



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Bullitt County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Bullitt 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 Bullitt 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 the internal control over financial operations and reporting.

The audit contains the following comments:

**Bullitt County Animal Services did not properly account for pet license receipts.** Pet licenses are issued by the Bullitt County Judge/Executive's Office, the Bullitt County Animal Services Department, and local animal hospitals in the county. Bullitt County Animal Services provides the receipt books for the pet license tags and related receipt information to be noted by all offices collecting these receipts. The receipt books are returned to the Bullitt County Animal Services Department. Members of the Bullitt County Animal Services staff record a pet license receipt on the daily collection form, but do not list a receipt/tag number on the report. They do not provide copies of the pet license receipt forms to the county treasurer with other receipts accounted for on the daily collection report. They do not notate the receipt in the triplicate receipt book as other receipts are accounted for. The auditor noted two pet license fee receipts of

\$20, each in March 2016, that were not accounted for on the daily collection reports, or in the deposit tickets.

Bullitt County Animal Services has not implemented a policy to ensure that all receipts are accounted for each day and noted correctly on the daily collection reports. If receipts are not properly accounted for when collected, the risk of reporting a misstatement in receipts due to undetected error or fraud increases. Funds can be received and not deposited and go undetected. KRS 64.840 and regulations promulgated thereunder require pre-numbered, three-part receipt forms to be issued for all funds received. One copy should be provided to the customer, a second copy should be maintained with the daily collection log, and the third copy should be maintained on file in the office. Strong internal controls dictate all funds received should be accounted for on a receipt ticket form. Receipt forms should be batched daily and summarized on a daily collection report. All funds collected should be accounted for and supported by a receipt ticket and included on the daily collection report.

We recommend Bullitt County Animal Services prepares a receipt ticket from the pre-numbered three-part receipt book for all pet licenses issued as they do for all other funds received for animal services fees. All receipts should be accounted for and reconciled to the daily collection report. The reconciliation review should be evidenced by initials of the Animal Services Director. We also recommend the Bullitt County Treasurer review all receipt tickets and the daily collection report provided to her to ensure all funds received are accounted for accurately and appropriately. This review can be evidenced by initials on the daily collection report.

*County Judge/Executive's response: Procedures will be implemented to correct.*

**Bullitt County Animal Services does not make daily deposits.** Bullitt County Animal Services does not deposit animal services receipts daily. During cash count procedures at the Bullitt County Animal Services department, the auditor noted change was collected but \$1 in cash was deposited instead. Also, the auditor noted a daily collection report showed \$80 collected, the deposit ticket showed \$80 deposited, but the cash and checks copied by the county treasurer only showed \$60. Discussion with the county treasurer and her assistant indicated the Animal Services Director was told the deposit was short and he went back to the shelter for the \$20 and brought it for deposit. Bullitt County Animal Services has not implemented a policy to ensure deposits are made intact daily. When receipts collected are not deposited intact daily, the risk of misstatement of receipts due to error or fraud increases because receipts could be collected and not deposited. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. According to the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, deposits should be made intact daily. Additionally, making daily deposits and depositing funds as collected intact minimizes the risk of theft of cash collected. We recommend Bullitt County Animal Services begin making deposits intact daily.

*County Judge/Executive's response: Procedures will be implemented to ensure deposits are made daily.*

**Bullitt County lacks segregation of duties over EMS receipts.** One EMS employee collects ambulance bill payments, completes the daily collection report, prepares the deposit ticket, and takes the deposit to the bank with no other employee reviewing these controls. The Bullitt County EMS has not implemented segregation of duties as part of the internal control system.

Discussions with the EMS director and office manager indicated the assignment of accounting controls for Fiscal Year 2017 has changed. When accounting functions are not segregated, there is a significant risk to the entity of misappropriation of funds due to errors in financial reporting and theft of funds. Good internal controls dictate that accounting functions are to be segregated to reduce the risk of misappropriation of assets due through financial reporting and theft.

We recommend Bullitt County EMS segregate the duties over receipt accounting functions or implement compensating controls. The EMS Director who does not have responsibilities related to receipts can perform the following compensating control: review the deposit tickets to ensure the cash and checks agree to the daily collections in the accounting system. The reviews should be documented by initials on the daily collection reports, deposit tickets, and bank statements.

*County Judge/Executive's response: Procedures have already been implemented to correct. Due to the exit for FYE 2015 being after FYE 2016 ended, procedures were not implemented until FYE 2017.*

**The Bullitt County Detention Center lacks segregation of duties over jail receipts.** The bookkeeper collects receipts, records receipts in the ledger, batches receipts for deposit, prepares the deposit ticket, and reconciles the bank accounts. There are no compensating controls. The jailer has not implemented segregation of duties as part of the internal control system. When accounting functions are not segregated, there is a significant risk to the entity of misappropriation of funds due to errors in financial reporting and theft of funds. Good internal controls dictate that accounting functions are to be segregated to reduce the risk of misappropriation of assets, inaccurate financial reporting, and theft.

