



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Powell County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Powell 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 Powell 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 non-compliance 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 general and jail funds have deficits totaling \$430,256. The fiscal court has deficit fund balances in the general and jail funds totaling \$430,256. The general fund deficit is primarily due to payroll related liabilities incurred in prior periods. During the fiscal year, the finance officer determined that the previous payroll clerk had failed to pay \$58,530 to the Kentucky Retirement System, and \$71,191 to the Internal Revenue Service. The finance officer could not determine the liability by fund; therefore, the general fund has primarily assumed the liability for the payroll related liabilities. The fiscal court has been making payments to reduce the balances owed. The jail fund has a deficit primarily because of prior period transfers due back to restricted funds.

	<u>General</u>	<u>Jail</u>	<u>Total</u>
Cash Balance	\$ 213,876	\$ 45,228	\$ 259,104
Interfund Payables	(60,987)	(453,028)	(514,015)
Encumbrances	(33,541)	(12,083)	(45,624)
Retirement/IRS Liabilities	(129,721)	-	(129,721)
Fund Balance	<u>\$ (10,373)</u>	<u>\$ (419,883)</u>	<u>\$ (430,256)</u>

In the past, the fiscal court transferred restricted money from the road and LGEA funds to the general and jail funds. The general fund repaid a portion of the money in fiscal year 2016. A schedule of interfund payables is as follows:

<u>Due From</u>	<u>Due To</u>	<u>6/30/2015 Balance</u>	<u>Increase/ (Decrease)</u>	<u>6/30/2016 Balance</u>
Jail	Road	\$ 253,028	\$ -	\$ 253,028
Jail	LGEA	200,000	-	200,000
General	LGEA	70,987	(10,000)	60,987
General	Road	13,630	(13,630)	-
		<u>\$ 537,645</u>	<u>\$ (23,630)</u>	<u>\$ 514,015</u>

Road and LGEA funds are restricted monies and can only be spent on allowable categories. KRS 42.455(2) states in no event shall LGEA funds be used for expenses related to administration of government. Non-allowable disbursements made by the general and jail funds are due back to the road and LGEA funds.

Under the regulatory basis of accounting, fund balances are not adjusted on the financial statement for unpaid liabilities; however, the liability is still owed.

We recommend the fiscal court seek guidance from the Department for Local Government on the necessary actions to be taken to eliminate the interfund payables. Also, we recommend the fiscal court reduce and eliminate the payroll related obligations as funds allow.

County Judge/Executive's response: As stated in my previous audits, the debts were incurred prior to this administration. Our auditors even stated that most of the debts go so far back they can't even tell exactly when some of them started. I would also like to point out that even though we didn't increase these debts, we have started paying them down. These are down another \$23,630.00 from last year. Another thing worth mentioning is that the portion the Jail fund owes the LGEA fund probably shouldn't even be listed as it appears that was an eligible expenditure.

In relation to the payroll issue. This issue was caused by a previous employee who is no longer on our staff. Our current payroll officer has been doing an outstanding job. We or she was not aware that this situation even existed until she took over. Since that time we have worked to get it corrected as is evident by how much these have been paid down. We should have these issues fully resolved within the next several months. Retirement has been paid down to \$34,870.35 and the IRS balance owed has been paid down, currently the payroll clerk has gone thru the appeals process to try and get the penalties removed.

The fiscal court did not maintain a complete and accurate capital asset schedule. The fiscal court did not maintain a complete and accurate capital asset schedule for the fiscal year ending

June 30, 2016. A capital asset schedule was maintained; however, additions and deletions were not accounted for properly. A lack of communication and coordination between the departments in possession of the asset and the county treasurer resulted in omissions from the list.

A complete capital asset schedule ensures accurate financial reporting and protects assets from misappropriation. Not maintaining an updated list of capital assets could cause capital assets to not be insured or result in paying for insurance for an asset the fiscal court no longer owns.

The Department for Local Government (DLG) requires counties to track capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.). The DLG *County Budget Preparation and State Local Finance Officer Policy Manual*, pages 58 through 63, requires the listing of capital assets to include, at a minimum, a description of the asset, cost, and date of acquisition. The capital asset schedule should be adjusted for all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded.

