



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Knott County Fiscal Court

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

The Knott County Fiscal Court did not properly handle disbursement transactions. This is a repeat finding and was included in the prior year audit report as finding 2015-007. During the course of our audit we found the following noncompliance with disbursements:

- Twenty-seven invoices totaling \$1,015,203 were not paid within 30 working days.

The county used credit cards for a variety of purposes during Fiscal Year 2016, including conferences, gasoline, and meal purchases. Credit card use is allowable for county business. Our test of credit card purchases found the following:

- Accrued and paid interest charges totaling \$315.

Interest accrued on these invoices because the fiscal court did not pay the invoices within 30 days.

KRS 65.140(2) states that “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performance or improper invoicing by the vendor or by the vendor’s subcontractor.” If a payment of an invoice exceeds 30 days, a one percent interest penalty should be added according to KRS 65.140(3).

We recommend that the fiscal court implement controls over disbursements to ensure that all invoices are paid within 30 days.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s response: The credit card receipts have to be collected and attached to the statement. The bill is then coded and checks written from the accounts necessary. These checks have to be signed with two signatures before mailing. The bill does not come in a timely fashion for these procedures to be done. We will make an effort to get them signed and mailed quicker.

The treasurer did not prepare an accurate liability schedule. This is a repeat finding and was included in the prior year audit report as finding 2015-003. The June 30, 2016 outstanding debt balances reported on the fourth quarter financial report did not agree to the actual debt balances confirmed with lenders. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. The Department for Local Government requires all counties to include a complete and accurate liabilities schedule with their quarterly reports.

We recommend the fiscal court ensure that the county treasurer maintain a complete and accurate liabilities schedule in the future.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s response: The jail information was not readily available in this timeframe and {Bank} doesn’t send their statements in time to be properly documented. The jail information should be available in a timely manner in the future and we will request information from {Bank} to be sent sooner.

Fund transfers were not approved by the fiscal court. The Knott County Fiscal Court did not approve fund transfers before executing them. Failing to oversee cash transfers resulted in unauthorized transfers. Without proper approval from the fiscal court, county funds could be misappropriated or misused. As stated in the *County Budget Preparation and State and Local Finance Officer Policy Manual*, all transfers require a fiscal court order. We recommend the county treasurer present all line item budget transfers to the fiscal court to ensure expenditures do not exceed budget.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's response: Any transfers are reflected in the budget or amendments. These are approved by the Fiscal Court already.

Auditor's Reply: While transfers are reflected in the budget or amendments, transfers should be approved by the fiscal court in advance, not after the transfers have been made.

The fiscal court lacks adequate internal controls at the Knott County Sportsplex. This is a repeat finding and was included in the prior year audit report as finding 2015-006. Our review of the receipts and disbursement process for the Sportsplex revealed weaknesses in internal controls that should be addressed.

The Knott County Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. The Sportsplex maintains cash registers at the front desk, the inside concession stand, and the outside concession stand. Change funds are maintained at the driving range and at the front door during ticket sales. During basketball season, referees are paid out of the front door cash receipts. Receipts are not issued for collections at the concession stand, driving range, and arcade. The Sportsplex director and another employee count the cash each morning and prepare a daily checkout sheet. The Sportsplex director faxes the daily checkout sheet to the county treasurer and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business.

The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process. Due to the high volume of cash transactions and not accounting for significant amounts of revenue, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected. This procedure should be observed at the front desk, the concession stand, and the driving range.
- All checks should be copied and detailed on the deposit ticket with a name to identify collections.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected.
- All disbursements paid to referees should be made by check only.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's response: The County is willing to implement as many of the Auditors' suggestions as possible.

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

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