



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

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

The Pulaski County Fiscal Court lacks adequate segregation of duties over disbursements and the reconciliation process. The assistant finance officer can approve purchases and issues purchase orders. She also prepares the claims list for fiscal court approval, posts to the disbursements ledger, and prints checks. In addition, checks are printed with the county judge/executive’s signature. The county treasurer is the only one who actually signs checks; however, she does not compare them to supporting documentation. The county treasurer receives the bank statement online each month and prepares the bank reconciliations. The fiscal court accepts the bank reconciliations each month, but there is no documented review and approval. The county indicated this condition is the result of a limited budget, which restricts the number of employees the county can hire or to whom it can delegate duties.

The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court strengthen internal controls by segregating duties over disbursements and reconciliations. If segregation is not possible due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

County Judge/Executive's response: Bank reconciliations will be reviewed and approved by the County Judge/Executive or the Deputy Judge. The County Judge, Deputy Judge or Treasurer will approve all purchase orders prior to issuing a number with the exception of the Detention Center. Purchase order numbers for all departments will be assigned by a designee other than those approving the PO. Substantial checks will always be compared with supporting documentation (i.e. claims list, invoice, etc.) while minimal checks will be spot checked with documentation.

The Pulaski County Fiscal Court lacks internal controls over receipts. The treasurer does not compare amounts received to attached documentation from other departments collecting receipts and does not prepare a daily chronological listing of all receipts. The listing of daily receipts should be the book of original entry for all county revenues and all county funds.

A lack of controls could result in undetected fraudulent activity. The county is not in compliance with the State Local Finance Officer's requirements.

Pursuant to KRS 68.210, the *County Budget Preparation and State Local Finance Officer Policy Manual* requires a daily, chronological listing of all receipts. The listing is the book of original entry for all county revenues and all county funds. The journal should indicate the date money is received, a description of the revenue source, the revenue code, the total amount and the fund(s) to which the amount is distributed. In addition, good internal controls dictate using necessary resources to compare amounts received to amounts posted.

We recommend the fiscal court strengthen internal controls by comparing amounts collected to amounts recorded and we recommend the fiscal court prepare a daily chronological listing of all receipts as required by the State Local Finance Officer.

County Judge/Executive's response: The receipts will now be logged by the Executive Secretary or Administrative Assistant and brought to the County Treasurer for comparison and approval. All logs will be signed by the County Judge or the Deputy Judge and the County Treasurer.

The Pulaski County Fiscal Court lacks adequate controls over occupational tax receipts. This is a repeat finding and was included in the prior year report as finding 2015-001. The lack

of controls, including segregation of duties, the ability to change amounts collected in the software program, the ability to waive interest and penalty without proper approval, and failure to compare actual tax returns to amounts posted, has caused a material weakness. The lack of controls could result in fraud, misappropriation, and misstatement.

Good and effective internal control procedures would dictate confirmation of all reports of cash receipts. We recommend the fiscal court contact the computer software company to alleviate the ability to change the amount collected and the ability to remove penalty and interest charged to taxpayers. We also recommend the fiscal court implement necessary internal controls over receipts such as comparison of the report to the amount deposited and the amount posted. The review should be documented by signature or initials.

County Judge/Executive's response: The job duties of the Tax Administrator and the tax bookkeepers will be reassigned so as to have more adequate control.

The Pulaski County Fiscal Court did not maintain complete and accurate capital asset schedules and did not perform inventory of capital assets periodically. This is a repeat finding and was included in the prior year report as finding 2015-002. The Pulaski County Fiscal Court did not have a complete capital asset schedule for fiscal year ended June 30, 2016. The assistant finance officer is responsible for maintaining the schedule and had a workbook in which she included additions and deletions. However, upon auditor's review of the receipt and disbursements ledgers, there were items not included on the schedule that should have been. The following omissions were noted:

- Dell PowerEdge T320 server and computers in the amount of \$27,883 were purchased from the jail fund.
- MTR3000 Base Radio in the amount of \$6,532 was purchased from the 911 fund.
- Six column lifts in the amount of \$49,000 were purchased from the fire fund. In addition, the column lifts could not be traced to the fiscal court's insurance policy.
- Twelve ballistic vests in the amount of \$7,920 were purchased for the sheriff's office from the general fund.
- A Turf Tiger lawnmower in the amount of \$9,350 was purchased from the general fund. In addition, the lawnmower could not be traced to the fiscal court's insurance policy.
- Twelve radios in the amount of \$6,096 were purchased from the road fund.
- A transmission jack in the amount of \$5,364 was purchased from the fire fund.
- Timeclock in the amount of \$18,857 was purchased from the road fund.
- Two equipment sheds in the amount of \$45,000 were built and paid from the road and fire funds. In addition, the equipment sheds could not be traced to the fiscal court's insurance policy.
- A 911 building was completed during the fiscal year. Construction costs in the amount of \$61,721 were paid from the 911 fund.
- Land and land improvements at the Pulaski County Park in the amount of \$111,479 were paid from the general fund.
- Buildings and building improvements at the Pulaski County Park in the amount of \$77,124 were paid from the general fund.
- Total resurfacing costs of \$1,442,417 were paid from the road fund.

- Bridge projects in the amount of \$314,332 were paid from the road fund.
- A full body scanner was purchased in the amount of \$162,500 for the jail from the jail commissary fund. In addition, the body scanner could not be traced to the fiscal court's insurance policy.

There was no evidence that a physical inventory of the fiscal court's capital assets had been completed.

The fiscal court lacks adequate controls over reporting of capital assets. In addition, the responsibility over this area is unclear. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court cannot properly determine insurance needs without proper documentation being maintained. The fiscal court's capital asset listing was underreported by \$2,345,575.

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* states that capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. It further states that fixed asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, and proceeds from sale or disposal of assets.

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government requirements. Policies should be implemented that will identify and track additions and deletions for the purpose of the capital asset schedule and required insurance coverage. In addition, the fiscal court should complete a physical inventory at least yearly to ensure all assets meeting the fiscal court's capitalization policy threshold are included.

County Judge/Executive's response: The administrative code will be updated to allow the Finance Officer or the Administrative Assistant to track the capital assets. A complete inventory will be completed and assets will be tracked at least quarterly if not monthly. The Treasurer will be available to assist if necessary.

The Pulaski County Fiscal Court did not have strong internal controls over disbursements. Internal controls over disbursements were not operating as intended during Fiscal Year 2016. Disbursements were not properly authorized, properly recorded, supporting documentation was not maintained and appropriate, and proper procedures were not followed. Failure to monitor controls led to the deficiencies listed below.

These deficiencies could result in inaccurate reporting and misappropriation of assets. The following exceptions were noted:

- Two signatures are required on checks; however, the county judge/executive's signature is printed on the checks. He does not actually sign or initial the checks or compare them to supporting documentation.
- Many disbursements were not properly recorded. Minor object codes used were not correct; however, since the major object codes were accurate, no financial statement adjustments were necessary.
- Required information such as original budget, increases/decreases by amendment or transfer, and remaining budget was not included on the appropriations ledger.
- Three disbursements were paid from a statement. No invoices were attached to support the amounts on the statement. One vendor was paid by the statement and invoice on separate dates; however, one of the checks was later voided, so no refund is due.
- Twenty-five disbursements were not paid within 30 days. No late fees or penalties were incurred.
- Twenty-two disbursements were made and not presented to the fiscal court for review prior to payment or included on the annual standing order to pre-approve recurring expenses.
- Sales tax of \$51 was paid on two purchases.
- One travel voucher submitted for reimbursement lacked supporting documentation for lodging and meals. The voucher was not totaled correctly, resulting in an underpayment of \$30.
- One-fourth of the liability insurance was paid from the fire fund; however, no determination could be made for how much liability insurance coverage is actually attributed to fire protection.
- Purchase requisition forms did not always contain required information, such as account number, amount approved, approval by appropriate personnel, or date approved. In addition, many purchases exceeded the amount approved or were dated after the purchase.
- Sixteen credit card disbursements included restaurant tips totaling \$102.
- Sales tax of \$158 was paid on eleven credit card purchases.
- Eleven credit card disbursements totaling \$369 did not have a receipt or invoice to support the transactions.
- Six credit card disbursements did not have an itemized receipt or invoice. The attached credit card receipt only showed the total purchase.
- One item purchased did not agree to the tile bid which resulted in an overpayment of \$135. In addition, the bid was not clear if the bid price included bands or an added expense. Band prices were not included in the bid submitted.
- One bridge construction project exceeded the amount of the bid. The bid was for \$180,866; however, the project totaled \$190,191 for a cost overrun of \$9,325. No documentation was in the file or fiscal court orders to explain the overrun and no amendments were requested.

