



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Lewis County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Lewis County Fiscal Court for the fiscal year ended June 30, 2021. 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 Lewis 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 116 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's fourth quarter financial report was materially misstated: The fiscal court's fourth quarter financial report submitted to the Department for Local Government (DLG), which serves as the fiscal court's year-end financial statement, was materially misstated. Adjustments totaling \$353,315 were necessary in order for the fiscal court's financial statement to accurately reflect disbursements. In particular, a large amount pertaining to a debt refinance was omitted from the disbursements ledger.

According to the treasurer, she did not realize the amount needed to be posted to the ledger as part of the refinanced debt transaction. In addition, the fiscal court did not have adequate internal

controls, oversight, and review procedures in place to ensure financial activity was accurately recorded and reported in accordance with the uniform system of accounts as required.

As a result, a material disbursement was omitted from the disbursements ledger resulting in the financial statement being materially misstated. Inaccurate financial reporting is problematic because the commissioners and county judge/executive rely on financial data presented to them to be complete and accurate in order to make prudent financial decisions on behalf of the county and taxpayers. Furthermore, external organizations such as DLG may use and rely on financial information reported by the fiscal court so accurate financial reporting should be a priority.

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 officials to submit quarterly reports to DLG by the 20th day following the close of each quarter. The uniform system of accounts has specific requirements on how to record various types of transactions for different funds and fund types. The most basic requirement of the uniform system of accounts is that all transactions are recorded and classified correctly.

We recommend the county treasurer ensure all transactions are posted to the ledgers, as well as ensure that receipts and disbursements are categorized correctly to prevent necessary adjustments. Each adjustment made by auditors has been presented to and reviewed with the county treasurer. We recommend the county treasurer use these adjustments as guidance when preparing future financial statements. In addition, we recommend the fiscal court establish adequate internal controls, oversight, and review procedures to ensure that all financial data is completely and accurately recorded and reported.

County Judge/Executive's Response: This was an oversight and has since been corrected.

The fourth quarter liabilities journal was materially misstated: The liabilities journal did not reconcile to the fiscal court's debt schedules, materially misstating debt obligations. First mortgage revenue bonds, series 2014, principal was understated \$353,194. The fiscal court failed to have controls in place to ensure the fourth quarter report liabilities journal was being reconciled to the debt amortization schedules. As a result, liabilities information is not accurately presented to the fiscal court, Department for Local Government (DLG), and any other individuals interested in the fiscal court's financial condition.

The DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the debt section of the fourth quarter financial report to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, government leasing act issues and bond anticipation notes. The liabilities information reported needs to be accurate.

We recommend the fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities journal.

County Judge/Executive's Response: This was an oversight and has since been corrected.

The fiscal court did not properly budget for and record all debt-related disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2020-005. The fiscal court did not comply with reporting requirements for debt bearing the fiscal court's name. During the year, an amount wired to pay off the Detention Center Renovations Kentucky Area Development Districts (KADD) Lease was not posted to the fiscal court's disbursements ledger. This transaction did not run through the fiscal court's bank account, and was not included in the budget process, or reflected on the fiscal court's fourth quarter financial report. As a result, the fiscal court failed to properly budget for and record the debt-related disbursement in the jail fund of \$360,000 that resulted in appropriations in excess of budget in the debt service category by \$352,814. The occurrence resulted in the liabilities information not accurately being presented to management, regulatory agencies, and other users of the information. Also, adjustments to include this activity on the fourth quarter financial report resulted in county appropriations exceeding the approved budget.

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 made within the budget appropriations, shall be void." KRS 68.280 gives fiscal courts the ability to amend the budget when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded.

We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements.

County Judge/Executive's Response: This was an oversight and has since been corrected.

The fiscal court failed to properly approve, record, and pay all disbursements timely: The fiscal court issued purchase orders dated after the invoice date for 20 disbursements, failed to pay two invoices within 30 days of the invoice date and did not properly record ten invoices. A lack of understanding by management and lack of controls over purchasing contributed to the county issuing purchase orders after the date of purchase, not paying invoices timely and not recording invoices properly. As a result, the fiscal court's appropriation line items may be depleted or in a negative balance due to not ensuring funds are available at the time of purchase, the users of the information are misled by recording errors, and vendors do not receive payments timely.

According to a memorandum from the Department for Local Government (DLG) dated August 4, 2016, "The main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the County Budget Preparation and State Local Finance Officer Policy Manual". Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

We recommend the fiscal court comply with DLG by issuing purchase orders on all disbursements, strengthen controls over recording transactions to ensure proper posting to accounts, and pay invoices timely.

County Judge/Executive's Response: This was an oversight and has since been corrected.

The jail commissary lacks segregation of duties over receipts, disbursements, and bank reconciliation processes: This is a repeat finding and was included in the prior year audit report as Finding 2020-004. A lack of segregation of duties existed over jail commissary receipts, disbursements, and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the monthly receipt ledger, recorded entries on inmate accounts, prepared checks for disbursements, prepared the monthly disbursement ledger, and performed the monthly bank reconciliations. The official did not have controls in place to ensure that the same person did not perform all jail commissary accounting functions. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, error, and inaccurate financial reporting increases.

Effective internal controls require a proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

Some controls the jailer could implement are as follows:

- Triplicate receipts could be compared to the inmate account sheets and attached to deposit slips and reviewed by an independent person.
- Commissary sales amounts could be compared to inmate accounts in the system for agreement. Any differences should be reconciled.
- Any voided receipts should state reason why and then reviewed, initialed, and dated by an independent person.
- Supporting documentation for disbursements and invoices should be reviewed by the jailer prior to payment.
- The jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliations for accuracy.

We recommend if these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date on applicable documentation.

County Judge/Executive's Response: This was an oversight and has since been corrected.

Jailer's Response: Just an oversight.

The jailer did not deposit receipts intact on a daily basis: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The Lewis County Jailer did not properly deposit receipts intact on a daily basis.

Deposits are not being deposited timely due to lack of oversight by the jailer. When receipts are not deposited daily there is an increase in the risk of misappropriation of cash and the risk that the bank account can be overdrawn is increased. The practice of making daily deposits reduces these risks.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits intact into a federally insured banking institution.

We recommend the jailer deposit receipts intact on a daily basis to comply with the guidelines prescribed by the state local finance officer.

County Judge/Executive's Response: This was an oversight and has since been corrected.

Jailer's Response: Just an oversight.

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

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