



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Boyd 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 Boyd 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 fiscal court's fourth quarter financial report was materially misstated: The fiscal court's fourth quarter financial report, which serves as the county's year-end financial statement, was materially misstated. Adjustments and reclassifications were necessary to record and classify transactions properly. In order for the county's financial statement to accurately reflect receipts, 36 adjustments and reclassifications net totaling \$1,309,941 were necessary. Likewise, 14 adjustments and reclassifications net totaling \$674,063 were necessary for disbursements to be recorded and classified correctly on the financial statement.

According to the treasurer, she was not aware the way she recorded certain transactions was incorrect. The county did not have adequate internal control, oversight, and review procedures in

place to ensure financial activity was accurately recorded and reported in accordance with the uniform system of accounts as required.

As a result, numerous errors and misstatements occurred and were undetected resulting in the financial statement being materially misstated. Inaccurate financial reporting is problematic because the commissioners and county judge/executive rely on financial data presented to them to be complete and accurate in order to make prudent financial decisions on behalf of the county and taxpayers. Furthermore, external organizations may use and rely on financial information reported by the county so accurate financial reporting should be a priority.

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 officials to submit quarterly reports to the Department for Local Government (DLG) by the 20th day following the close of each quarter. The uniform system of accounts has specific requirements on how to record various types of transactions for different funds and fund types. The most basic requirement of the uniform system of accounts is that all transactions are recorded and classified correctly.

We recommend the county treasurer thoroughly examine each account line item on the quarterly report to ensure items were posted properly. Each adjustment made by auditors has been presented to and reviewed with the county treasurer. We recommend the county treasurer use these adjustments as guidance when preparing future financial statements. In addition, we recommend the fiscal court establish adequate internal controls, oversight, and review procedures to ensure that all financial data is completely and accurately recorded and reported.

County Judge/Executive's Response: Due to accounting database system issue, it was not pulling over line item amounts onto treasurer's quarterly report. We are continuing to work with the accounting software administrator to resolve this problem.

Auditor's Reply: Most of the corrections to the financial statement were reclassifications. The information was in the accounting system, but had been categorized incorrectly.

The fiscal court did not establish adequate controls over the capital projects fund: The fiscal court did not maintain adequate controls over the capital projects fund. No financial statement was prepared and no information regarding the activity in the fund was submitted to the fiscal court for review. This fund is for reporting of debt financing for the fiscal court and not included on the quarterly report, per Department for Local Government (DLG) guidelines. Receipts for this fund during Fiscal Year 2019 totaled \$311,687 and disbursements totaled \$1,048,570 so there is significant activity to be accounted for.

The fiscal court did not have controls in place to ensure preparation of a financial statement for the capital projects fund. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted fund. This could result in undetected fraud, errors, or misstatements occurring.

The fiscal court is financially accountable and legally obligated for the debt of the capital projects fund. The fiscal court should establish adequate controls over the fund so that proper records are maintained and complete and accurate information is available for review.

We recommend the county treasurer prepare a financial statement for the capital projects fund that is submitted to the fiscal court for review.

County Judge/Executive's Response: The treasurer is in the process of reviewing and preparing annual reconciliation reports of our Capital Projects account which is a separate account from the normal bank accounts that are reported to DLG. Treasurer is working on reconciling this account.

The sewer fund budget was understated on the financial statement: Total budget for the sewer fund disbursements on the fourth quarter report (which serves as the fiscal court's annual financial statement) was zero, while the approved budget on the original budget for the sewer fund disbursements was \$552,000.

An error was made when entering the approved budget amendments into the computer system which was not detected by those preparing and reviewing the quarterly reports.

As a result, the amount on the quarterly report for sewer fund total available budget appropriations was inaccurate. The amount was understated by \$551,994. An adjustment was required to post the approved budget amount to the sewer fund for \$551,994 of debt service payments.

The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the original budget and amendments to agree to the quarterly reports.

