



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 Mason County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Mason County Fiscal Court for the fiscal year ended June 30, 2019. 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 Mason 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 Local Government Economic Assistance fund had a negative reconciled fund balance of \$2,049: The Local Government Economic Assistance (LGEA) fund had a negative reconciled fund balance of \$2,049 as of June 30, 2019. The negative balance was caused by approved disbursement payments being prepared for items that exceeded the budget. To offset the negative balance, the treasurer made an adjusting journal entry to back off the outstanding checks. However, these checks cleared resulting in a negative fund balance. As a result, the auditor had to make an adjustment to reverse the adjusting journal entry made by the treasurer. Without the auditor making an adjustment, the treasurer's quarterly report falsely reports the fund's balance as positive, rather than negative, which gives the impression the fund is solvent when it is not.

The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires purchase orders not be issued unless adequate funds are available to cover the expenditure. Also, under duties of county treasurer, the county treasurer should only countersign checks if there is sufficient fund balance and adequate cash in the bank to cover the check. Furthermore, good internal controls dictate monthly bank reconciliations are performed that provide an accurate and complete record of the county's fund balance. We recommend the fiscal court monitor fund balances to ensure sufficient funds are available prior to authorizing and approving payments. Furthermore, journal entries should only be used on documentable errors, not to balance an account.

County Judge/Executive's response: I will be more careful in the future of my account balances and will make the necessary cash transfers to prevent negative balances from occurring again. I understand a journal entry is not the way to correct a negative balance.

The Mason County Jailer did not prepare an annual commissary report: The jailer did not prepare an annual commissary report and submit it to the county treasurer. According to the jailer, this was due to oversight. Further, the jailer does not have controls in place to ensure an annual commissary report is prepared and submitted to the county treasurer. The failure to maintain accurate, detailed reports does not provide a true picture of the activities within the jailer's accounts. It also increases the risk of errors, fraud, misstatements, or omissions.

KRS 441.135(2) states in part, "[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines an example of an annual commissary report that may be used for the year-end report submitted to the county treasurer pursuant to KRS 441.135(2). We recommend the jailer prepare an annual commissary report and submit it to the county treasurer.

County Jailer's response: As the elected Jailer of Mason County, I accept all responsibility for the failures of the individuals who I entrust to ensure their responsibilities are completed. As the Jailer, I have re-evaluated the responsibilities of the Commissary and Class D position. The individual who was responsible for this report is no longer employed with our agency. As the current individual who was given this responsibility did not follow up or in a timely manner or report the issue to my office, has been relieved of many of her current responsibilities until a re-evaluation of this position is completed.

As I was unaware this report was not received in a timely manner by the Mason County Treasurer's Office, or the Mason Fiscal Court, it was my understanding from the individuals I had placed in a position of responsibility the report had been forwarded. I have until the reorganization of the Commissary and Class D Coordinators position have placed our Internal Affairs Manager in direct supervision of this area. Internal Affairs shall report to me on a daily basis of the actions taken place in this area.

The Mason County Jailer did not maintain receipts and disbursements ledgers: The Mason County Jailer did not maintain a receipts ledger. Receipts should be posted to a receipts ledger on a daily basis. Each days total for all receipt categories should agree with the amount deposited line on the daily checkout sheet. A list of checks provided by the jailer was used for a disbursements ledger in order to develop a sample for testing. However, that is not a true disbursements ledger. Each check written must be posted to the proper category listed on a disbursements ledger. According to the jailer, she was unaware receipt and disbursements ledgers were not being maintained. After discussion with her new bookkeeper, they have not been able to retrieve these ledgers from their jail commissary bookkeeping software. Further, the jailer does not have controls in place to ensure ledgers are prepared. Receipts and disbursements ledgers are necessary to properly reconcile the bank account, and to compile receipts and disbursements for the annual commissary report. KRS 441.135(2) states in part, “[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen[.]”

The Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* has an example of a jail commissary receipts journal and jail commissary disbursements journal that may be used for the ledgers. Also, good internal controls require receipts and disbursements ledgers be maintained. We recommend the jailer ensure that receipts and disbursements ledgers are maintained for the jail commissary. If the jailer is unable to retrieve the ledgers from the software, we recommend manual ledgers be prepared in order to comply with jail commissary bookkeeping requirements.

