



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Logan County Fiscal Court

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

The Logan County Jail did not have sufficient internal controls or maintain proper records for the jail commissary fund. The Logan County Jail had the following deficiencies:

- Lack of segregation of duties because the bookkeeper collects money, makes deposits, prepares daily checkouts, writes checks, prepares ledgers, and reconciles the jail commissary account.
- No daily checkout sheets were being maintained to support receipts that were collected or deposited.
- Deposits were not made daily.

- Deposits including significant amounts of cash, were left in the collection machines for long periods of time without being collected and deposited into the bank account. Several deposits included collections of over a week's worth of receipts.
- Receipts were prepared by computerized software; however, receipts were not provided to inmates or batched daily to prepare the deposit of the days funds.
- Jail fees were not turned over to the county treasurer in a timely manner. For example, October 2015 fees were not received by the county treasurer until January 12, 2016.

The lack of segregation of duties occurred because the jail's budget for staff is limited. The other deficiencies were caused by a lack of internal controls in addition to a lack of experience by the new jailer and new bookkeeper who lacked knowledge of accounting requirements under state statutes and the Department for Local Government. By not segregating incompatible duties, the opportunity for errors, inaccurate financial reporting, and misappropriation of assets increases. By not implementing adequate internal controls and preparing accurate records timely for the jail commissary fund the opportunity for errors, inaccurate financial reporting, and misappropriation of assets increases due to complete documentation not existing for comparison to financial records. The possibility of theft increases by keeping cash on site instead of depositing daily.

Adequate segregation of duties prevents the same person from having a significant role in incompatible functions. Compensating controls can offset this control deficiency. In addition, implementing adequate internal controls over the jail commissary activities is essential for providing protection from asset misappropriation and inaccurate financial reporting. Also, internal controls protect employees in the normal course of performing their daily responsibilities, give them detailed guidance in their job duties, and ensure compliance with state laws and regulations. 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 Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jails for jail commissary funds maintained pursuant to KRS 441.135. These guidelines include preparing a daily checkout sheet, making daily deposits, and preparing accurate bank reconciliations. In addition, KRS 441.265 requires that all fees received for prisoner reimbursement be turned over to the county treasurer to be included in the jail's budget. Good internal controls dictate that accurate records be maintained and prepared in a timely manner to ensure financial information is available to the official to make management decisions and for budgeting purposes.

We recommend duties be segregated or oversight be implemented when duties cannot be segregated. In addition, internal controls over the jail commissary fund should be strengthened. We also recommend the jail maintain proper accounting records by preparing a daily checkout sheet for each day, batch the receipts to agree to the daily checkout sheet, and make deposits daily. We further recommend the jail complete the monthly jail fee report and turn over those fees to the county treasurer in a timely manner. Lastly, the jail should perform a monthly bank reconciliation on the jail commissary account and ensure that all transactions have either been accounted for or followed up in an efficient manner.

County Judge/Executive's response: The county judge/executive did not provide a response.

Jailer's response: Two Individuals will gather and count the money and then a third individual to receive the money from the first two individuals and count the money again. Then the Jailer or a fourth individual will take the money to the Treasurer, Circuit Court Clerk, and to the bank. The Jailer or fourth individual will get a receipt from the Treasurer, Circuit Court Clerk, and the bank. There will also be a log/sign sheet attached to the daily check out sheets. Bookkeeper will not have access to the money at any time.

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

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