



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Jessamine County Fiscal Court

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

In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have issued an unmodified opinion on the compliance requirements that are applicable to Jessamine County Fiscal Court's major federal program: Community Facilities Loans and Grants (CFDA #10.766).

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 audit contains the following comments:

The Jessamine County Fiscal Court did not prepare the schedule of expenditures of federal awards. During Fiscal Year 2016, the county had \$1,051,389 in federal expenditures. The county did not prepare a Schedule of Expenditures of Federal Awards (SEFA) for Fiscal Year 2016 until requested by auditors. The provided schedule failed to include one federal program,

Community Facilities Loans and Grants with expenditures of \$699,100, which along with the other federal expenditures, caused the county to meet the Single Audit requirement threshold of \$750,000.

The fiscal court did not have adequate procedures in place to ensure the preparation of the SEFA in a timely manner or to ensure that all federal expenditures were accurately reported. The failure to properly prepare the SEFA could cause the county to potentially miss obtaining a required Single Audit.

The county met the threshold of federal expenditures of \$750,000 which would necessitate a Single Audit. As stated in 2 CFR 200.510(b), “[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statement which must include the total Federal awards expended[.]” Furthermore, good internal controls dictate that records be maintained to document expenditures of federal awards and those expended federal award amounts be reported on the SEFA.

We recommend the fiscal court improve controls over financial statement reporting to ensure that the SEFA is prepared timely and is reported accurately.

County Judge/Executive’s response: The SEFA was prepared for auditors upon their arrival as stated. When asked about the \$699,100, the field auditor replied she did not believe it to be a Federal grant to be included on the SEFA because it was a loan through the USDA. Upon further investigation with the audit supervisor several weeks into the audit, the field auditors deemed it necessary to be included on the SEFA after all.

Auditor’s Reply: As stated in the Management Representation Letter, signed by both the county judge/executive and county treasurer, it is management’s responsibility to understand and comply with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards* (Uniform Guidance). Management is responsible for the preparation and presentation of the SEFA in accordance with Uniform Guidance. Management is also responsible for identifying federal expenditures made during the audit period for all awards provided by federal agencies including, but not limited to loans and loan guarantees. Furthermore, the Department for Local Government (DLG) requires the SEFA to be submitted within 30 days after the end of the fiscal year, regardless of the amount. The fiscal court’s fiscal year end was June 30, 2016. The SEFA was provided to auditors in March 2017; however, it was not submitted to DLG at any point.

The Jessamine County Fiscal Court did not properly account for debt payments made by another entity on-behalf of the fiscal court and exceeded the county’s approved budget. The Jessamine County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties (KACo) for their courthouse annex. The Administrative Office of the Courts (AOC) pays part of the lease payment for space in the annex. These receipts and disbursements were not included in the fiscal court’s budget submitted to the Department for Local Government (DLG) or on the county’s financial statements.

The treasurer failed to include this information in the county's budget and financial statements because the Jessamine County Fiscal Court does not physically receive or distribute the funds and was not aware of DLG's requirements. By not including this information, the financial statements and notes are not providing a complete overview of the county's debt. In addition, the county's claims exceeded budgeted appropriations by \$102,771 due to this amount being left off.

According to DLG, these funds should be budgeted in the county's annual budget and included in the financial statements. Furthermore, KRS 68.275(1), states "[c]laims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer."

We recommend the fiscal court include all debt obligations in the county's annual budget and ensure the receipt and disbursement of funds from AOC are properly reflected in the financial statements.

County Judge/Executive's response: The AOC agreement with KaCo has been in place since 1997, and was recently paid off in this Fiscal Year. The one and only payment we make annually is reported on our annual debt summary. The only debt we incur is accounted for in our budget so I am unclear as to how we exceeded budget appropriations on this debt issuance. This has never been recorded any differently since the issuance in 1997.

Auditor's Reply: The one payment included in the debt summary referred to by the official's response is a payment included in the liabilities section of the quarterly report. The payment is not budgeted and paid/recorded in the expenditure section of the ledgers nor the quarterly report as required by DLG. The payments were being made by AOC, on behalf of the county, but the debt is the responsibility of the county. As a result, audit adjustments were made to include the transactions on the county's financials to properly reflect the transaction. These adjustments were discussed with the county judge/executive and county treasurer, who both signed to document their understanding and agreement with the adjustments.

The Jessamine County Fiscal Court did not prepare purchase orders. During testing of disbursements, auditors noted 76 of 125 tested invoices were paid without a purchase order being prepared. The invoices were for items such as utilities, phone allotments for county employees, repair services, travel expense reimbursements, and miscellaneous supplies. These invoices were noted in the general, road, jail, LGEA, and EMS funds.

