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Harmon Releases Audit of Clark County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the single audit of the Clark 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 Clark 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 Clark County Fiscal Court's major federal program.

As part of the audit process, the auditor must comment on non-compliance 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 fiscal court did not have adequate controls over reporting of capital assets to ensure accuracy. The master capital asset listing provided to the auditors contained material inaccuracies. The county maintains fixed asset listings for all departments within the county; however, these lists are not utilized in the preparation of the capital asset schedule to ensure all assets meeting the capitalization threshold are listed. The county failed to add new debt totaling $552,427 to the capital asset schedule.

The fiscal court lacks adequate controls over reporting and valuation of capital assets. The fiscal court has not adequately monitored and tracked capital assets as required by the Department for Local Government.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation. Additionally, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "For purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year. The asset inventory listing should provide the following detail:

· Property Tag number
· Asset description
· Serial number - if applicable
· Quantity - if applicable
· Cost (or Fair Market Value of donated asset at date of donation)
· Date of acquisition
· Date of disposal (track all disposals for entire fiscal year)
· Property location (by department, building & room number)
· Manager/individual responsible

The Asset Inventory Listing will include assets reported on the Capital Asset Listing, with the exception of infrastructure assets."

The manual further explains that an annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented. The asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset inventory listing modifications.

DLG further requires that adequate fixed asset records provide the information necessary to report the cost or other basis of valuation, determine the accuracy of insurance coverage, maintain control of county property, and for long range planning for property replacement. Maintenance of records for general fixed assets which fall into any of the following three categories is a requirement of the Uniform System of Accounts for Kentucky counties:

1. Real Estate
2. Motor vehicles (including road equipment)
3. Valuation in excess of $100

In order to strengthen the county's internal controls over capital assets, we recommend the county reconcile asset purchases and disposals with the general ledger. The county should also reconcile the schedule to the physical inspection of county assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

County Judge Executive's response: We will implement another level of monitoring capital purchases over $5,000.00.

The jailer did not implement adequate segregation of duties and oversight for receipts, disbursements, and reconciliations. The bookkeeper prepares deposits, takes the deposits to the bank, prepares and signs checks, posts these disbursements to the disbursements spreadsheet that is utilized in preparation of the annual financial statement submitted to the fiscal court, and performs the monthly bank reconciliation.

Due to the limited number of employees, the jailer was unable to maintain adequate segregation of duties over receipts, disbursements, and reconciliations. Failure to maintain adequate segregation of duties or implement compensating controls, such as strong oversight, increases the risk for fraud or theft.

Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. Without proper segregation of duties, inaccurate financial reporting and misappropriation of assets can occur.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements written to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

County Judge Executive's response: We, at the central office of Clark County government, will assist the Jailer in any way we can to correct this.

County Jailer's response: I, Jailer Frank Doyle, will be seeking more employees to aid in segregations of duties. We have started having Jailer Frank Doyle to initial all receipts, date stamping receipts as received and paid.

The jailer failed to maintain sufficient records and prepare an accurate annual report for the jail commissary fund. During our review and testing of the jail commissary fund, we noted the following deficiencies:

- Receipts and disbursements ledgers were not properly maintained.
- Accurate bank reconciliations were not prepared and agreed to book balances.
- The year-end financial report presented to the county treasurer lacked adequate detail and contained inaccuracies.
- Daily checkout sheets were not utilized for receipts.

Changes recommended by former auditors were not implemented to correct these issues. The failure to maintain accurate, detailed reports does not provide a true picture of the activities within the jailer's accounts. This can also leave an opening for the increased risk of misstatements or omissions. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines the following minimum accounting and reporting requirements pursuant to KRS 68.210:

- Daily Checkout Sheets and Daily Deposits
- Receipts Journal
- Disbursements Journal
- Jail Commissary Fund Summary and Reconciliation

KRS 441.135(2) also states, "[t]he jailer. . .shall annually report to the county treasurer on the canteen account." The jailer should review the jail operations and ensure compliance with DLG's manual and applicable law. Furthermore, we recommend the jailer strengthen controls to ensure minimum accounting and reporting requirements are met.

County Judge Executive's response: We, at the central office of Clark County government, will assist the Jailer in any way we can to correct this.

County Jailer's response: I, Jailer Frank Doyle, have implemented a report on an Excel Document to input monthly to aid in the annual report. Reports previously completed were by what the previous auditors instructed us to do.

The jailer did not obtain fiscal court approval for all contracts and expenditures. In January 2015, the Clark County Jailer, without fiscal court approval, executed a telephone contract with a telephone service provider for the provision of telephone service for the inmates at the jail. As an incentive for the jail to enter into the contract, the telephone service provider offered a $60,000 signing bonus, prorated over 48 months. Upon review of the receipts ledger, auditor noticed the county was not receiving any funds for the signing bonus. Per discussion with jail personnel, the county does not receive checks for the bonus, but the commissary sends invoices to the telephone service provider to pay. By doing this the jailer is, in effect, expending county funds without them being budgeted and approved by fiscal court as part of the jail fund. During FY 2016, the telephone service provider paid six invoices totaling $16,540.

Jailers do not have the authority to expend county funds from the jail fund without approval of the fiscal court, per KRS 441.225. Both the county and the jailer have a joint responsibility for jail purchases. Per KRS 441.225(1), the jailer "shall have authority to authorize expenditures from the jail budget[,]" but "[s]uch expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and established county procurement code or purchase order procedure of the county." The jailer was not aware of the dual responsibility over jail contracts and expenditures.

We recommend the jailer acquire fiscal court approval of all contracts and ensure all expenditures of county funds follow the proper county procurement procedures, including fiscal court approval.

County Judge Executive's response: We, at the central office of Clark County government, will assist the Jailer in bringing any contracts before the Clark County Fiscal Court, in duly session assembled, for approval.

County Jailer's response: I, Jailer Frank Doyle, moving forward will be placing grants in the budget as a line item for expenditures to be approved by the Fiscal Court. Any and all grant money obtained by this department will be placed as a line item before any expenditures will be made.

The audit report can be found on the auditor's website.

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