We recommend the approved budget amendments be accurately included on the quarterly reports so that the fiscal court and regulatory agencies such as DLG can accurately monitor the county's budget.

County Judge/Executive's Response: Due to software issues, sewer account was not on my quarterly report. Treasurer will double check the quarterly report before submitting. Problem was addressed with the accounting software administrator.

The Fourth Quarter Liabilities Journal Was Materially Misstated: This is a repeat finding and was included in the prior year audit report as finding 2018-003. The liabilities journal did not reconcile to the fiscal court's debt schedules, materially misstating debt obligations.

The principal balance misstatements over \$10,000 were as follows:

- General Obligation Bonds, Series 2010, were overstated \$159,920.
- General Obligation Bonds, Series 2011, were overstated \$1,222,700.

- General Obligation Bonds, Series 2011B, were not included on the fourth quarter report, resulting in an understatement of \$1,430,000.
- General Obligation Bonds, Series 2012, were overstated \$625,000.
- General Obligation Bonds, Series 2014, were understated \$68,208.
- General Obligation Bonds, Series 2015, were overstated \$140,000.
- Revenue Bonds, Series 2016, were not included on the fourth quarter report, resulting in an understatement of \$11,040,000.
- Riverport Authority debt was not included on the fourth quarter report, resulting in an understatement of \$355,000.
- Sheriff's vehicles debt were overstated \$99,076.

The fiscal court failed to have controls in place to ensure the fourth quarter report liabilities journal was being reconciled to the debt amortization schedules. As a result, liabilities information is not accurately presented to fiscal court, Department for Local Government (DLG, and any other individuals interested in the fiscal court's financial condition. The debt balances will have a significant, long term financial impact so it is imperative that complete and correct balances are maintained to aid in the fiscal court's financial decision making.

The DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the debt 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. The liabilities information reported needs to be accurate.

We recommend the fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities journal.

County Judge/Executive's Response: Liabilities journal is being reviewed for accuracy and I am in the process of updating this information.

The fiscal court lacks adequate segregation of Duties over receipts and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2018-004. During Fiscal Year 2019, the county treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for the fiscal court and quarterly reports for the Department for Local Government (DLG), made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. While some compensating controls are in place, including the preparation of a receipts log by the finance officer, it is not sufficient.

The fiscal court does not have procedures in place to adequately segregate these duties. As a result, too much control by one individual increases the risk of undetected misappropriation of assets and inaccurate financial reporting. In fact, we noted numerous posting errors related to revenues. Had adequate internal controls or review procedures been implemented, these errors could have been detected and corrected. Reports prepared for DLG and for the fiscal court were not complete and accurate due to the posting errors, which affects the ability of the fiscal court to make informed financial decisions.

A sufficient internal control structure requires adequate segregation of duties. Without proper segregation, the fiscal court cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts.

We recommend the fiscal court segregate incompatible duties or implement strong compensating controls to mitigate the risk identified above. The fiscal court should determine which duties should be performed by the county judge/executive, his designee, or the treasurer that will address these weaknesses.

County Judge/Executive's Response: The county now has a finance officer that will be reviewing all bank reconciliations.

The jailer did not follow proper procedures for advertising bids per state law: The jailer did not follow proper procedures for advertising bids as required by state law. There were ten disbursements to a food service vendor for \$30,000 or more for the same type service to the same company not advertised in the newspaper as required per KRS 424.260. It was reasonably expected for this service and this vendor to exceed the bid threshold for the fiscal year. The jailer did not have controls in place to ensure that staff knew the requirements or did not monitor/review to make sure requirements were followed. The jailer is not in compliance with KRS 424.260. Competitive bidding ensures that the fiscal court procures materials and services at the best price available.

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

We recommend the jailer comply with KRS 424.260 by advertising bids in the newspaper when expenditures with the same vendor for like type goods or services exceeds \$30,000 in a fiscal year.

