



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of McCracken County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the McCracken 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 McCracken 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 McCracken County Fiscal Court lacks internal controls over cash processes and financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The McCracken County Fiscal Court’s fourth quarter report cash balances do not agree to the county treasurer’s settlement for the following funds; general fund, road fund, jail fund, and the sheriff fund. The differences between these two reports were \$4,576, \$607, \$1,479, and \$4,269, respectively.

During Fiscal Year 2018, a batch of checks was created for payment in July 2018. Due to an error, these checks were dated June 28, 2018. This error caused the 2019 fourth quarter report to not

agree with the county treasurer's 2019 settlement. Proper internal controls requires financial reports to agree to each other or have a reconciliation between the reports.

We recommend the treasurer review and if needed reconcile all financial reports required by the Department for Local Government (DLG) for agreement.

County Judge/Executive's Response: A clerical error occurred at the end of FY18. A new accounts payable batch was created for July 2018 in order to pay certain items allowable by standing order. However, the checks were inadvertently dated 6/28/18, which made them appear in the wrong year. Accounts payable clerk has been instructed to watch dates carefully.

The McCracken County Jail lacks adequate internal controls over the inmate fund: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. The McCracken County Jail contracts with a third-party commissary company to oversee and maintain the inmate fund. The inmate fund is maintained solely by the commissary company. The commissary company receives cash, makes the deposits, posts transactions to the inmates' accounts, posts to the ledgers, prepares checks, and reconciles the account. Employees of the jail do not have access to any accounting records of the inmate fund, including resident transaction reports and bank statements.

Rather than implement internal controls over the inmate fund, the McCracken County Jail relies on the commissary company to oversee all accounting functions of the fund. A lack of adequate internal controls increases the risk of undetected fraud or errors.

Because the jailer is responsible for the inmates of the county, it is imperative for the jailer to provide sufficient oversight of all accounts associated with the inmates, including the inmate fund.

We recommend the McCracken County Jailer implement internal controls over the inmate fund. These controls should include the jailer or designee reviewing the inmates' accounts to ensure correct fees are being charged, deposits are being posted correctly, and inmate balances are being refunded properly upon release of the inmates.

County Jailer's Response: Actions have been put in place for us to have controls over the fund.

The McCracken County Fiscal Court lacks adequate segregation of duties over the collection of receipts: This is a repeat finding and was included in the prior year audit report as Finding 2018-004. The McCracken County Fiscal Court lacks adequate segregation of duties over the collection of receipts. The county treasurer prepares the deposit, posts the receipts to the ledger, and reconciles the bank statements monthly.

Due to the lack of internal controls in place, the duties associated with the custody, recordkeeping, reconciling, and authorization of receipts are not segregated. A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud. 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 county judge/executive segregate the duties noted above by ensuring that an individual independent of the cash receipts process review a daily checkout sheet documenting all receipts for the day and compare it to the daily deposit slip. We further recommend that an individual independent of the cash receipts process review postings to the ledgers and monthly bank reconciliations. Documentation, such as the reviewer's initials or signature, should be provided on those items that are reviewed.

County Judge/Executive's Response: A daily receipt log is maintained by the judge's executive assistant. The Treasurer will compare the log to deposits and receipts posting to the ledger. The deputy judge will review bank reconciliations and compare the cash recorded on log to receipts books and compare number of checks on log to receipts posting.

The McCracken County Fiscal Court did not approve cash transfers prior to making them: This is a repeat finding and was included in prior year audit report as Finding 2018-009. Throughout Fiscal Year 2019, cash transfers were made prior to being approved by the fiscal court. Some were later recognized by the fiscal court in future fiscal court meetings, while some were not recognized in the fiscal court meetings at all.

The current treasurer was trained by the former treasurer to make the cash transfers in this manner. Due to the lack of controls over cash transfers, the county's funds were at an increased risk of misappropriation. Strong internal controls require oversight over the movement of funds in order to reduce risk. The fiscal court is responsible for providing oversight to the treasurer and making the county's financial decisions.

We recommend that all cash transfers be approved and documented in the fiscal court minutes before the transfers take place.

County Judge/Executive's Response: Treasurer has implemented a process where cash transfers are approved by fiscal court prior to those cash transfers being made.

The McCracken County Fiscal Court lacks internal controls over a third-party administrator: This is a repeat finding and was included in the prior year audit report as Finding 2018-010. During Fiscal Year 2019, the McCracken County Fiscal Court approved health plans elected by employees, including plans that contained an employer funded Health Reimbursement Account (HRA). Each health insurance plan details the annual contribution to the HRA from the county. The McCracken County Fiscal Court has contracted with a third-party administrator to administer the HRA accounts. There is a lack of internal control over reviewing and reconciling account balances from the third-party administrator.

