



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Clark County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the single audit of the Clark County Fiscal Court for the fiscal year ended June 30, 2015. 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 Clark 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.

In accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, we have issued an unmodified opinion on the compliance requirements that are applicable to Clark County Fiscal Court’s major federal programs.

As part of the audit process, the auditor must comment on non-compliance 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 fiscal court did not have adequate controls over reporting of capital assets to ensure accuracy. The master capital asset listing provided to the auditors contained material inaccuracies. The county maintains fixed asset listings for all departments within the county; however, these lists are not utilized in the preparation of the capital asset schedule to ensure that all assets meeting the capitalization threshold are listed. The county failed to include capital assets totaling \$249,061 on the schedule.

The fiscal court lacks adequate controls over reporting and valuation of capital assets. The fiscal court has not adequately monitored and tracked capital assets as required by the Department for Local Government (DLG). Without adequate controls, the risk of asset misappropriation increases.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation. KRS 68.210 give the State Local Finance officer the authority to prescribe a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, “For purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year. The asset inventory listing should provide the following detail:

- Property Tag number
- Asset description
- Serial number - if applicable
- Quantity - if applicable
- Cost (or Fair Market Value of donated asset at date of donation)
- Date of acquisition
- Date of disposal (track all disposals for entire fiscal year)
- Property location (by department, building & room number)
- Manager/individual responsible

The Asset Inventory Listing will include assets reported on the Capital Asset Listing, with the exception of infrastructure assets.” The manual further explains that an annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented. The asset inventory listing should be updated for all additions, disposals, and property location changes, etc. Authorization must be given to appropriate accounting personnel for asset record and asset inventory listing modifications.

DLG further requires that adequate fixed asset records provide the information necessary to report the cost or other basis of valuation, determine the accuracy of insurance coverage, maintain control of county property, and for long range planning for property replacement. Maintenance of records for general fixed assets which fall into any of the following three categories is a requirement of the Uniform System of Accounts for Kentucky counties:

1. Real Estate
2. Motor vehicles (including road equipment)
3. Valuation in excess of \$100

In order to strengthen the county’s internal controls over capital assets, we recommend the county reconcile asset purchases and disposals with the general ledger. The county should also reconcile the schedule to the physical inspection of county assets at the end of each year and make comparisons to the county’s list of inventoried assets and insurance policy.

Judge/Executive Henry Branham's Response: We will implement another level of monitoring capital purchases over \$5,000. Time to be completed – June 30, 2017.

The jailer failed to maintain sufficient records and prepare an accurate annual report for the jail commissary fund. During our review and testing of the jail commissary fund, we noted the following deficiencies:

- Receipts and disbursements ledgers were not properly maintained.
- Accurate bank reconciliations were not prepared and agreed to book balances.
- The year-end financial report presented to the county treasurer lacked adequate detail and contained inaccuracies.
- Items were purchased from commissary account that were not allowable.
- Daily checkout sheets were not utilized for receipts.
- The jailer utilized a debit card for purchases instead of by check.

There was an administration change during Fiscal Year 2015 and changes recommended by former auditors were not implemented to correct these issues.

The failure to maintain accurate, detail reports does not provide a true picture of the activities within the jailer's accounts. This can also leave an opening for the increased risk of misstatements or omissions.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines the following minimum accounting and reporting requirements pursuant to the authority to prescribe a system of uniform accounts for all counties and county officials given to the State Local Finance Officer by KRS 68.210:

- Daily Checkout Sheets and Daily Deposits
- Receipts Journal
- Disbursements Journal
- Jail Canteen Fund Summary and Reconciliation

As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual - Jail Commissary Fund Instructions for Disbursements Journal*, "Each check written must be posted to the proper category listed on the form. Checks should be issued for all expenditures made."

According to KRS 441.135(2), "[a]ll profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. The 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." Examples of allowable expenditures from a canteen account given in KRS 441.135(3) include those for "recreational, vocational, and medical purposes."

The jailer should review the jail operations and ensure compliance with DLG's manual and applicable statutes. Furthermore, we recommend the fiscal court reimburse the jail commissary account for the purchase of two dryers totaling \$9,862 from the jail fund.