County Jailer's Response: This audit year was prior to current administration. Upon taking over as Boyd County Jailer, jail started following the state procurement process. On May 28, 2019, the Jailer put out bids for all items over \$20,000 in accordance with state law. Jail continues to bid out items over \$30,000 as per KRS 424.260.

The fiscal court does not have adequate internal controls, review, and oversight procedures for the payroll revolving account: The payroll revolving account did not reconcile to zero as of June 30, 2019. The reconciled balance and the transactions that affect the balance could not be readily explained. According to the information available, the bank account balance as of June 30, 2019, was \$61,908. The fiscal court had receivables of \$224,054, outstanding checks of \$1,740, and outstanding liabilities of \$288,677, leaving an unexplained reconciled balance of (\$4,455) for

fiscal year 2019. In addition, bank reconciliations were not being prepared timely for the payroll revolving account.

The fiscal court did not have controls in place to ensure that the payroll revolving account was reconciled timely and accounted for properly. Neglecting to timely reconcile the payroll revolving account could cause the fiscal court to have insufficient funds and be unable to meet payroll obligations. Further, it could cause the fiscal court's liabilities to not be paid properly or to not be paid timely. Finally, without timely review of the transactions in the payroll revolving account (which is achieved during the reconciliation process), the risk of undetected errors or misstatements increases.

Per KRS 68.210, the state local finance officer has the authority to require a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* includes monthly bank reconciliations as a minimum requirement for all county officials. Since the payroll account is a revolving account, only funds necessary to pay employees and government agencies should be transferred from other county funds. Therefore, each month the account should reconcile to a zero balance. Good internal controls dictate that revolving accounts be reconciled to a zero balance. In addition, monthly bank reconciliations should be prepared and reviewed by someone independent of the reconciliation process.

We recommend the fiscal court properly reconcile the payroll revolving account to a zero balance monthly. Additionally, we recommend the bank reconciliations be reviewed by an employee independent of the reconciliation process. These reviews should be dated and initialed by both the preparer and the reviewer to document evidence of oversight, accuracy, and completeness.

County Judge/Executive's Response: As for the negative balance, the treasurer did not transfer enough money from other funds to cover expenses taken out of payroll account. This was not a negative cash balance. The payroll account is supposed to reconcile to zero each month.

The jail lacks adequate segregation of duties over jail commissary transactions: This is a repeat finding and was included in the prior year audit report as Finding 2018-005. The jail lacks adequate segregation of duties over jail commissary transactions. A deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper for the jail commissary prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, posts to the disbursements ledger, and prepares monthly bank reconciliations. The jailer has been informed of this issue and has failed to segregate duties or to implement and document compensating controls sufficient to offset the weakness noted.

Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements, which increases the risk that misappropriation of assets and inaccurate financial reporting will occur and be undetected. A strong internal control system requires the duties of receiving, recording, disbursing, and reporting be segregated in order to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the jailer has implemented some compensating controls, such as dual signatures on checks and recounting the daily deposits, they do not eliminate the risk associated

with inadequate segregation of duties. If these duties cannot be segregated, the jailer should implement additional compensating controls to help offset this weakness:

- Recount the daily deposit and verify that it agrees to the daily checkout sheet.
- Agree daily checkout sheet to the receipts ledger and deposit slip.
- Review the monthly reports and agree them to the receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation and trace transactions to source documents.

The jailer should initial these documents as proof of his review. We recommend the jailer either segregate duties adequately or implement and document these compensating controls.

County Jailer's Response: This audit year was prior to current administration. Jail has instituted a full time Commissary Deputy. Along with other duties, this deputy shall verify the daily deposits, receipts ledger and deposit slips match the daily checkout sheet prepared by the Bookkeeper. The Jailer or his Chief Deputy shall review the monthly reports and monthly bank reconciliation and trace transactions and sign off on reports.

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

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