



Auditor of Public Accounts
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Harmon Releases Audit of Fulton County Fiscal Court

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

The audit contains the following comments:

The Fulton County Fiscal Court lacks segregation of duties over accounting functions and financial reporting: The Fulton County Fiscal Court lacks adequate segregation of duties over financial reporting including fund balances, debt and debt service, capital assets, and payroll. The Fulton County Treasurer was responsible for preparing financial reports including bank reconciliations, debt schedules, and capital asset schedules. The county treasurer is also responsible for performing the payroll function. While it may be customary for the county treasurer to perform these functions, the fiscal court failed to establish adequate management oversight to ensure proper recording of receipts, disbursements, debt balances, capital assets, and the completion of accurate bank reconciliations.

The following deficiencies occurred due to the lack of segregation of duties over these areas:

- The fiscal court did not accurately report financial information, including fund balances, as reported in Finding 2016-002.
- The fiscal court did not accurately report liabilities and debt service amounts as reported in Finding 2016-003.
- The fiscal court did not properly account for payroll as reported in Finding 2016-004.
- The fiscal court did not maintain complete and accurate capital asset schedules as reported in Finding 2016-005.

The fiscal court failed to adequately segregate the duties involved in recording receipts, disbursements, and capital assets, processing payroll, and preparing monthly bank reconciliations. Management also failed to provide adequate oversight regarding the county treasurer's preparation of financial reports. The lack of adequate segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

The segregation of duties over various accounting functions such as recording receipts and disbursements; preparing bank reconciliations; processing payroll; and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If proper segregation of duties is not attainable due to a small staff size, then appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports.

We recommend the fiscal court segregate the duties involved in recording receipts, disbursements, and capital assets, processing payroll, preparing bank reconciliations, and preparing monthly, quarterly, and annual financial reports where possible. If segregation of duties is not possible, due to the limited number of staff, strong oversight should be implemented. This oversight should include a documented review of financial reports by management.

County Judge/Executive's Response: This finding is relative to errors made by the previous County Treasurer. This is a typical finding where the administration of county government is provided by a limited number of employees. The fact there are a limited number of employees makes it difficult to involve an ample number of employees with the required experience to provide meaningful segregation of duties. The current County Treasurer has made arrangement to reach outside the Treasurers' office to other county employees to provide segregation of duties involving bank deposits, payroll and other fundamental activities. Additionally, the Treasurer will have the Finance Officer co-manage the capital asset account, bank reconciliations, financial reporting, etc.

The Fulton County Fiscal Court has material weaknesses over cash and financial reporting: The Fulton County Fiscal Court's fourth quarter financial report and the annual treasurer's settlement were both materially misstated. According to the fiscal court's fourth quarter financial report and annual treasurer's settlement, the total fund balance of all budgeted operating funds was \$885,583 as of June 30, 2016. The audited financial statement reports an ending fund balance of

\$837,507 for budgeted funds, a variance of \$48,076. In addition, the bank balance is reported as \$1,385,089 on the fourth quarter financial report while the audit financial statement reports the bank balance as \$842,367, a variance of \$542,722. Other control deficiencies noted were as follows:

- FEMA reimbursements of \$2,963 were not recorded on the receipts ledger.
- Homeland security grant of \$72,633 was recorded to the wrong account code. These federal grant receipts were recorded as interest - other investments instead of as intergovernmental revenues - federal grants.
- Telecommunications tax of \$407 was not recorded on the receipts ledger.
- Federal grant of \$7,500 was not recorded on the receipts ledger or appropriations ledger.
- Employer's share of retirement of \$42,463 was not recorded on the appropriations ledger.
- Employer's share of social security and employer's share of insurance of \$10,395 and \$24,362, respectively, were recorded on the appropriations ledger but never transferred to the payroll revolving account.

The variances and misstatements noted are the result of a weak internal control system over the cash and financial reporting system, including a lack of segregation of duties. Because of this weak internal control system, the transactions posted to the receipts and disbursements ledgers are not always in agreement with the actual transaction amounts, especially with payroll transactions. Additionally, receipts and disbursements were not always posted to the appropriate account code per the Department for Local Government's (DLG) chart of accounts. When transactions are posted incorrectly, these misstatements occur.

