



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Edmonson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Edmonson County Fiscal Court for the fiscal year ended June 30, 2016. 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 Edmonson 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 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 ensure compliance with their Section 218 Social Security Agreement. Current year testing revealed the county treasurer, who is the former finance officer, is now subject to social security withholdings since she moved into a new position as of January 2015. The county treasurer has not been subject to social security coverage upon approval by the state social security office. The deficiency was able to occur due to the lack of knowledge in understanding this requirement was in effect if the employee changed positions. Without proper review of employee social security and medicare withholding deductions each year, there is no documented evidence as to why some employees would not have social security taxes withheld and could be improperly reported. Edmonson County's Section 218 agreement with the state social security office revealed that on February 7, 2007, Modification 855

providing social security and medicare coverage for the employees of Edmonson County was approved and became in force on April 1, 2007. The employees who voted no remained in the original retirement coverage group. As of July 1, 2014, only two of these employees remained employed by the fiscal court. Since social security coverage is contingent upon the position and not the employee, as long as the two employees who opted to waive social security remain in the position they held when the election was conducted, they are not subject to the social security coverage. If they assume any other position with this employer, they are subject to social security coverage and become part of the coverage group who received social security coverage. In January 2015 one of these employees moved to a new position as noted above.

We recommend the county stay in compliance with their Section 218 agreement regarding social security and medicare coverage by ensuring the county treasurer now becomes subject to social security withholdings upon her change of position. The county should contact the state social security office to determine how to handle wages paid to the county treasurer from January 2015 to present.

County Judge/Executive's Response: We will fix this.

The fiscal court did not have adequate internal controls over disbursements. The fiscal court had a control deficiency in internal controls over disbursements. This deficiency resulted from the combination of inadequate segregation of duties of weakly designed and implemented internal controls. As a result, the following internal control deficiency was noted:

- The fiscal court paid sales tax on nine hotel rooms

Proper internal controls over disbursements are important to ensure invoices include proper documentation, are approved by the fiscal court, and sales tax is not paid on invoices. We recommend the fiscal court implement good internal controls over disbursements. We recommend the fiscal court maintain supporting documentation, all disbursements be submitted to the fiscal court for their review, and put procedures in place to prevent sales tax being paid.

County Judge/Executive's Response: We are also working on this finding.

The fiscal court lacks segregation of duties over receipts, disbursements, reconciliations, and capital assets. The fiscal court lacks adequate segregation of duties over receipts, disbursements, reconciliations, and capital assets. The Edmonson County Finance Officer receives the mail, makes copies of the checks, and prepares and takes deposits to the bank. The county treasurer posts the receipts and disbursements to the ledgers, prepares and signs the checks, and reconciles the bank statement monthly. In addition, the county treasurer prepares the financial report. The county treasurer maintains the capital asset listing in a notebook and periodically reviews it.

The condition is a result of a limited budget, which restricts the number of employees the fiscal court can hire or delegate duties to. A lack of segregation of duties increases the fiscal court's risk of misappropriation of assets, errors, and inaccurate financial reporting. Segregation of duties over receipts, disbursements, the reconciliation process, and capital assets or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

We recommend the fiscal court strengthen internal controls by segregating these duties. If segregation is not possible, due to the limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

County Judge/Executive's Response: We are attempting to resolve this problem. I have been comparing the amount on each check with the PO and coversheet and then dating and initialing each cover sheet.

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

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