Proper internal controls over disbursements are important to ensure disbursements are presented to the fiscal court, include proper supporting documentation, purchases are sales tax exempt, and are paid within 30 days.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG) “[p]urchases shall not be made without approval by the judge/executive (or designee) and/or department head. Purchases requests shall indicate the proper appropriation account number to which the claim will be posted.” The manual also states the appropriations ledger should include the original budget, increases/decreases by amendment or transfer, and the remaining balance.

The fiscal court’s administrative code states that tips are not reimbursable under section 1 of the personnel policies.

KRS 68.275 requires the county judge/executive to present all claims to the fiscal court for review prior to payment, unless the expenses are included on a standing order adopted by the fiscal court to preapprove the payment of certain claims such as monthly payroll and utility expenses. Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received and KRS 139.470(7) extends sales tax exempt status to sales to state and local government agencies.

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

County Judge/Executive’s Response: When invoices and/or receipts are received by other departments, the Finance Office cannot control the date they are received in this office. We communicate with all other departments regarding this problem and handle them to the best of our ability. Sometimes a late invoice or lost receipt is unavoidable. The administrative code will be updated to address a portion of these issues.

The Pulaski County Fiscal Court did not properly disburse and record debt principal and interest payments and required debt information was not properly disclosed on the quarterly financial report. This is a repeat finding and was included in the prior year report as finding 2015-003. The fiscal court did not properly disburse principal and interest payments and charge to appropriate accounts. In addition, required debt information was not properly disclosed in the liabilities section that is required to be submitted to the State Local Finance Officer upon submission of the fiscal court’s proposed budget and quarterly financial report. The following discrepancies were also included as a finding in the prior year audit:

- The prior year audit reported that the payments for October 2014 and June 2015 were not paid for two lease obligations as required. These payments were not remitted during fiscal year 2016. The total amount due is \$36,438.
- Interest on a lease in the amount of \$9,149 was erroneously paid from the fire fund instead of the general fund.
- Principal and interest payments for a lease were not charged to a debt service account.
- Interest payments totaling \$38,338 on a general obligation refunding lease were not properly charged to an interest account. The interest account was properly budgeted; however, no amounts were reported.

- The Public Properties Corporation (PPC) First Mortgage Revenue Bonds, Series 2008 and 2009, PPC First Mortgage Refunding Revenue Bonds, Series 2015, and a case loaders lease obligation were not disclosed on the liabilities section of the quarterly financial report.
- The principal balance on the lease obligations reported was overstated by \$293,033 and the interest balance was understated by \$17,397.
- The interest balance on the general obligation bonds was overstated by \$95,643.

The deficiencies above were able to occur due to lack of oversight and internal controls over the debt payment process. The fourth quarter liabilities section was not accurate since it is prepared based on the information maintained in the accounting system. The PPC bond obligations are not reported in the county's software and therefore, not reported on the liabilities section of the quarterly financial report. In addition, the case loader lease obligation was not properly reported as debt in the system, resulting in it being omitted from the liabilities section as well.

By omitting the liabilities of the fiscal court, the State Local Finance Officer did not see the accurate financial position of the fiscal court. Total principal and interest were understated by \$19,041,743 and \$5,069,729, respectively for fiscal year 2016.

The Department for Local Government and the fiscal court rely on the quarterly report to make decisions involving new debt and other financial decisions; therefore, it is important that the quarterly report be complete and accurate. The quarterly report is a cumulative report and is prepared on a regulatory basis by the county judge/executive and the county treasurer pursuant to KRS 68.210, which gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the budget section of the fourth quarter financial report to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, Government Leasing Act issues, and Bond Anticipation Notes.

We recommend the fiscal court implement internal controls to ensure all debt payments are properly paid and accounted for. We also recommend all debt information be disclosed and reported accurately on the liabilities section of the quarterly report.