Strong internal controls over cash and financial reporting are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. To remedy the misstatements associated with cash and financial reporting, we recommend the fiscal court implement stronger internal controls. Internal controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly financial report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact, and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can strengthen its internal control system, and help ensure accurate financial reporting.

County Judge/Executive's Response: This finding is relative to various errors made by the previous County Treasurer. It appears several basic accounting functions were in error creating various misstated balances in accounts. The Treasurer at that time did very little to involve others in the performance of accounting duties resulting in this material weakness. Going forward, the current Treasurer has installed practices that will remedy this situation. When the newly retained private auditors begins the following year audit, we will require they make the necessary adjustments in the appropriate accounts to correct these errors so the correct balances will be reflected on future financial statements.

Material weaknesses exist over the reporting of liabilities and debt: This is a repeat finding and was included in prior year report as Finding 2015-004. Material weaknesses exist over the reporting of liabilities and debt of the Fulton County Fiscal Court. The June 30, 2016 outstanding debt balances reported on the fourth quarter financial report were misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$3,043,564 as of June 30, 2016. Long-term liabilities had an audited balance of \$3,805,199, which caused a material variance of \$761,635.

The fiscal court failed to have a strong internal control system over liabilities and debt service, and instead relied upon a single employee without sufficient oversight. As a result, the fiscal court's fourth quarter financial report was materially misstated. In addition, by not correctly reporting for outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the fiscal court strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the fiscal court consult with lenders to verify that outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's Response: The previous Treasurer did not correctly record data from various amortization charts resulting in a misstated financial statement. The remedy to this is simple. The current County Treasurer is balancing debt with current amortization schedules. Additionally, she will consult with the financial institutions involved with such debts to make sure the amortization schedule used for this reconciliation are current with those of the debt institution.

The Fulton County Fiscal Court has material weaknesses and noncompliances over payroll: The Fulton County Fiscal Court lacks adequate internal controls over payroll. The following findings were noted with Fulton County's payroll:

- The former county treasurer's timesheet was not filled out properly.
- A timesheet was not available for one employee.
- Two employees' wage rates did not agree with the approved salary schedule.
- One employee's wage rate was not approved by the fiscal court.
- Health insurance disbursements were not recorded and supported properly.
- Federal payroll taxes were not properly recorded, and the federal tax returns do not agree with the payroll records.

- Retirement reports do not agree with the payroll records, and retirement disbursements were not properly recorded on the disbursements ledger.

The Fulton County Fiscal Court failed to have strong internal controls in place and instead relied on a single employee without sufficient supervision. Because the fiscal court failed to have strong internal controls in place, the aforementioned findings occurred.

Strong internal controls over payroll are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in protecting the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 337.320(1)(b) requires every employer to keep a record of "[t]he hours worked each day and each week by each employee[.]"

In response to these findings, we make the following recommendations:

- Timesheets should be properly maintained for employees as required by KRS 337.320(1).
- Employees should be paid wage rates in accordance with the approved salary schedule.
- Each pay period, after payroll is processed, someone other than the person processing payroll should review the payroll records to check for accuracy.
- Health insurance disbursements should be reconciled to the amounts paid and recorded.
- Each month, the retirement reports should be reviewed for accuracy and reconciled with the payroll records and bank statements.
- Each month and each quarter, the tax returns should be reviewed for accuracy and reconciled with the payroll records and bank statements.

County Judge/Executive's Response: This finding is relative to errors made by the former County Treasurer. Several mistakes were made in managing the county payroll account. She failed to keep proper time sheets on one employee. In another instance an employee was paid but the approval of the rate was not reflected in the minutes of fiscal court meetings. She also failed to record the correct amount for health insurance, federal taxes and retirement. The current Treasurer now uses a professional payroll service which has corrected these deficiencies. The current Treasurer has improved the payroll process and we have not experienced these type difficulties since this audit period.

Weak internal controls resulted in a material misstatement on the county's schedule of capital assets: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. Material weaknesses exist over the reporting of capital assets of Fulton County. The fiscal court's schedule of capital assets for the period of audit was materially misstated because the fiscal court failed to recognize all asset purchases that occurred throughout the year. Construction in progress was misstated by \$3,088,166, vehicles and equipment and infrastructure were misstated by \$265,448 and \$254,004, respectively. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. Furthermore, some asset additions were not properly authorized in the fiscal court minutes.