We recommend the fiscal court maintain a schedule of additions and deletions, as assets are purchased, sold, or retired, to simplify the process of updating the capital asset schedule. The capital asset listing should be monitored and maintained on a regular basis and should account for capital assets assigned to all departments. Additionally, we recommend the fiscal court perform physical inventories periodically to confirm the existence of assets and further ensure the accuracy and completeness of the capital asset schedule.

County Judge/Executive's response: This is an area that has been improved but needs further attention. We will work with the Treasurer to insure she keeps a more accurate schedule. We will also start requiring Department Heads to submit a written record to the Treasurer of any addition or deletions from their department. This should insure she has all the information she will need to keep it up to date.

Invoices were not paid timely. Invoices dated November 2015 for KALF and workers compensation were not paid timely. Payments totaling \$230,838 were not made until February, May, and June of 2016.

Poor financial management practices caused invoices to be held and not paid timely. The county incurred \$2,969 in related finance charges for failure to remit payments timely. Finance charges are an unnecessary and avoidable expense and a wasteful use of taxpayer resources.

KRS 65.140(2) requires local governments to pay for goods and services within 30 working days of receiving an invoice.

We recommend the fiscal court ensure that all invoices are paid timely, in order to comply with statute and to avoid finance charges.

County Judge/Executive's response: I think most of this can be attributed to an ongoing issue with the CSEPP Director negatively effecting the County's cash flow. We have and will continue to work to fix this issue which in turn should positively impact County funds and allow these to be paid more timely in the future. It should also be noted that the Treasurer got the finance charges reimbursed, so there was no additional cost on our tax payers.

Internal controls over transfer station receipts were weak. The transfer station collects money from customers for garbage disposal but does not issue receipts consistently and properly. The review of the cash receipt process for the transfer station revealed weaknesses in internal controls that should be improved.

Based on inquiry, all transfer station employees use one cash register receipt tape on site at the transfer station to document the total amount of funds collected each day. Receipts are issued to customers, but not on a consistent basis. Receipt books are used, but have missing pages and duplicate receipts. Receipts for the day are not batched or recorded on checkout sheets. The transfer station delivers collection monies to the county treasurer on a daily basis, but without a copy of the individual receipts. Receipts are not reviewed and reconciled to ensure that transfer station collections are accounted for completely.

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, we recommend the transfer station implement the following procedures:

- Pre-numbered receipts should be written and maintained for all monies collected, regardless of whether the customer requests a receipt.
- All monies and a copy of batched receipts should be given to the county treasurer on a daily basis.
- The treasurer should review all receipts to check for missing receipt numbers and compare the total of receipts to the moneys collected each day. On a regular basis, the treasurer and transfer station employee should agree a receipt log to the total deposited to ensure all transfer station collection receipts are accounted for properly.

County Judge/Executive's response: We will continue working to improve internal controls at the Transfer Station. This has always been a challenge because of the volume of customers coming through. The solid waste coordinator will be instructed to provide a receipt for each customer to better account for all revenue generated.

The jailer did not prepare a complete and accurate jail commissary report. The jail commissary report, presented to the county treasurer for Fiscal Year 2016, was not a complete and accurate representation of the commissary account. The report had an incorrect beginning balance and no ending balance, although a correct year-end bank reconciliation was provided. Certain receipts and disbursement categories did not agree to the jail records. This resulted in

the presentation of an incomplete and inaccurate financial summary to the county treasurer at fiscal yearend.

KRS 441.135 states that the jailer "shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer[.]" The Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual*, Jail Commissary Fund instructions, provides minimum accounting and reporting standards. It requires a jail commissary year-to-date summary compiled with information obtained from receipts and disbursements journals. The ending balance reported on the summary is reconciled to the bank balance. This summary is sufficient to use as the year-end report that is submitted to the county treasurer.

We recommend the jailer prepare a complete and accurate annual financial statement for the Jail Commissary Fund and present the report to the county treasurer as required.

County Jailer's response: Our records are kept on a computer program that keeps a yearly commissary report that is accurate. We will make sure the worksheet is correct in the future.

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

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