Due to the lack of internal controls and the fact reports are not provided by the third-party administrator, the account balances for employees were not reviewed nor reconciled to the county's records. Because of the lack of internal controls, errors can occur and remain undetected.

The county could be overcharged and employees could receive benefits not approved by the fiscal court.

Strong internal controls are vital in ensuring that employees' HRA amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding 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.

We recommend the McCracken County Fiscal Court implement internal controls over the third-party administrator and HRA accounts. Reports from the third-party administrator should be generated monthly, and the McCracken County Fiscal Court should review and reconcile the account balances to the county's records to ensure accuracy and that the county is paying for benefits approved by the fiscal court.

County Judge/Executive's Response: Effective January 1, 2020 the county will have a new third-party administrator for HRA/FSA plans.

The McCracken County Jail did not properly reconcile the commissary fund: The McCracken County Jail did not properly reconcile the jail commissary fund during Fiscal Year 2019. Furthermore, monthly reconciliations were not reviewed and approved by the jailer. Jail personnel did not know how to properly reconcile the jail commissary bank account. Due to the jailer not reviewing and approving the reconciliation, incorrect reconciliations were taking place monthly. Because the jail commissary account was not reconciled correctly, there is no assurance that funds were accurately recorded. This increases the likelihood of fraud or misuse.

Strong internal controls require all bank accounts to be reconciled properly on a monthly basis to ensure that all receipts and disbursements are properly recorded. Furthermore, reconciliations should be reviewed and approved by management.

We recommend the McCracken County Jailer implement internal controls over the monthly jail commissary fund reconciliation. These controls should include the jailer or designee reviewing and signing the monthly jail commissary fund reconciliation.

County Jailer's Response: This was corrected while the auditors were here and resubmitted to them with approval. The Jailer will sign off on reconciliation sheets every month.

The McCracken County Jail's annual commissary report was not in compliance with minimum accounting standards: Receipts and disbursements of the commissary account were not properly broken down by category on the jailer's annual commissary report. Due to the fact that the jail provides detailed monthly reports to the fiscal court, the jailer did not realize the necessity of presenting the year-end report in detail. Since receipts and disbursements were not properly broken down by category on the annual commissary report, the commissary report was not in compliance with minimum accounting standards required by KRS 68.210. Additionally, users are not able to determine where receipts originate from and how disbursements are spent.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual* requires the receipts and disbursements of the jail commissary to be categorized by type.

We recommend the jailer comply with KRS 68.210 by properly categorizing the receipts and disbursements of the commissary account and presenting the annual commissary report in detail.

County Jailer's Response: We have changed the form to be used in reporting so this will be in compliance with Accounting Standards.

The McCracken County Jail purchased vehicles with canteen funds for inmate transport: During Fiscal Year 2019, the McCracken County Jail purchased two Dodge Durango's with jail canteen funds. Per discussions with the jailer, these vehicles were used to transport prisoners for work programs, medical and dental appointments, as well as transfers. Vehicle logs or other type of internal control mechanism or documentation were not available to confirm the nature of the prisoner's transportation.

During the audit process, the jailer, stated that he believes that these vehicles are being used in compliance with the KRS. The jail canteen funds are being used for noncompliance purposes which reduces the amount of funds available to make purchases that benefit and enhance the well-being of the prisoners.

KRS 441.505(1) states, "[t]he fiscal court of each county shall provide for the transportation of prisoners as necessary from the jail budget."

KRS 441.135(2)(a) states all profits from the canteen shall be used "[f]or the benefit and to enhance the well-being of the prisoners; or [t]o enhance safety and security within the jail."

We recommend the McCracken County Jail keep logbooks in all vehicles. Keeping vehicle logbooks or other type of internal control mechanism or documentation will provide documentation to support the proper use of any vehicles purchased with canteen funds. In addition, all prisoner transportation that is not recreational, vocational, or medical in nature should be done with vehicles that have been purchased by the jail fund. Therefore, we recommend that the fiscal court and the jailer agree on a percentage amount that the vehicles were being used for inmate transport and that percentage will be used to calculate that amount of reimbursement the jail fund owes the canteen fund.

County Jailer's Response: We will continue to comply with all sections of KRS 441.135 including sections 2(a) and (b) as well as sections (3). By doing so we shall remain in compliance.

Auditors' Reply: The jailer's response implies that the McCracken County Jail is in compliance with State Laws and Regulation when in fact they are not in compliance with KRS 441.505(1) and KRS 441.135(2)(a).

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

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