



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Ohio 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 Ohio 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 Ohio County Detention Center lacks adequate controls over commissary transactions and inmate fees. This is a repeat finding and was also included in the prior year audit report as Finding 2015-001. The jailer prepares deposits, prepares checkout sheets for inmate fees, handles cash collected, and approves and signs commissary checks. Cash is collected by all deputies with only manual written receipts as documentation. No ledgers were being maintained to track inmate fees charged or collected. Auditors noted one instance in which an inmate paid all of his weekender fees in advance; however, auditors did not have records to show how many days the inmate was paying for and therefore could not determine if the correct fee was charged. During review of internal controls, auditors also noted no key controls in place to prevent the misappropriation of assets and inaccurate financial reporting.

According to the jailer, this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire for accounting functions. Without the proper internal controls, the jailer creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate that duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, collection of cash, and preparation of checks be segregated in order to lower the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained in order to ensure all fees collected are deposited by the county treasurer. We recommend the Ohio County Detention Center implement internal controls over commissary transactions and inmate fees collected.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: The Ohio County Detention Center utilizes [vendor name redacted] to provide Commissary for Inmates. Inmates maintain possession of their own currency to purchase commissary items from vending machines located in the multi-purpose room of The Ohio County Detention Center. Policy and Procedure on Control over Inmate Fees is included in The Policy and Procedure for Controlling Cash Items.

The Ohio County Detention Center did not properly utilize their accounting software to maintain records. This is a repeat finding and was also included in the prior year audit report as Finding 2015-002. The Ohio County Detention Center has purchased accounting software; however, the detention center employees were not utilizing the software properly. The software can be used to maintain accounting records such as receipts and disbursements ledgers, maintain inmate accounts, generate reports showing fees collected and owed to the fiscal court, as well as other functions. However, the detention center was not using the software to maintain any accounting records.

According to the jailer, the detention center had been having issues with the software and felt that the system was not doing everything that he needed it to do. Beginning in the next fiscal year ending June 30, 2017, auditors noted the software was being used to maintain inmate records and to record fees charged and collected from the inmates. By not properly utilizing the accounting software, the detention center did not maintain accurate accounting records.

Good internal controls dictate the detention center maintain accurate account records and ensure all fees are collected and recorded properly. We recommend the Ohio County Detention Center maintain the proper accounting records and utilize the software they have purchased.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: As of July 2016 The Ohio County Detention Center utilizes [vendor name redacted] accounting software to maintain record of Inmate fee payments and fee balances.

The Ohio County Detention Center did not maintain all inmate reports. This is a repeat finding and was also included in the prior year audit report as Finding 2015-003. The Ohio County Detention Center did not maintain inmate reports to document fees paid for all inmates. Auditors reviewed inmate files for four inmates and noted one inmate did not have an inmate report to document fees paid. According to the jailer, he attempted to maintain documentation for all inmates, yet the inmate report for this particular inmate was an oversight. Starting with the fiscal year ending June 30, 2017, the jailer is maintaining all inmate reports in the accounting software. By not maintaining all inmate reports, there is no supporting documentation to show how much the inmates have paid. Inmates could have overpaid or underpaid fees. Good internal controls dictate that proper records are maintained to ensure that all inmate fees are paid and that accurate amounts are paid. We recommend the Ohio County Detention Center maintain proper inmate reports.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: As of July of 2016, The Ohio County Detention Center utilizes [vendor name redacted] accounting software to maintain record of Inmate fees paid and owed. The Policy and Procedure for Controlling Cash Items facilitates the process for maintaining record of Inmates fees that are paid, and an outstanding balance contract submitted to the Ohio County District Attorney facilitates the process for maintaining record of fees not paid.

The Ohio County Detention Center did not have policies and procedures over the cash system. The Ohio County Detention Center does not maintain inmate accounts. When inmates are admitted to the detention center, they are allowed to retain cash in their possession. Therefore, all fees are paid individually by the inmates in cash when released from the detention center. Inmates also use cash to make commissary purchases from a vending machine. The detention center does not have written policies and procedures over these processes. Since the detention center is small, the jailer feels that by not maintaining inmate accounts he can save time and paperwork. The jailer only has a part-time bookkeeper, so he does most of the bookkeeping.

By not having set policies and procedures over the cash system, the jailer is increasing the risk of misappropriation of assets and inaccurate financial reporting. Good internal controls dictate that the jailer implement policies and procedures over how cash is handled throughout the detention center in order to reduce the risk of misappropriation of assets and inaccurate financial reporting. We recommend that the Ohio County Detention Center implement policies and procedures over their cash system.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: As of 2017 The Ohio County Detention Center has provided a Policy and Procedure On Controlling Cash Items.

The Ohio County Fiscal Court had weak internal controls over occupational and net profit taxes. The fiscal court lacks adequate internal controls over occupational and net profit taxes by failing to:

1. Properly maintain net profit tax returns.
2. File liens against all delinquent taxpayers in accordance with county ordinance.

Auditors noted during conversation with the tax administrator that some fees and liens are being applied to delinquent tax bills, but only as the occupational tax administrator deems necessary. According to the county treasurer, this lack of internal controls is a result of a limited budget which restricts the number of qualified employees the fiscal court can hire for accounting functions.

Without the proper internal controls, the fiscal court creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate that accurate and sufficient records be maintained in order to ensure all fees are collected by the county. We recommend the fiscal court implement internal controls over occupational and net profit taxes and fees collected.

