



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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### **Harmon Releases Audit of Anderson County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Anderson 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 Anderson 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 Anderson County Fiscal Court did not properly monitor the budget:** The following discrepancies were noted when reviewing the budget:

- One budget amendment, totaling \$300,000 was not made or approved until after payments were made that caused the line item budgets to be exceeded. This amendment was used to correct overages in budgeted line items at the end of the fiscal year.
- One budget amendment shown on the 4<sup>th</sup> Quarter Report, totaling \$1,125,000, was not presented to fiscal court for approval;

- Disbursements exceeded the budget in the General Fund by \$107,554, Road Fund by \$1,004,006, Jail Fund by \$12,402, Local Government Economic Assistance (LGEA) Fund by \$21,027, Park Fund by \$24,487, and Emergency 911 Cellular Fund by \$5,087;
- Disbursements exceeded 65% of the budget in the Road Fund before January 1.

The fiscal court did not have internal controls in place to establish appropriate oversight of the budget and financial activities. The fiscal court's failure to establish effective internal controls over the budget resulted in numerous instances of noncompliance as reflected above.

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 the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Per the manual, it is necessary to amend the budget to reflect the receipt and expenditure of funds received that were not part of the original budget document. An amendment of this nature should be made immediately upon receipt of those funds. Budget amendments may also be made if the county receives unanticipated revenues or revenues exceeding the budgeted estimates.

Good internal controls dictate that payments are not made that exceed the approved appropriations. Budgets are used as controls to ensure overspending does not occur, and when budget amendments are not made timely it does not permit the government to follow a proper process to approve appropriations.

Pursuant to KRS 68.310, counties are restricted in the 4th year of a term in the amount they are allowed to expend. Simply stated, no county can encumber or expend more than 65% of each individual fund in the budget excluding debt service payments, grant expenditures, and capital projects funded with debt issuance above sixty-five (65%) in the road fund are allowable as long as it is offset by a dollar for dollar savings in the general fund.

We recommend the fiscal court implement controls to closely monitor the budget and to amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding the budget. The county should ensure these amendments are approved before the expenditures are made.

*County Judge/Executive's Response: We would like to emphasize that funds were available in the road fund; our shortcoming was procedural. Obviously, we intended to amend the road fund budget because the monthly, quarterly, and annual reports included the amendment. However, due to an oversight the amendment did not get on the list that was presented to the Fiscal Court for official approval. We do understand the importance of this procedure and will exert all efforts to make sure that this oversight is not repeated.*

**The Anderson County Fiscal Court does not have adequate segregation of duties over payroll and payroll processes:** This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The fiscal court lacks adequate segregation of duties over payroll. Although the finance officer receives the timecards, the county treasurer inputs the payroll information into the payroll software, prepares the reports, prepares payroll checks and direct deposit, and signs the

checks. The county treasurer also prepares and disburses all required payroll deductions, taxes, and retirement payments. The checks are given to the judge/executive or designee to sign but no comparison is being done to the payroll reports.

The lack of segregation of duties is due to insufficient cross-training and knowledge of the payroll system. Without proper segregation of duties over the payroll process, the risk of fraud or error increases. Segregation of duties over these tasks or the implementation of compensation controls is essential for providing protection against the misappropriation of assets or inaccurate financial reporting. Additionally, 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 these duties. If segregation of duties is not possible, strong oversight should be implemented. Some compensating controls that could be implemented:

- The judge executive or designee should review the payroll report before checks are signed or information is sent to the bank. This review should be documented by initialing the report.
- The judge executive or designee should compare the disbursement checks for deductions, payroll taxes, and retirement to the reports before signing checks and document the review by initialing the reports.

*County Judge/Executive's Response: Compensating controls do exist regarding segregation of duties over payroll. However, ACFC has a unique arrangement that utilizes payroll professionals that are employees of the County Treasurer, rather than direct employees of ACFC. ACFC only has one Treasurer and one Finance Officer, necessitating some creative solutions to accomplish the age-old problem of segregating duties with minimal accounting personnel.*

Auditors Reply: To clarify, the finding reports that the county did not have proper segregation of duties, which is an important internal control. Whereas the county's treasurer is part of its internal control structure, non-county employees employed by the treasurer's personal business are not part of the county's system of internal controls. Additionally, individuals that are not employed by the county or under contract directly with the county should not have access to confidential county information, especially personnel/payroll records. As stated, there were no compensating controls in place to offset this deficiency.

**The Anderson County Fiscal Court does not have segregation of duties over disbursements:**

This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The county treasurer prepares a master claims list, prepares and signs checks, posts to the appropriations ledger, and reconciles the bank statements. During Fiscal Year 2019, the county judge/executive did not keep certain records and make certain reports or designate the finance officer to perform these duties as outlined by the Department for Local Government (DLG). Those duties were performed in the treasurer's office rather than by the finance officer as required by DLG. When one person has complete control over financial activity in the county, the risk of fraud or error in reporting increases.

Per the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, the finance officer should be responsible for duties as noted below:

1. Receive all county claims and then prepare a master claims list to present to the fiscal court.
2. Prepare all checks on claims reviewed by the fiscal court.
3. Maintain an appropriation ledger.
4. Be responsible for the county's quarterly financial statement, pursuant to KRS 68.360
5. Reconcile the appropriation ledger with the treasurer's appropriation ledger at least once a month.

We recommend that the judge/executive follow the requirements of DLG or designate the finance officer to maintain the appropriate records and perform the duties listed above. Duties should be adequately segregated to ensure that no one person has complete control over financial activity in the county. We will refer this deficiency to the Department for Local Government.

*County Judge/Executive's Response: Action has already been taken to strengthen and improve controls and segregation of duties over disbursements. However, we believe the objective of segregation of duties is satisfied to the degree that ACFC is able with such a small staff. We think all will agree that segregation of duties is difficult to achieve in a small organization. ACFC is also concerned about budget restrictions and takes its stewardship very seriously. ACFC does not want to hire personnel just to achieve segregation of duties; the cost to benefit simply does not justify that action.*

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

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