



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Adair 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 Adair 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 jailer failed to properly implement controls over the inmate account which resulted in missing deposits totaling \$97,451: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The jailer failed to implement controls over the inmate account, which resulted in missing deposits totaling \$97,451 during the period July 1, 2018 through June 30, 2019. Reported by the county as an agency trust fund, the inmate account is utilized for holding funds received by or on behalf of the inmates of the jail. Individual inmate balances are reduced for any applicable fees charged by the jail as well as purchases made by the inmate from the commissary. Upon release from the jail, the remaining balance is refunded to inmates.

Upon review of the inmate account, the auditors noted the following deficiencies:

- a. There was inadequate segregation of duties over the removal, recording, and depositing of cash received in the kiosk machines located within the jail.
- b. Inmate account bank statements were not reviewed by an individual independent of the accounting functions.
- c. Monthly reconciliations of the inmate bank account were not being prepared.
- d. Daily checkout sheets were not being prepared.
- e. Deposits were not made on a daily basis.
- f. Any disbursement from the account including refunds to the inmates were not reviewed by an individual independent of the accounting functions.

The three methods the jail has for accepting money that should be deposited into the inmate bank account are through a booking kiosk, a lobby kiosk, and online payments can be made that are credited to an inmate's account. Kiosk reports and bank statements were obtained to determine the amount of money that was deposited into the booking kiosk, the lobby kiosk, and online. Then a comparison of these reports was made to the amount of money that was deposited into the inmate bank account. During fiscal year 2019, total receipts accepted through the kiosks and online was \$571,229. The amount of receipts deposited into the jail inmate bank account was \$473,778. Therefore, total receipts of \$97,451 were not deposited into the inmate bank account.

Implementation of adequate internal controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly bank reconciliations, daily checkout sheets, and receipts and disbursements ledgers.

We recommend the jailer implement adequate internal controls over accounting functions and all activity of the inmate account in order to protect from asset misappropriation. Additionally, this finding will be referred to the Kentucky State Police.

County Judge/Executive's Response: This account is handled solely at the Jail. The Judge's Office has no control over inmate accounts. Jailer needs to follow recommendations from auditor and implement adequate internal controls over all accounts.

County Jailer's Response: With the new administrator that started Nov. 2019, and due to limited number of staff, the jailer implemented 2 more staff to improve the segregation of duties to have adequate internal control over accounting functions and safe guard of the inmate accounts.

The Adair County Jail does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The Adair County Jail lacks adequate segregation of duties. The bookkeeper (administrator) receives cash, prepares bank deposits, and takes the deposits to the bank for both inmate and canteen accounts. The bookkeeper compiles invoices, prepares disbursements, and signs the disbursement checks for both the inmate and canteen accounts. Additionally, the bookkeeper was responsible for the bank reconciliations and monthly reports to fiscal court. The jailer cosigned all checks but no evidence was found the

checks were compared to source documents. Furthermore, there was no evidence available there was any oversight over receipts, disbursements, or reconciliations.

The jailer did not have controls in place to ensure that staff knew the requirements and did not provide oversight to ensure requirements were followed. The lack of segregation of duties allowed misappropriation of assets to occur. Segregation of duties over various accounting functions is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that one person should not have complete control over the incompatible duties of preparing deposits, preparing checks, signing checks, posting to ledgers, reconciliations of ledgers to bank accounts and preparing monthly/yearly reports. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Adair County Jailer segregate the accounting duties in his office. If this is not feasible due to limited number of staff, strong oversight over these areas should occur and involve the jailer or an employee that is not currently performing any of those functions. For example, if the bookkeeper posts receipts to the ledger and then the jailer could compare the ledger posting, the daily checkout, and the bank deposit ticket to ensure accuracy. This oversight should be documented by initialing the source documents.

County Judge/Executive's Response: The Jailer needs to follow recommendations from auditor and segregate the accounting duties in the office to more than one person.

County Jailer's Response: With a new administrator that started Nov. 2019 and due to limited number of staff, the jailer implemented 2 more staff to improve the segregation of duties. The jailer is approving bank statements, deposit slips, deposit receipts, checks and bank reconciliations for accuracy.