The fiscal court failed to emphasize strong internal controls over the reporting of capital assets and infrastructure, and instead relied on a single employee without sufficient supervision. However, according to county personnel, there was confusion as to who was responsible for updating the capital asset list; therefore, it did not get updated throughout the year. By having weak internal controls over capital assets, they are left vulnerable to misappropriation or misstatement. In this case, undetected misstatements were able to occur.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement." The manual also states, "[a]n 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." Furthermore, the manual states, "[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by the authorized personnel and documented accordingly."

In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. This system should be applied consistently in accordance with the county's capitalization policy. Also, all asset additions and retirements should be properly authorized by the fiscal court and documented in the fiscal court minutes. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's inventoried assets.

County Judge/Executive's Response: This finding is relative to the previous County Treasurer not posting expenditures of a capital nature to the capital asset ledger. During the construction of improvements at the jail, the previous Treasurer did not post construction expenditures to the asset ledger. This issue was influenced by the fact that Fiscal Court did not make those expenditures direct from a county bank account. The county borrowed construction funds from KACO and a trustee was established that issued all payments from a county loan account managed by the Trustee. Although the Fiscal Court approved all payments, the Treasurer did not issue the checks. The absence of Treasurer issuing the check contributed to asset journal posting errors. However, the previous Treasurer should have been aware that the trustee payments were being made and that would have triggered the requirements for asset ledger adjustments. Going forward, the current Treasurer is mindful of this requirement and all future capital expenditures, including those made by a trustee, will be posted to the asset ledger resulting in the correct capital asset balances. Another practice established by the current Treasurer is to post to the asset ledger during the year when capital expenditures are being made. Additionally, there was an error when the previous County Treasurer failed to post the value of a leased road grader to the capital asset

ledger. There is a difference in interpretation between the auditor and management relative to this lease. It is the county's opinion that this was a straight lease and at the end of the lease period the grader would be turned back to the vendor with not future obligation on either party's part regarding interest in the grader. That being the case, posting of the value of the grader to asset ledger would not be appropriate because the county was not acquiring any interest in the grader except a temporary leasehold interest. The auditor, on the other hand, has a different interpretation of whether the expenditure is capital or operating. The fact that the vendor issued a amortization schedule for the lease, meaning the lease payment include interest and principal and the fact there was an option to purchase at the end of the lease made the grader a capital purchase subjecting the payment of the lease, to recording, at the face value of the grader, as a capital expenditure. On the county's side of the purchase, the Fiscal Court never intended to exercise the option to purchase the grader and considered the acquisition to be an operating expense, not a capital expense. Going forward the Fiscal Court will be more mindful of the difference in capital and operating expenses and post accordingly. The Fiscal Court will improve upon the county inventory of assets. The auditors have rightfully pointed out the weaknesses in the current inventory system.

The Fulton County Fiscal Court lacks internal controls over the bid process: This is a repeat finding and was included in the prior year audit report as Finding 2015-005. The Fulton County Fiscal Court lacks controls over their bid process, specifically the bid process for jail related expenditures. Twenty-one disbursements for jail construction were made without proper bidding procedures in the amount of \$3,281,737. The former jailer was responsible for advertising and collecting bids for the jail construction project as well as other jail related expenditures. The former jailer manipulated the bid process and did not allow for fair competition. Additionally, for some expenditures, no documentation could be provided to ensure that bids had been made. Two disbursements for the food services contract and one disbursement for a vehicle in the amount of \$71,587 and \$23,000, respectively, were made without documentation of these items being bid.

This control deficiency is due to weak controls over the bid process, and an oversight by the Fulton County Fiscal Court. Due to the weak controls over bids, the Fulton County Fiscal Court is not in compliance with KRS 424.260, and there is a higher risk of misappropriation of funds.

KRS 424.260(1) prohibits a county from entering into a contract for equipment “involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” We recommend the fiscal court adhere to the bid process, implement strong internal controls over that process and for any purchase over \$20,000, and keep accurate records of those bids.