County Jailer’s response: As this note of issue that the Mason County Detention Center did not maintain receipts and disbursements ledgers is not completely correct. Upon notification of this issue I discussed with our Internal Affairs section to review this item. It was reported to me by Internal Affairs Manager that the receipts and disbursements ledgers could have been made available but would have taken someone who was more familiar with the [software name] program than our current Class D Coordinator who was responsible for this information. All income and disbursements are entered in the [software name] program. All receipts are kept and filed with the Class D Coordinator. The deposits are complied, listed and filed in this area and can be found on all deposit slips with the totals on the [software name] program. These could have been found by reviewing all deposit receipts as the current Class D Coordinator had separated all receipts on the deposit slips. However the [software name] program is comparable to [another name] program in some aspects. What you put in is what comes out. The review by Internal Affairs advised me, these figures could be pulled but would take an amount of time but the receipts were kept but not in an easy access form. Also, that all receipts could be pulled from the [software name] program on a monthly and yearly basis for totals via the report tab in the program. These issues are easily correctable with how we enter the amounts in the programs. When asked for this information, it was found the responsible party did not understand the terminology of receipts and disbursements, thus giving the auditor a false impression of the location of said information.

With regard to the disbursement section of this note, all disbursement records via checks are documented in the check tab of the [software name] program. All paper bills, statements and invoices are filed accordingly and could have been made available. However, once again, our Class D Coordinator did not understand what was being requested and did not follow up with management.

At this time recommendations from our Internal Affairs section has been made to my office as to eliminate the possibilities of misunderstanding and documentation of our records. This shall be finalized no later than July 1, 2020. Such actions shall include but not limited to reassignment of personnel and opening separation of financial accounts that was inherited to my office from previous administrations.

The Mason County Jailer does not have adequate segregation of duties over jail commissary transactions: The jail lacks adequate segregation of duties over jail commissary transactions. The bookkeeper for the jail commissary prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, posts to the disbursements ledger, and prepares monthly bank reconciliations. According to the jailer, the limited number of staff in the office at the jail prevents a proper segregation of duties. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements, which increases the risk that undetected misappropriation of assets and inaccurate financial reporting will occur. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

A strong internal control system requires the duties of receiving, recording, disbursing, and reporting be segregated in order to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the jailer has implemented some compensating controls, such as dual signatures on checks and recounting the daily deposits, they do not eliminate the risk associated with inadequate segregation of duties. We recommend a segregation of duties over jail commissary transactions. If these duties cannot be segregated, we recommend the jailer implement and document additional compensating controls to help offset this weakness:

- Recount the daily deposit and verify that it agrees to the daily checkout sheet.
- Agree daily checkout sheet to the receipts ledger and deposit slip.
- Review the monthly reports and agree them to the receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation and trace transactions to source documents.

The jailer should initial these documents as proof of her review.

County Jailer's response: As the Commissary section and our Class D section has been combined prior to my appointment as well as my election to the office of Jailer, I have been opposed to this combination since the beginning of my term as Jailer. It is not an excuse by my office by not demanding a separation of these responsibilities. With this audit I shall make the decision to separate these two areas of responsibilities. Upon my election I had such of a concern for this section I requested a private audit of the accounts from an independent auditing company. As I have on my staff in my Internal Affairs section, an individual who has experience with forensic auditing in law enforcement, areas of concern from his review came to light. Therefore, my request for the independent audit. With that particular audit, did not express the findings that I had suspected and was found by this audit.

The corrective action of this issue shall be the separation of the commissary and Class D Coordinators financial accounts. A separate account shall be for commissary as a standalone account in this area. Also implemented a manager level individual from our Internal Affairs sections shall be appointed to review, supervise, manage and approve any and all operations while reporting weekly to my office the operations of these two areas. A Review of the current staff in this area shall be implemented upon the appointment of the Internal Affairs manager to review and evaluate the constancy of individuals assigned to this section.

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

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