Although policies were in place requiring the issuance of purchase orders, the fiscal court did not ensure that all departments adhered to established policies. As a result of the county not following their policies, funds were encumbered without ensuring that budget appropriation was available.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for

handling public funds, including required purchasing procedures for counties. These requirements prescribe that “purchases shall not be made without approval by the judge/executive (or designee) and/or department head” and “purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.”

Furthermore, per DLG’s policy manual, purchase order systems are required for fiscal courts and purchase orders should be issued for all goods and services utilized by the fiscal court. In addition, DLG issued a memorandum on August 4, 2016, in which it “highly recommends” implementation of issuing purchase orders for payroll and utilities. This allows for fiscal court to ensure that sufficient budget allocation is available for all expenses and provides a better representation of financial status by reflecting more accurate encumbrances.

We recommend the Jessamine County Fiscal Court ensure that purchase orders are obtained prior to all purchases.

County Judge/Executive’s response: Preparing Purchase Orders for payroll and utilities has never been done since our purchase order system was instituted. This was new to me as well since both of those items are a pre-approved expenditure. Jessamine County never received the memo that was to “clear up misconception” about this matter in August 2016 from the Department of Local Government. When I discussed this with DLG they agreed there are communication flaws in sending memos to the Treasurer’s Association and them having them forwarded to each Treasurer. I understand this memo was to serve as a reminder, but we have never received a comment for this in the past. I am currently researching how we can possibly create purchase orders for payroll and utilities without hiring additional staff as this is extremely burdensome. The purchase orders for training, repairs and etcetera will be obtained in the future with the supervisors facing the realization that if they do not obtain these purchase orders for each item they will lose purchasing privileges.

Auditor’s Reply: As a point of clarification, the exceptions necessitating this finding included expenditures for which purchase orders are required by the DLG policy manual, including repairs, supplies, training, and travel costs. DLG recommends, but does not require, the use of purchase orders for recurring expenditures such as payroll and utilities.

The Jessamine County Fiscal Court did not have sufficient support for ambulance receipts. The fiscal court does not have adequate support for posted ambulance billing receipts. The receipts were posted using bank statements to obtain direct deposit information. There was no process in place to verify that the amounts deposited agreed to any billing reports. The cause of this weakness appears to be the result of staff not recognizing the need for adequate support.

Failure to adequately support receipts can lead to improper receipts being accepted and posted to the ledger. The county would not know if they have received proper payment for services rendered.

Good internal controls require substantiation for receipts. Receipts should be posted to the ledger using source documentation to support the amount received. The bank statement is not support for the receipt, it is evidence of deposit to the account.

We recommend the fiscal court implement procedures to verify the accuracy of deposits made for ambulance receipts. We further recommend the fiscal court post receipts to the ledger using source documentation instead of bank statements.

Count Judge/Executive's response: Our ambulance billing service now sends a monthly ACH report directly to the County Treasurer. The report is reconciled to the monthly bank statement in order to discount any discrepancies.

The Jessamine County Jailer lacks internal controls over receipts. The Jessamine County Jail's inmate funds are deposited into the bank account held by their vendor. The majority of funds deposited into this account are deposited by employees of the vendor that administers the kiosk that receives funds for inmates. However, jail staff are responsible for depositing money orders received by mail into this account, but did not complete daily check-out sheet for these deposits. Auditors noted on the August 2015 bank reconciliation of this account, seven outstanding deposits from 2013, 2014, and 2015 totaling \$2,941. Jail staff did not know why the deposits were outstanding or what the receipts were for.

Internal controls were not in place to ensure that the vendor bank account reconciliation is accurate or that daily check-outs are completed for manual deposits. As a result, the reconciliation and cash balances may not be accurate.

According to the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[a] monthly cash reconciliation shall be maintained" and "[d]aily deposits are required. At the end of each business day, the jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal."

The jailer should regularly reconcile the vendor bank account to receipt reports, to ensure that all inmate funds received are deposited into the vendor bank account and inmate accounts are credited. Additionally, the jailer should determine if outstanding deposits are true outstanding deposits. The jailer should prepare daily check-out sheets for manual deposits.

County Judge/Executive's response: The County Treasurer has no access to or control over the Jail Commissary Account at the Detention Center.

Jailer's response: Even though we do not collect money on a daily basis, because of the kiosk machines in place, we will start keeping more accurate check out sheets. We will also work closer with [vendor] to reconcile outstanding checks and deposits.

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

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