County Judge/Executive's Response: This finding goes back to the previous Jailer having manipulated the bid process for which he was convicted in federal court. The Fiscal Court was informed by the Jailer that proper documentation was in hand and all purchase receipts, etc. were in the proper file. What the Fiscal Court did not know, at the time, was the Jailer had perpetrated an act of disguise and misrepresented the facts in an effort to receive kickbacks to himself. In order to accomplish this act, the Jailer misrepresented facts and documentation to the Fiscal Court. Proper bids were advertised in the local newspaper and proper procedures were followed. The breakdown in compliance with the law occurred after bids were advertised by the Fiscal

Court. To say the Fiscal Court lacks internal control over the actions of the Jailer is a fair statement. The Fiscal Court trusted the Jailer and everything he told them. The weakness in this instance is the trust the Fiscal Court had given the Jailer for years. The Jailer had provided many very good contributions for the county with jail assets and was in good standing with the KY Department of Corrections and held in high esteem by his colleagues. That trust was strong until occurrence as outline in this finding materialized and that is when the Fiscal County reacted to these issues by informing appropriate investigative authorities of potential violations. The finding implies the Fiscal Court acted improperly when in fact it was the Jailer that was violating the law. Perhaps the Fiscal Court could have been more aware of activities at the jail over the years but when the evidence was clear, the Fiscal Court did the proper thing and informed authorities of potential irregularities. The Fiscal Court had adopted a comprehensive procurement plan that will eliminate the reoccurrence of this type finding. The current Jailer is following the new procurement regulation in detail. This plan is recorded in the county's Administrative Code as Chapter 9.

The Fulton County Fiscal Court did not have adequate controls over disbursements, especially in the jail fund: This is a repeat finding and was included in the prior year audit report as Findings 2015-006 and 2015-007. Internal controls over disbursements were not operating as intended during Fiscal Year 2016. The Fulton County Fiscal Court had the following control deficiencies over disbursements:

- Twelve of 123 invoices had either missing or insufficient documentation. These invoices totaled \$38,426 and all invoices but two totaling \$936 were invoices from the jail fund.
- Two of 123 invoices were paid prior to the fiscal court's approval. These invoices totaling \$10,350 were from the jail fund.
- Two of 123 invoices were not recorded correctly on the disbursements ledger. These invoices were from the jail fund.
- Fourteen of 123 invoices were paid after 30 days. These invoices totaling \$11,660 were from the jail fund.
- Two of 123 invoices had purchase orders made after the check was cut, and one purchase order was inconsistent with the check. These purchase orders were all issued on jail fund disbursements.
- Four of 19 credit card invoices were missing receipts or itemized receipts. Three of these credit card invoices were from the jail fund.
- Four of 19 credit card invoices had finance charges added on. These invoices were from the jail fund.
- Many of the invoices tested did not have the date received written or stamped on the invoice.
- Reconciliations, check writing, and posting to the ledgers are all done by the treasurer, and there are no signs that those items were reviewed by another person in the office.

The weakness over disbursements were caused by oversights by the former treasurer and fiscal court, as well as a weak control environment. Due to the control weaknesses over disbursements, there is an increased risk of misappropriation of assets.

Strong internal controls require proper documentation to be kept for every disbursement and each disbursement should be recorded accurately. They also should require transactions to be approved by the fiscal court prior to being paid, and once approved, they should be paid in a timely manner. KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” We recommend the Fulton County Fiscal Court strengthen internal controls over disbursements.

County Judge/Executive’s Response: This finding is part of the jail issues discussed elsewhere in this audit. The Jailer, a Constitutional Officer, chose to act outside protocol which prompted this finding. After several complaints from the County Judge’s office the Jailer continued to not follow procurement procedures. There were multiple occasions when the current Treasurer and County Judge refused to make disbursements when procedures were not followed. In some cases the Jailer would attempt to disguise the payment or move the payment to the commissary account where the administrative office of the Fiscal Court had no oversight. Past irregularities at the jail are acknowledged herewith. Going forward, the new Jailer is making all purchases in accordance with the Procurement Code adopted by the Fiscal Court and the current Treasurer is strictly enforcing adopted policies and KRS.

County Jailer’s Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. It is a purchase order system with all invoices going to the treasurer for processing. Invoices are coded by line item and are not paid until approved by the Fiscal Court. All credit card receipts are to be itemized and are to include signatures. As for receiving, we have three separate employees, one employee depositing, one employee able to write the checks and another to reconcile the checking accounts. Employees will be signing off with others on the daily cash check out sheet. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

The Fulton County Detention Center lacks adequate segregation of duties over the jail commissary fund: The Fulton County Detention Center lacks adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as: daily checkout procedures, deposit preparation, bookkeeping, and bank reconciliations. Though the former jailer had some controls in place and was responsible for reviewing the bookkeeper’s work, the reviews were not always documented.