County Judge/Executive's Response: There was an error on the debt payment invoice and one debt payment invoice was never received. This has been corrected.

The Pulaski County Fiscal Court declared an emergency budget amendment for a non-emergency situation. On June 27, 2016, the Pulaski County Fiscal Court accepted an emergency budget amendment for a non-emergency situation. The budget for Fiscal Year 2015-2016 was amended to increase the general, road, jail, LGEA, fire, and 911 funds by \$1,351,414. An emergency budget amendment was declared because there was not time to publish and advertise before the end of the fiscal year. Time constraints do not meet the definition of a legitimate emergency. By declaring an emergency for a non-emergency situation, proper procedures for amendments to the county budget were not followed and the fiscal court is not in compliance with KRS 39A.020's definition of an emergency.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states “[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280.” It further states “Any amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy order naming and describing the emergency must accompany the budget amendment pursuant to KRS 68.280.”

In addition, KRS 39A.020(12) defines emergency as “any incident or situation which poses a major threat to public safety so as to cause, or threaten to cause, loss of life, serious injury, significant damage to property, or major harm to public health or the environment and which a local emergency response agency determines is beyond its capabilities[.]” Time constraints do not meet the definition of an emergency situation.

We recommend the fiscal court follow the proper procedures outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* for budget amendments. In addition, emergencies should never be declared unless the definition of KRS 39A.020(12) is met. *County Judge/Executive’s Response: This was a timing oversight and will be corrected.*

The Pulaski County Fiscal Court budget was not prepared as required. The Pulaski County Fiscal Court maintains a separate bank account for federal grants; however, this account was not included in the original budget nor were any amendments to the budget made. Total receipts and disbursements were, respectively, \$102,363 and \$87,061 for the federal grant fund during the fiscal year.

In addition, there were several line items within each fund that were not budgeted. See below:

Fund	Line Items Not Budgeted		Amount
General	01-5110-0481	Uniforms - Constable	\$ 2,018
Jail	03-5101-0173	Counselors	4,154
Industrial Development	75-5075-0741	Lake Cumberland Reg. Airport	41

This seems to be a recurring issue in Fiscal Year 2017. An allegation was received alleging the fiscal court purchased a new vehicle for a constable. Auditor performed follow-up on the allegations and determined a vehicle was purchased in December 2016, but could not find evidence the disbursement was submitted to the fiscal court for review and approval. The disbursement appeared on the 2nd Quarter Financial Report; however, the line item, 01-5110-0717 Equipment - Constable, was not budgeted. As of the current date, no budget amendment has been submitted.

The budget omissions occurred due to lack of monitoring budget to actual disbursements by management. Also, during the budgeting process, the county treasurer was unaware federal grant funds were expected to be received or disbursed during the year. Failing to budget the grant fund and various line items resulted in noncompliance with applicable statutes.

KRS 68.240(1) states, “[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next year.”

In addition, the *County Budget Preparation and State Local Officer Policy Manual* issued by the Department for Local Government (DLG) states, “[i]t is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document. An amendment of this nature should be made immediately upon receipt of those funds.”

KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend the Pulaski County Fiscal Court ensure all line items as well as all funds are properly budgeted or prepare budget amendments if necessary.

County Judge/Executive’s response: When the budget was prepared, the Treasurer was informed there were no grants in process, when actually there were. The line items that had no budgeted amounts were not originally planned for use. We will correct this in the upcoming budget.

The Pulaski County Fiscal Court did not follow proper procedures for cash transfers between funds. Seven out of 15 cash transfers were approved by the fiscal court after the transfer had already been made. In addition, there was no evidence of fiscal court approval in the fiscal court order book for four out of 15 fund transfers. This was due to lack of oversight and internal controls over all accounting functions.

Without proper oversight and approval from the fiscal court, undetected misappropriation and fraud could occur. When cash transfers are made without approval of the fiscal court, money can be moved between funds to cover disbursements without the knowledge of fiscal court.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states “[a]ll transfers require a court order.”

We recommend all cash transfers between funds be approved by the fiscal court and approved prior to the transfer being made.

County Judge/Executive's response: All cash transfers are approved by Fiscal Court. In addition, the transfers made prior to Fiscal Court meetings were in accordance with the Occupational Tax Ordinance.