We recommend the jailer segregate the duties over receipt accounting functions or implement compensating controls. The jailer or her designee, who does not have responsibilities related to receipts, can perform the following compensating controls: review the deposit ticket to ensure the cash and checks agree to the daily collections in the accounting system and review the bank reconciliation for reasonableness and for any unusual/questionable transactions. The reviews should be documented by initials on the deposit tickets and bank statements.

*County Jailer's response: The Jailer randomly verifies accuracy of deposits. Chief Deputy [name redacted] has also been added to do this.*

**Bullitt County lacks segregation of duties over animal services receipts.** One animal services employee collects fees from the public, prepares receipt tickets, and completes the daily collection report, with no other staff person reviewing these controls. Bullitt County Animal Services has not implemented segregation of duties as part of the internal control system. When accounting functions are not segregated, there is a significant risk to the entity of misappropriation of funds due to errors in financial reporting and theft of funds. Good internal

controls dictate that accounting functions are to be segregated to reduce the risk of misappropriation of assets, inaccurate financial reporting, and theft.

We recommend Bullitt County Animal Services segregate the duties over receipt accounting functions or implement compensating controls. The animal shelter director, who does not have primary responsibilities related to receipts, can perform the following compensating controls: review the receipt tickets and daily collection report to confirm they agree in total, by category and cash and check. The review should be documented by initials on the daily collection report.

*County Judge/Executive's response: Procedures will be put in place for segregation of duties and greater internal control. The Director and Assistant Director will share the responsibilities of reviewing receipt tickets and daily collection reports, and each will document with initials.*

**Bullitt County Animal Services does not reconcile receipts to supporting documentation.**

The pick-up/adoption forms used by Bullitt County Animal Services to document personal information for who is dropping off, picking up, or adopting an animal held at the shelter were held off-site for Fiscal Year 2016 at the Animal Services Director's home. Upon review of these documents, it was determined they were not accounted for in numerical order for each day's collections. Also, the number of animals reported by the Animal Services Director as needing to be picked up by the animal crematory vendor did not agree to the number of animals invoiced to the county by the vendor.

The Bullitt County Animal Services has not implemented procedures to batch and account for each pick up form for each day's collections as part of the internal control system. They have not implemented procedures to ensure that the number of animals accounted for each day is reconciled monthly to the invoices from the animal crematory vendor.

When pick up/adoption information forms are not accounted for in numerical order and for each receipt ticket issued, it increases the difficulty in determining an accurate number of animals dropped off, picked up, and adopted each day. Also, when the number of animals to be picked up by the animal crematory vendor is not reconciled to the company's bill before payment, the county could overpay the company in error. Good internal controls dictate that supporting documentation for receipts, in this case, pick up/adoption forms should be accounted for each day with the daily collection report and to assess the status of animals held at the shelter daily. Also, it is necessary to have these procedures in place to assist with accounting for numbers of adoptions, drop offs, and pickups to be reported each month to the fiscal court.

We recommend Bullitt County Animal Services maintain all supporting records for receipts and disbursements at the animal shelter office. We also recommend Bullitt County Animal Services reconcile supporting information forms and account for each pick up, drop off, and adoption daily to agree to the collections received daily, resulting in tallies for status of animals on a monthly basis. We also recommend the monthly totals be reconciled to the animal crematory vendor invoices before payment by the county to ensure the county is billed for the correct number of animals picked up.

*County Judge/Executive's response: Procedures will be implemented to ensure all supporting records and receipts are maintained for reconciliation. Supporting documentation will accompany each invoice.*

**Bullitt County Animal Services timekeeping controls were overridden by department management and need improvement.** The Bullitt County Animal Services director asked his employees to clock in and clock out for him by punching his time card for him when he was not present at work, resulting in the timecard showing he worked overtime that he did not actually work. The deputy county judge/executive discussed this issue with the animal services director and noted the issue in his personnel file. This issue appears to have occurred for a few months during Fiscal Year 2016. It was also noted the Bullitt County Animal Services timeclock located at the shelter is in need of repair as the glass facing of the clock is no longer in place, so there is a risk the hands of the clock could be changed manually.

County payroll staff and the deputy judge/executive were not aware of the timeclock needing repair. The county has control procedures in place that rely on the department director to oversee timekeeping to ensure time reporting is accurate; however, when the department director does not take responsibility to ensure timekeeping is accurate by implementing county procedures, effectively overriding controls, there is significant risk that employees are paid for hours they did not work. Also, when the department director does not report issues with the timeclock unit used at the county department office, this evidences the director is creating and further allowing a tone at the department for lack of care for internal controls, in addition to overriding controls.