A lack of segregation of duties or strong oversight increases the risk that undetected errors or fraud could occur. This lack of segregation of duties is caused by the diversity of operations with a limited number of bookkeeping staff.

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the jailer segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated due to a limited number of staff, strong management oversight by the jailer or designee can be a cost effective alternative. This oversight should include reviewing monthly bank reconciliations and ledgers, and requiring dual signatures on checks. Documentation, such as the jailer's or a designee's initials or signature, should be provided on those items that are reviewed.

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. We have three different employees performing different duties at this time (depositing, issuing checks and reconciliations). With additional oversight and appropriate documentation of reconciliation this finding will be remedied. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

The Fulton County Detention Center has internal control weaknesses over disbursements of the jail commissary fund: This is a repeat finding and was included in the prior year audit report as Finding 2015-012. The Fulton County Detention Center has internal control weaknesses over disbursements made from the jail commissary fund. During testing the following issues were noted:

- Five of 22 invoices were missing. These invoices totaled \$903.
- One of 22 invoices was not itemized. This invoice totaled \$2,681.
- Two of 22 invoices had questionable authenticity. These invoices totaled \$648.
- One of 22 invoices was for the purchase of employee meals. This invoice totaled \$201.

The weaknesses over disbursements were caused by oversights of the staff and former jailer, as well as a weak control environment. Due to the control weaknesses over disbursements, there is an increased risk of misappropriation of assets, and the detention center is not in compliance with KRS 441.135.

Strong internal controls require proper documentation to be kept for every disbursement. KRS 441.135 requires all disbursements made from a commissary account to be for the benefit of the inmates. We recommend the Fulton County Detention Center keep itemized records of all receipts and invoices and to only use the jail commissary fund for reasons that benefit the inmates.

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process

used now should be in accordance with the law and with standard accounting principles. As per the canteen fund, we are making sure all invoices are accounted for before issuing payment. Those invoices are to be itemized and only the original receipts are to be accepted. Employee meals should never be purchased with canteen funds. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

Long-term financial obligations were not in compliance with KRS 65.117: The Fulton County Fiscal Court entered into two long-term financial obligations during Fiscal Year 2016 without giving the proper notification to the state local debt officer. The fiscal court entered into a five-year financing obligation in the amount of \$415,000 for HVAC units at the detention center. Additionally, the fiscal court entered into a four-year financing obligation in the amount of \$248,052 for a John Deere grader for the road department.

According to KRS 65.117, “[n]o city, county, urban-county, consolidated local government, charter county, or special purpose governmental entity as defined in KRS 65A.010 shall enter into any financing obligation of any nature...without first notifying the state local debt officer in writing.” According to the county judge/executive, he was unaware of the requirements of KRS 65.117. As a result, the fiscal court is not compliant with KRS 65.117.

We recommend the fiscal court comply with KRS 65.117 by making the proper notification to the state local debt officer prior to issuing any sort of debt instrument.

County Judge/Executive’s Response: This finding is based upon the requirement that any capital expenditure in excess of \$500,000 be approved by the state debt officer and that any lease over \$200,000 be reported to the state debt officer. My opinion is the \$410,000 HVAC system for the 300 Block at the jail was reported to the state debt officer. It was reported as part of a \$3,020,608 jail expansion that was approved by the state debt officer. The HVAC lease in question was a part of a larger project that was properly reported and approved in accordance with KRS. If the \$410,000 had been reported again and it would have been a duplication causing a misrepresentation of the county’s financial statement. The lease for the HVAC was a mechanism to finance the HVAC system that had been previously reported to the state debt officer. The second part of this finding involves the grader lease discussed in Finding 2016-005. I was unaware of the requirement to report long term financial obligations to the state debt officer. Again, we saw the grader lease as an operating lease, not a capital lease. Since the auditor has classified such leases as capital and I now have the knowledge that long-term financial obligations are required to be reported to the state debt officer, we will correct similar situations in the future.

