancies in accounts over which the former treasurer had control. Meanwhile, legitimate county expenses went unpaid, incurring late fees and penalties. These findings are being referred to the Kentucky Attorney General, Kentucky State Police, Federal Bureau of Investigation, and the Kentucky Department of Revenue.
- **The fiscal court incurred significant deficits in 2015 and 2016 due to lack of budget monitoring.** In 2015, the fiscal court had estimated deficit fund balances totaling \$372,967. In 2016, the estimated county deficit was \$287,898. State law requires counties to spend within their budget overall and within each budgeted fund. Contributing to this overall deficit, the county also significantly overspent in several individual budgeted funds without making appropriations or proper budget amendments.
- **The county did not manage and monitor its payroll consistent state law and its own policies.** In both 2015 and 2016, the county overpaid and underpaid employees at various times, failed to maintain accurate timesheets, and made incorrect withholdings resulting in penalties and interest. The fiscal court did not establish a salary schedule for employees as required by state law. Magistrates were paid for committee expenses without assignment to working committees. Retirement was improperly withheld for part-time employees, which was not required. Health insurance premiums were not properly withheld from employee pay and occupational taxes for county employees were improperly calculated. All employees were paid as salaried employees regardless of hours worked and job responsibilities.

- **Two matters are being referred to the local ethics commission.** Staff in the Judge/Executive’s office collected private rent payments on behalf of the former Judge/Executive. Using public office for private benefit is prohibited by the local ethics code adopted by Jackson County. Also, jail employees were allowed to purchase items from jail vendors at discounted rates not available to the public. Jackson County’s ethics code prohibits county employees from obtaining unwarranted privileges or advantages. Each county is required to adopt a local code of ethics and have a commission to enforce the ethics code. These matters will be referred to the county’s local ethics board for further investigation and possible action.
- **Failure to maintain records.** Jackson County did not maintain ledgers or financial statements for the Jackson County Public Properties Corporation, an entity for which the county is legally and financially responsible. Also, the fiscal court did not have a list of encumbrances as required by state law, which can lead to incorrect information about cash on hand and overspending.
- **The audit identified several issues with the county jail.** The audits report an overall lack of control of jail finances. Due to this, there were discrepancies in the receipts delivered from the jail to the county. The jailer did not present a fee schedule to be approved by the fiscal court as required by state law. The jailer did not present a financial statement for the jail commissary fund, which are funds generated at the jail that are required by state law to be reported to the county treasurer and spent for the benefit of the inmates. The jailer did not claim allowable discounts on sales tax returns and make payments timely, resulting in lost public funds.

“When I became Auditor, my directive to staff was simply to follow the data. The dedication of our auditors is exemplified by the large number of findings from these two audits,” Auditor Harmon added. “The citizens of Jackson County deserve better from those entrusted to handle the people’s business, and my office will continue the work necessary to shed light on those who abuse the public’s trust.”

The full audit reports can be found at: [2015 audit report](#) and [2016 audit report](#).

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