Judge/Executive David Johnson's response: All original tax returns will be kept on file for the required 5 years. The Occupational Tax Administrator and County Attorney are in the process of outlining a written policy of required actions concerning liens on delinquent accounts. This policy will be presented to the Ohio County Fiscal Court for approval. A complete delinquent list will be presented to the County Judge Executive on the following schedule. April 10th, July 10th, October 10th, and January 10th.

The Ohio County Fiscal Court had weak internal controls at the golf course and daily deposits were not made. This is a repeat finding and was also included in the prior year audit report as Finding 2015-004. The Ohio County Fiscal Court lacks adequate controls over the off-site collection of golf course receipts. The golf course manager was preparing receipt check out sheets that were not monitored by the fiscal court. Furthermore, daily deposits were not made, receipts were not issued to individuals at the golf course, batched receipts were not attached to the checkout sheets, detailed checkout sheets were not prepared daily, and there were voids/refunds every day with no supporting documentation of the reason for the void/refund. The lack of adequate internal controls over off-site collections at the golf course increased the risk that cash could be misappropriated.

Strong internal controls are essential for providing protection against fraud and errors, as well as to protect employees in the normal course of performing their duties. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires deposits to be made daily. We recommend the fiscal court strengthen internal controls for decentralized golf receipts, including batched receipts and daily deposits. We also recommend the fiscal court maintain supporting documentation for all voided transactions and require all refunds to be issued in the county treasurer's office.

Judge/Executive David Johnson's response: Daily reports are now required. Each shifts register tapes are attached to the daily report and submitted to the Treasurer's Office. Voids/Refunds now have a form to be completed with explanation detailed. Membership records are now processed at the Treasurer's Office.

Additionally the Park and Golf Course have been combined. The Golf Course now has daily management/oversight by the Park Director.

The Ohio County Detention Center did not make daily deposits or submit fees to the county treasurer timely. This is a repeat finding and was also included in the prior year audit report as Finding 2015-006. Auditors tested receipts collected from June 6, 2016 through June 10, 2016. These receipts were not deposited into the bank by the Ohio County Detention Center. They were batched with receipts collected May 21, 2016 through June 17, 2016, then turned over and deposited into the general fund by the county treasurer on July 11, 2016. Of 41 deposits made to the county treasurer for the fiscal year ending June 30, 2016, auditors noted 14 deposits included receipts that had been collected at least a month prior to deposit. The detention center was not making daily deposits because they did not maintain a bank account for inmate fees. They have been depositing these fees collected directly into the general fund for several years. According to the jailer, the batched receipts were not turned over to the treasurer timely because he only has a part-time bookkeeper, so he prepares the checkout sheets along with his other duties.

By not depositing the receipts into a bank account or turning them over to the treasurer daily, the jailer is creating the opportunity for undetected misappropriation of assets. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires county governments to perform daily check-out procedures and make daily deposits. We recommend the Ohio County Detention Center deposit all receipts collected into the bank daily or turn them over to the county treasurer daily to be deposited.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: As of 2017 The Ohio County Detention Center has provided a Policy and Procedure On Controlling Cash Items. Sections of this policy states that Daily Deposits and Fees shall be submitted to the Ohio County Treasurer for every 24 hours.

The Ohio County Detention Center commingled public and private funds. During the fiscal year ending June 30, 2016, the Ohio County Jailer deposited \$1,028 into the jail commissary account that was actually money belonging to the Masonic Lodge. The jailer issued a check to the Masonic Lodge from the commissary account to correct this error on January 11, 2016. According to the jailer, the commingling of funds was done in error. The jailer was also the treasurer for the Masonic Lodge and mistakenly deposited the money into the wrong account. The jailer stated he has since resigned as treasurer of the Masonic Lodge. By commingling public and private funds, the jailer was not in compliance with KRS 64.850.

KRS 64.850 states, “[i]t shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited.” We recommend the jailer not commingle public and private funds and comply with KRS 64.850.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: Workpaper Reference J-15 [the comment] shows the condition, context, and cause for Title 2016-008. The commingling of funds error was due to \$85.21 belonging to The Masonic Lodge being mistakenly included with The Ohio County Detention Center Commissary deposit. The error was noticed and then corrected with maintaining record of the corrective action process before the Audit was conducted. Corrective Action for this error is noted in Workpaper Reference J-15[the comment].

Auditor's Reply: The \$85 noted in the jailer's response is in regard to another instance of this same issue that occurred in the prior fiscal year.

The Ohio County Detention Center did not have an updated fee schedule approved by the fiscal court. The Ohio County Detention Center decided to no longer charge a per diem fee to the inmates, but this change to the fee schedule was not approved by the fiscal court. The jailer thought he had brought this update to the fiscal court, but documentation of this action could not be found in the fiscal court order book. Auditors noted the jailer went before the fiscal court on July 26, 2016 and got an increase in the booking fee approved; however, auditors did not see approval of the per diem fee change.

By not getting the updated fee schedule approved by the fiscal court, the jailer is not in compliance with KRS 441.265. According to KRS 441.265(2)(a), “[t]he jailer may adopt, with the approval of the county's governing body, a prisoner fee and expense reimbursement policy[.]” We recommend that the Ohio County Detention Center comply with KRS 441.265 and ensure the updated inmate fee schedule is approved by the fiscal court.

Judge/Executive David Johnson's response: We will work with our Jailer to correct any shortcomings in his record keeping. We will offer assistance with his software use to produce a more timely and accurate report. The treasurer is to inform the Judge Executive any time a report or deposit is late.

Jailer Gerry Wright's response: As of 2017 The Ohio County Detention Center Updated Fee Schedule has been approved by The Ohio County Fiscal Court.

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

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