Management override of controls can significantly increase the risk of fraud in the department due to theft of cash collections or intentional errors in reporting cash collections. Strong internal controls dictate internal controls are in place to ensure there is very minimal risk for management override of controls over any significant financial function, including time reporting. When management override occurs it is critical the county has a process to document and review what has occurred, and implement procedures to prevent future override of controls.

We recommend the county judge/executive review timecards for animal services employees and the animal services director and sign them for each payroll, or have someone she designates in her office perform this function. We also recommend the fiscal court have the timeclock at the animal services department repaired and have all other timeclocks at county departments checked to ensure they are operating properly.

*County Judge/Executive's response: The shelter timeclock will be replaced and procedures will be implemented to ensure stronger internal controls over timecards.*

### **The Bullitt County Fiscal Court lacks adequate controls over capital asset reporting.**

The following deficiencies were noted:

- The county employees preparing and maintaining the county's inventory lists were not aware of the county's capital asset threshold amounts for reporting.

- The capital asset schedule prepared by the county did not include a listing of infrastructure expenditures for road projects.
- The county's vehicle inventory list and equipment list have duplicate items listed.
- The county's inventory list as of June 30, 2015, did not agree to the audited capital asset listing as of June 30, 2015, resulting in a material adjustment to the beginning balance for FY 2016 of \$1,826,758.

County employees are not aware of the capital assets policy for reporting capital assets. Furthermore, the current policy does not require an infrastructure listing to be included with capital assets reporting. It also does not require a reconciliation of all county inventory items to the county's capital asset schedule on a yearly basis. When the capital assets reporting policy is not used and the inventory list is not reconciled to the capital assets list, there is significant risk of errors in reporting capital assets. Also, not maintaining an accurate list of capital assets could result in new assets not being insured and retired assets not being removed from the insurance policy. Good internal controls related to capital asset reporting require that the county be aware of their capital asset thresholds for reporting, and that the county inventory lists be reviewed and updated regularly to ensure there are no duplicate assets, additions and deletions are reported accurately and to the insurance company timely, and that infrastructure expenditures are listed in a way that identifies the specific road impacted.

We recommend the fiscal court use their capital asset policy and implement procedures to ensure the following:

- The county's inventory list is reviewed to ensure assets reported are not duplicated, and that newly added assets and disposed of assets are reported on the list accurately by month, day, and year of addition or deletion, and
- Infrastructure expenditures are reported each fiscal year identifying new road projects, or re-paved road projects, including the amounts expended for each project.

*County Judge/Executive's response: Procedures have already been implemented to ensure asset information is accurately reported and recorded. Infrastructure expenditures are compiled and reported, but the format in which the information is recorded will be adjusted. Due to the exit for FYE 2015 being after FYE 2016 ended, procedures were not implemented until FYE 2017.*

**The Bullitt County Fiscal Court did not implement oversight and accountability for The Public Properties Corporation Fund.** The county has a Public Properties Corporation fund (PPC) to manage the debt associated with the Judicial Center. The county is financially accountable and legally responsible for this debt. The county did not maintain receipts and disbursements ledgers for the PPC, they did not prepare bank reconciliations, and they did not prepare a financial statement for fiscal year ended June 30, 2016. Because the county did not prepare a financial statement for the PPC fund for June 30, 2016, the auditors recommended an adjustment to intergovernmental receipts and debt service disbursements of \$1,302,504 on the county's financial statement.

The Kentucky Association of Counties (KACo) is receiving the bank statements for this fund from U.S. Bank; however, the county is not requesting the bank statements from KACo or U.S.

Bank in order to prepare ledgers, compile a financial statement, or reconcile the bank account during the year. Because the county is accountable for the debt of the PPC, good internal controls dictate the county should review and account for all receipts and disbursements related to this fund, including maintaining ledgers, reviewing bank reconciliations, and preparing related financial statements for the fund. The county should also be aware that not preparing a financial statement for the PPC results in a significant adjustment to the county's overall financial statement. Good internal controls dictate that financial obligations of the county should be accounted for and reviewed on a regular basis. Receipts and disbursements should be documented, and bank statements should be reviewed and reconciled. Also, good internal controls dictate the county should make an effort to correct errors in financial reporting efficiently and proactively to reduce the number of adjustments to be made to the year-end financial statement.

We recommend the county request U.S. Bank send the PPC bank statements to them throughout the year. We also recommend the county prepare and maintain ledgers for receipts and disbursements, complete bank reconciliations monthly on all PPC bank accounts, and compile a year-end financial statement on the PPC fund.

*County Judge/Executive's response: The following actions have been implemented:*

- *Contacted [name redacted] at KACo to ensure the county will receive the PPC statements from US Bank. KACo has been receiving them and monitoring the account since inception in 2007.*
- *Created a spreadsheet to show activity and ensure agreement with amortization schedule.*
- *Both the Treasurer and CFO will sign off on the spreadsheet to follow dual control.*
- *Tickler file created to ensure US Bank and KACo send statements by January and June of each year.*

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

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