Judge/Executive Henry Branham's Response: We, at the central office of Clark County government, will assist the Jailer in any way we can to correct this.

Jailer Frank Doyle's Response: I, Jailer Frank Doyle, have implemented a report on excel documents to input monthly to aid in the annual report. Reports previously completed were done so by what the previous auditor instructed the Detention Center to do. Reports will be completed per KRS 68.210. Purchase of two dryers in the amount of \$9,862 were purchased under the previous jailer and to ensure that this does not happen again we are now getting the opinions of the Clark County Attorney and the Attorney General before purchases such as these are made.

The jailer did not implement adequate segregation of duties and oversight for receipts, disbursements, and reconciliations. The jail's bookkeeper prepares deposits, takes the deposit to the bank, prepares and signs checks, posts these disbursements to the disbursements spreadsheet that is utilized in preparation of the annual financial statement submitted to the fiscal court, and performs the monthly bank reconciliation.

Due to the limited number of employees, the jailer was unable to maintain adequate segregation of duties over receipts, disbursements, and reconciliations. Failure to maintain adequate segregation of duties or implement compensating controls, such as strong oversight, increases the risk for fraud or theft.

Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. Without proper segregation of duties, inaccurate financial reporting and misappropriation of assets can occur.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements posted to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

County Judge/Executive Henry Branham's Response: We, at the central office of Clark County government, will assist the Jailer in any way we can to correct this.

County Jailer Frank Doyle's Response: I, Jailer Frank Doyle, will be seeking more employees to aid in the segregation of duties. We have implemented new policy at this time to have Jailer Frank Doyle to initial all receipts, date stamp invoices as received and paid.

I, Jailer Frank Doyle, will also review the bank reconciliations each month and initial them as being reviewed.

The jailer failed to maintain required accounting records for the inmate account. The jailer failed to maintain required accounting records for the inmate account during Fiscal Year 2015. Inmate account financial information was maintained in the accounting software of the commissary service provider through February 2015. In March 2015, the jailer changed commissary service providers, and the financial information maintained by the previous commissary service provider was not obtained. The jailer has made several unsuccessful attempts to retrieve the information from the previous service provider.

The lack of financial information for the inmate account prevents the performance of audit procedures necessary to ensure the accuracy of amounts presented for the inmate account, and auditors could not determine if the inmate account balance was sufficient to cover the jail's fiduciary responsibility to the inmates. Additionally, the lack of accounting records could prevent the jailer from detecting fraudulent activity within the account.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including

- books of original entry for receipts and disbursements,
- monthly bank reconciliations, and
- daily deposits to a federally insured banking institution.

We recommend the jailer ensure monthly reports are maintained for the inmate account to prevent this issue from occurring in the future. The jailer should obtain financial information for the inmate account from the commissary service provider including receipts and disbursements, inmate account balances, outstanding accounts receivable balances, and any other necessary financial information as of the last date. The jailer should obtain inmate balances as of the last day they used the former commissary service provider to compare to the first day of the current commissary service provider in order to verify that they began with the correct inmate balances. Further, the jailer should ensure that the total inmate balances held on the day of transfer to the new commissary vendor was transferred to the new bank account. If funds remain in the former commissary inmate bank account, the jailer should try to identify the owners of those funds. If the ownership of the funds cannot be determined, the balance should be held in escrow for three years, then turned over to the state treasury as unclaimed funds. Jail personnel charged with

accounting for commissary and inmate funds should receive further training on proper bookkeeping for each of the accounts.

Judge/Executive Henry Branham's Response: We, at the central office of Clark County government, will assist the Jailer in any way we can to correct this.

Jailer Frank Doyle's Response: The Detention Center changed Commissary providers and in doing so the prior provider, (vendor name redacted), completely locked the Detention Center out of their programs and though several attempts were made for the information the company failed to comply and sent the information to the Detention Center. I, Jailer Frank Doyle, have no intentions of changing providers at this time with that being said the records are readily available to the Detention Center. Monthly bank reconciliations are completed and checked for and discrepancies.

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

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