The jailer did not present an annual jail commissary report to the county treasurer: This is a repeat finding and was included in the prior year audit report as Finding 2018-004. The jailer failed to submit an annual jail commissary report to the treasurer for the fiscal year ending June 30, 2019. Due to a lack of oversight over accounting functions by the jailer, an annual jail commissary report was not submitted to the treasurer, which resulted in misstated financial reporting for the jail commissary fund.

KRS 441.135(2) states, “[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.”

We recommend the jailer submit an annual jail commissary report to the county treasurer as required by statute.

County Judge/Executive's Response: The Jailer needs to follow recommendations from auditor and provide the annual statement to the treasurer at the end of each fiscal year.

County Jailer's Response: With the new administrator that started Nov. 2019, the jailer is submitting a monthly jail commissary report and canteen report to the county treasurer. And will comply by submitting an annual jail commissary report to county treasurer as required by statute.

The jailer failed to remit sales tax reports timely: This is a repeat finding and was included in the prior year audit report as Finding 2018-006. The jailer failed to ensure that sales tax reports are filed timely. The reports for August 2018 and May 2019 were submitted late, which resulted in penalties and interest totaling \$19 being applied. Due to a lack of oversight over accounting functions by the jailer, sales tax reports were not filed timely for two months, which resulted in penalties and interest being charged.

KRS 139.540 and KRS 139.550 require sales tax to be reported monthly to the Kentucky Department of Revenue on or before the twentieth day of the following month. However, KRS 139.590 permits the Department of Revenue to require the reporting to be submitted quarterly on or before the twentieth day of the month following the end of each quarter. We recommend the jailer submit sales tax reports in a timely manner in order to avoid being charged penalties and interest.

County Judge/Executive's Response: The Jailer needs to follow recommendations from auditor and submit sales tax reports on time to avoid penalty and interest charges.

County Jailer's Response: With the new administrator that started in Nov. 2019, we have caught up on all sales tax reports and late fees. Since Dec. 2019 monthly sales tax has been paid and in a timely manner.

The Adair County Fiscal Court did not properly disclose debt balances on the quarterly financial report: This is a repeat finding and was included in the prior year audit report as Finding 2018-008. The Adair County Fiscal Court listed liabilities (debt) as of June 30, 2019, on the quarterly financial report with a combined principal balance of \$ \$9,268,990, but the actual amount was \$8,597,935. Additionally, the combined interest was listed as \$2,034,923, but the actual amount was \$1,266,553. This is a total reported variance of \$671,055 and \$768,370 of combined principal and interest, respectively, in excess of the amount the county owed.

Per the Adair County Treasurer, the issues were due to the banks not sending her the proper amortization schedules, and a software issue that caused a timing discrepancy. These issues resulted in inaccurate financial report to the Department for Local Government (DLG), and to the citizens of the county. The proper implementation of internal controls is essential for providing protection from inaccurate financial reporting.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, requires that all debt be disclosed accurately on the quarterly reports.

We recommend the Adair County Fiscal Court implement controls such as reviews of financial statements by an individual independent of the reporting process to ensure that all reporting is accurate.

County Judge/Executive's Response: This finding is due to incorrect amortization schedules being given to county treasurer. This was corrected at time of finding. County Treasurer is now calling the bond company prior to each fiscal year to make sure she has the correct information.

The Adair County Fiscal Court does not have adequate segregation of duties: The fiscal court does not have adequate segregation of duties. Although mail is received by the administrative assistant, the treasurer rotates the duties of preparing deposits with the finance officer and then posts the deposits to the receipts ledger. Additionally, both the finance officer and treasurer rotate the duty of preparing disbursement checks (which are automatically posted to the ledger by the computer system). The treasurer is also responsible for reconciling bank accounts and preparing monthly or quarterly reports. The fiscal court has instituted some compensating controls; however they were not documented to offset this risk. According to the county judge/executive, the county has a limited amount of funds available to hire additional office personnel. When one person is responsible for the entire accounting cycle the chances of undetected misappropriation of assets or inaccurate financial reporting increases.

A segregation of duties over various accounting functions, collecting receipts, preparing bank deposits, and preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving depositing of receipts, preparation of disbursements, preparation of reports and reconciliations. If this is not feasible due to limited number of staff, strong oversight over these areas could occur and involve an employee that is not currently performing any of those functions. For example, the county judge/executive could provide this oversight and document her oversight by initialing the source documents.

County Judge/Executive's Response: With new administration, the County Judge Executive is viewing all bank statements and signing along with the County Treasurer.

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

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