Auditor’s Reply: Additional documentation provided by the county judge/executive did not support his claim that the lease for the HVAC system was part of the jail expansion project.

The Fulton County Fiscal Court's fourth quarter financial report failed to meet the requirements of KRS 68.360: Fulton County Fiscal Court's fourth quarter financial report did not meet all of the requirements of state statute. No documentation exists to support that the fourth quarter financial report was completed within 15 days after the end of the fiscal year, approved by the fiscal court, or submitted to the state local finance officer as required by KRS 68.360. Additionally, operating funds were not properly reconciled and unencumbered balances were not disclosed by including encumbrances. The ending cash balances per the reconciliation included on the financial cover sheet of the fourth quarter financial report did not agree to the cash balances per the financial report section for any fund. The ending cash balances per the reconciliation were \$496,534 more than the cash balances per the financial report section.

The former county treasurer resigned her position near the end of May 2016. According to county personnel, there was some confusion as to who was responsible for the fourth quarter financial report because of the turnover in the county treasurer's position. As a result, the fiscal court was not in compliance with KRS 68.360(2). In addition, the fourth quarter financial report did not show the unencumbered cash balance as of June 30, 2016, to help management and other users determine the financial position of the fiscal court.

According to KRS 68.360(2), "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund. The county judge/executive shall post the statement in a conspicuous place in the courthouse near the front door for at least ten (10) consecutive days, and transmit a copy to the fiscal court and to the state-local finance officer. The statement shall be read at the next meeting of the fiscal court." Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires this information to be presented on the quarterly financial reports.

We recommend the fiscal court comply with KRS 68.360 and KRS 68.210 by meeting all criteria outlined in the statutes.

County Judge/Executive's Response: The County Treasurer resigned in May of 2016 and we appointed the Finance Officer to the Treasurer position in late May. The former Treasurer did not have the financial records of Fulton County in proper order which lead to this finding. The current Treasurer is correcting these practices and this type of finding should not repeat in the future.

The Fulton County Fiscal Court failed to budget transactions associated with borrowed monies: The Fulton County Fiscal Court entered into a lease purchase agreement totaling \$248,052, without first budgeting for the receipt and disbursement of these funds. The lease agreement was for the purchase of a road grader for the road department. The agreement was entered into with the manufacturer of the grader; therefore, the fiscal court did not actually receive the lease proceeds.

According to fiscal court personnel, the fiscal court did not budget for the receipt and disbursement of these funds because they were not run through the fiscal court's finance office. Therefore, these transactions were never posted to the receipts or disbursements ledgers. As a result, the road fund's machinery and equipment disbursements were over budget by \$248,052 after the necessary financial statement adjustments were made. Therefore, the fiscal court was not in compliance with KRS 68.300.

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 within budget appropriation, shall be void." KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby."

We recommend the fiscal court comply with KRS 68.300 by budgeting all fiscal court transactions, including those handled by a third-party lender.

County Judge/Executive's Response: Again, this finding is about the grader lease. We did not budget this as a capital expenditure because we did not consider it to be capital but thought it to be an operating lease. Going forward we can correct similar expenditures accordingly.

The Fulton County Detention Center failed to batch receipts daily: This is a repeat finding and was included in the prior year audit report as Finding 2015-010. The Fulton County Detention Center did not batch receipts daily as required by KRS 68.210, but instead batched them weekly.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires receipts to be deposited and batched daily. Strong internal controls put in place will ensure that this KRS is met and risks over receipts are minimized.

This material weakness is due to a lack of oversight by the jailer and the Fulton County Detention Center staff, and a weak internal control process. As a result, the Fulton County Detention Center is not in compliance with KRS 68.210 and receipts are put at a higher risk of misappropriation.

We recommend the Fulton County Detention Center batch and deposit all receipts daily.

County Jailer's Response: This audit is from 2015-2016. I was appointed in August of 2017. The corrective action plan was already in place before I began as Fulton County Jailer. The process used now should be in accordance with the law and with standard accounting principles. The batching and depositing of receipts will be made daily with the accompanying daily cash check out sheet. If there are no monies to deposit that day, appropriate documentation is to be made. As we continue to review the audits and findings from the past, there will undoubtedly be additional issues. I firmly believe that the system and controls as of this date are within the statutes and guidelines and anticipate cleaner audits to come as they work towards the current years.

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

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