Auditor's Reply

There was no evidence of fiscal court approval for four of the 15 cash transfers tested. In addition, not all the cash transfers approved by the fiscal court after the fact were occupational tax funds.

The Pulaski County Fiscal Court did not prepare accurate Bank Reconciliations. The June 30, 2016 bank reconciliations contained outdated checks, some dating as far back as 2011, as noted below:

General fund - \$9,954

Road fund - \$2,577

Jail fund - \$145

Fire fund - \$858

In addition, the June 30, 2016 bank reconciliations for the general and jail fund contained forced debits and credits in order to balance. The general fund listed a debit in the amount of \$17,454. The amount was listed as an outstanding check, but there was no check number listed. The jail fund listed two credits totaling \$1,973. The amounts were listed as deposits in transit but could not be traced to subsequent bank statements. Based upon discussion with the county treasurer, all these amounts appear to be forced debits and credits in order to balance the book balance with the bank balance. The county treasurer stated all forced debits and credits have been carried forward from the former county treasurer and she did not know what they were or how to correct them.

Due to the stale outstanding checks and the forced debits and credits, the June 30, 2016 ending balances reported on the fourth quarter financial report for the general, road, jail, and fire fund are not accurate.

If the fiscal court has stale outstanding checks, they need to be escrowed and held for three years, after which time if they are unclaimed, the funds go to the State Treasury as property assumed abandoned per KRS 393.090 and KRS 393.110.

In addition, good internal controls dictate book and bank balances should be reconciled monthly in order to ensure proper accounting and accurate fund balances.

We recommend the fiscal court open an escrow account to keep track of these old outstanding checks and, after three years, turn them over to the state treasury as required. Also, monthly bank reconciliations should be accurate with no forced debits and credits. We further recommend the forced debits and credits be investigated and corrected to ensure monthly fund balances are accurate and book and bank balances reconcile.

County Judge/Executive's response: We are currently working on tracking down the recipients of these outstanding checks to rectify this issue. We will then comply with the KRS to open an escrow account for the monies not retrieved.

The Pulaski County Fiscal Court did not maintain proper records for the Public Properties Corporation Fund and General Obligation Bond Fund. The Pulaski County Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC) and the general obligation bond fund. However, the fiscal court did not maintain receipts and disbursement ledgers, did not prepare monthly bank reconciliations, and did not prepare financial statements for the PPC fund and the general obligation bond fund. Failure to maintain proper records for these funds occurred due to lack of controls and oversight by management, resulting in noncompliance with the Department for Local Government requirements.

Good internal controls dictate that adequate reporting is maintained for all receipts and disbursements and that book and bank balances be reconciled monthly in order to ensure proper accounting and accurate fund balances. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of account. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states the minimum requirements for handling public funds include monthly bank reconciliations and books of original entry for receipts and expenditures.

We recommend the fiscal court prepare and maintain ledgers for receipts and disbursements of the PPC and general obligation bond funds. We also recommend that monthly bank reconciliations be prepared for both funds. In addition, the fiscal court or the applicable boards should prepare end of the year financial statements for the funds in order to ensure compliance with DLG requirements.

County Judge/Executive's response: All PPC and Bond fund records are available for inspection.

Auditor's Reply

There were no bank reconciliations and receipts and disbursement ledgers prepared for these two accounts.

The Pulaski County Jailer could not produce a summary of each inmate's account balance. The inmate bank account had a balance of \$174,646. The jailer was unable to produce a summary of each inmate's balance; therefore, reconciliation to the total cash in the bank account was not possible. The jailer was not aware the inmate account should be reconciled with detail showing the amount due to each former and current inmate. The bank account balance is made up of amounts due to inmates and/or commissary profit due to the commissary fund for expenditures related to recreation and culture.

Good internal controls dictate reconciliation of the cash in the bank account to the total amount owed to inmates in order to allow monies due to the commissary fund to be utilized effectively.

We recommend the jailer request a list of individual inmate balances from the former and current software companies. These balances should be reconciled to the cash in the bank account.

County Jailer's response: Effective April 4, 2017, [the commissary vendor] changed their software to provide an Auditing Balance Worksheet which is now in use.

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

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