



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Calloway County Fiscal Court for the fiscal year ended June 30, 2018. 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 Calloway 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:

Internal control deficiencies and noncompliances exist over the collection of receipts at off-site locations: The Calloway County Fiscal Court has internal control deficiencies and noncompliances regarding the collection of receipts at off-site locations. The following findings were noted with the Calloway County Fiscal Court’s collection of receipts at off-site locations:

- Receipts collected at the Road Department, Animal Shelter, and collections for Dexter Community Center are not turned over to the county treasurer to be deposited on a daily basis, as required by KRS 68.210.

- One slip of the triplicate receipts is not being turned over to the county treasurer with monies collected to be placed with the daily bank deposit by the Animal Shelter or the Dexter Community Center, as required by KRS 64.840. Therefore, the county treasurer cannot compare the amounts collected to supporting documentation to ensure all receipts are accounted for.
- A receipts ledger is not being maintained at the Animal Shelter or the Dexter Community Center.
- The Animal Shelter disposed of the office copies of receipts issued to customers for calendar year 2017.
- The Animal Shelter and the collectors for the Dexter Community Center do not always issue a triplicate receipt to customers for applicable transactions, as required by KRS 64.840.

Due to a lack of effective internal controls, receipts were left vulnerable to misappropriation and loss. Amounts due to the fiscal court could not be verified due to the lack of documentation. Also, the Calloway County Fiscal Court is not in compliance with KRS 64.840 which requires the issuance of receipts for all funds collected by the county.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. Additionally, 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*. The manual states, "daily deposits intact into a federal insured banking institution."

According to KRS 64.840:

all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

(2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit.

We make the following recommendations to address these findings:

- All receipts collected at the Road Department, Animal Shelter, and collections for the Dexter Community Center should be turned over to the county treasurer daily to be deposited according to KRS 68.210.
- With the money collected, the Animal Shelter and collector for the Dexter Community Center should also turn over all receipts issued so the county treasurer can retain the receipts with the daily bank deposit according to KRS 64.840. Also, the county treasurer should compare the amount collected to the receipts issued and ensure all receipts have been accounted for.
- The Animal Shelter and collector for the Dexter Community Center should maintain a receipts ledger documenting all receipts collected. The receipts ledger should document the date of transaction, who the money was received from, the amount collected, and what the money was collected for.
- All records in regards to the county's receipts should be maintained.
- Prenumbered, triplicate receipts should be issued for all applicable transactions according to KRS 64.840.

Former County Judge/Executive's Response: We will comply by having departments turn in copies of receipts to Treasurer's office.

Weak internal controls resulted in the misstatement of capital assets on the county's schedule of capital assets: Material weaknesses exist over the reporting of capital assets of Calloway County. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. The fiscal court's beginning balance for capital assets required restatements because of errors involving prior year deletions. The fiscal court's ending balance of the schedule of capital assets for the period of audit was misstated by \$87,861. However, numerous misstatements were noted involving asset additions and deletions because the fiscal court did not properly update the capital asset list. Additions were misstated overall by \$83,653 because some additions were excluded from the county's capital asset schedule while some items that did not meet the threshold for capitalization had been included. Also, some assets were included on the schedule even though they are owned by another entity. Deletions were misstated overall by \$226,879 because prior year deletions had not been properly removed from the schedule and were instead shown as current year deletions.

It was also noted that two pieces of equipment that had been installed on two new dump trucks had not been added to the county's insurance policy.

These misstatements occurred because the fiscal court failed to emphasize strong internal controls over the reporting of capital assets and instead relied on a single employee without sufficient supervision. Due to these weak internal controls, capital assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation.

We recommend the fiscal court maintained a detailed inventory system. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's inventoried assets.

Former County Judge/Executive's Response: County will more diligent on keeping records of capital assets purchased and surplused.

The Calloway County Fiscal Court lacked adequate segregation of duties over the collection of receipts: The former assistant county treasurer collected receipts, prepared the deposit, and posted the receipts to the receipts ledger. There is no documentation that the former county treasurer or anyone else reviewed the collection and recording of receipts performed by the former assistant county treasurer.

Due to the lack of internal controls in place, the duties associated with the custody, recordkeeping, and authorization of receipts were not segregated, which increases the risk of undetected errors or fraud.

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the judge segregate the duties noted above by designating an individual independent of the cash receipts process to review the daily listing of receipts and compare it to the deposit slip. Documentation, such as the reviewer's initials or signature, should be provided on those items that are reviewed.

Former County Judge/Executive's Response: We do not agree with this finding. The county treasurer reviewed all receipts, ledgers and deposits. We will comply by Treasurer initialing all receipts and deposits.

Auditor's Reply: While the former treasurer may have reviewed the former assistant county treasurer's postings and deposits, there was a single individual performing the duties.

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

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