



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Hart 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 Hart 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 Hart County Jail Commissary lacks adequate segregation of duties over accounting functions.** The bookkeeper collects receipts and posts to the receipts ledger. She also prepares and signs checks and posts to the disbursements ledger. In addition, she prepares monthly reports and bank reconciliations. This condition is the result of a limited budget, which restricts the numbers of employees the county can hire or delegate duties to. The lack of segregation of duties increases the risk of errors and inaccurate financial reporting. As a result of this lack of segregation of duties, significant deficiencies were noted during testing (see findings 2016-002 and 2016-003). Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We

recommend the jailer segregate accounting duties or implement strong oversight in these areas. The jailer could have an employee independent of those functions or himself review transactions and initial the documentation.

*County Judge/Executive's response: The official did not respond.*

*County Jailer's response: Upon the auditor's recommendations regarding the issue of segregation of accounting duties the Jailer and the Major will be reviewing all transactions and we will initial all documentations.*

**The Hart County Jail Commissary did not have strong internal controls over disbursements.** Supporting documentation was not maintained, and appropriate procedures were not followed. As a result of not monitoring internal controls, the deficiencies listed below occurred. These errors resulted from the combination of inadequate segregation of duties and weakly designed and implemented internal controls. These deficiencies could result in inaccurate reporting and misappropriation of assets. The following exceptions were noted:

- The jail commissary paid a duplicate invoice in the amount of \$1,582.
- The jail commissary paid state tax on three of 27 invoices tested, totaling \$43.
- Twelve out of 19 invoices, totaling \$15,835, were not paid within 30 days.
- Three invoices were underpaid by \$1,333.
- Inmate commissary invoices were not detailed nor reconciled with actual inmate commissary purchases.
- Backs of cancelled checks were not obtained from the financial institution.

Proper internal controls over disbursements are important to ensure invoices are paid timely and correctly, and to ensure that state tax is not paid. Without the financial institution providing backs of cancelled checks, the jailer cannot determine proper endorsement by the intended payee to ensure fraud had not occurred. In addition, KRS 65.140 states, “[a]ll bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” KRS 139.470(7) exempts local governments from paying state sales tax on goods and services.

We recommend the jail commissary implement good internal controls over disbursements by comparing and reconciling invoices to inmate commissary purchases, reviewing invoices to ensure the correct invoices are paid and duplicate invoices are not paid, paying invoices within 30 working days of receipt of vendor’s invoice, and implementing procedures to prevent state tax being paid. We also recommend the jail commissary request the financial institution to provide the backs of cancelled checks to ensure proper endorsement by the intended payee.

*County Judge/Executive's response: The official did not respond.*

*County Jailer's response: Upon the auditor's recommendations regarding the issue of duplicated invoices we will be comparing and reconciling invoices daily. All Deputies have been informed never pay State Tax for purchases regarding the Jail. All invoices will be paid daily and signed by the secretary and approved by the Jailer or the Major, to make sure that all*

*invoices are paid on time and never under paid. Notified [financial institution name redacted] as of 3/1/2017 to provide the back of checks to insure proper endorsement by the intended payee.*

**The Hart County Jail Commissary did not properly account for receipts, daily checkout sheets, and did not deposit receipts intact daily.** These errors resulted from the combination of inadequate segregation of duties and weakly designed and implemented internal controls. As a result, the following deficiencies were noted:

- The deposit for June 13, 2016 included receipts from June 7, 2016 to June 13, 2016.
- The deposit for June 16, 2016 included receipts from June 14, 2016 to June 16, 2016.
- The jailer does not account for numerical sequence of the manual daily receipts.
- The batch of pre-numbered receipts did not foot or agree to the daily checkout sheet. Of the daily checkouts tested for the period of June 13, 2016 to June 17, 2016, 66 receipts were missing, and 17 receipts were not signed by inmates.
- Amounts on the deposit tickets were not categorized into cash, check, and money order; therefore, amounts for each category could not be traced to the daily checkout sheet.
- ACH gift card reports are not being printed and reconciled to the daily deposits. Inmate's family and friends can go online and deposit money in inmate's accounts. Amounts are not being reconciled to ensure they are deposited into the correct inmate's account.
- No daily checkouts sheets or daily ledgers were available for the new commissary bank account opened in April 2016.
- Jail commissary money is being used to purchase items to furnish a vending machine for use of jail employees and the public. It was noted a jail employee was allowed to purchase cases of drinks by writing a check and depositing into the commissary account. No receipts were given for these purchases; however, the bookkeeper would write the name of the employee who made the purchase on the deposit slip. In addition, vending machine money is only retrieved every few days by jail employees and given to the bookkeeper to deposit.
- Jail inmate fees of \$50 collected on the week tested were turned over to fiscal court twice in error out of the per diem account and old inmate account.
- Court ordered fees of \$65 were collected for drug tests on work release inmates. These fees are put in the safe at the jail instead of deposited daily.

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 *County Budget Preparation and State Local Finance Officer Policy Manual* which is to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. We recommend the jailer properly account for receipts and daily checkout sheets, and deposit receipts intact daily to comply with the guidelines prescribed by the State Local Finance Officer by maintaining at least the required minimum records.

*County Judge/Executive's response: The official did not respond.*

*County Jailer's response: Upon the auditor's recommendations regarding the issue of: Accounts for receipts. All receipts, daily checkout sheets and deposits receipts will be checked daily by the Jailer or the Major. We have also installed [vendor name redacted] commissary software and Kiosk Machine to keep a better record of daily reports. All deposits will be made daily. Court ordered drug test money will be deposited in to a sub account of the inmate commissary account when court ordered.*

**The Hart County Jail Commissary did not remit sales tax to the Kentucky Department of Revenue.** The bookkeeper was unaware she was required to submit sales tax for electronic cigarettes and toilet paper. Failure to submit all sales tax required will understate the amount due on the reports, resulting in penalties and interest being charged. KRS 139.540 and KRS 139.550(1) requires sales tax collected to be reported and paid to the Kentucky Department of Revenue monthly on or before the twentieth day of the next month. We recommend the jailer collect and submit sales tax on all items required by the Kentucky Department of Revenue. In addition, the jail should contact Department of Revenue to see if it is necessary to file any back period returns.

*County Judge/Executive's response: The official did not respond.*

*County Jailer's response: Upon the auditor's recommendations regarding the issue of Submitting sales tax for electronic cigarettes and toilet paper. The Jailer will collect and submit all sales on all items required by the Kentucky Department of Revenue. The Jailer will contact the Department of Revenue to see if it is necessary to file any back-period returns.*

**The Hart County Fiscal Court did not properly disclose debt on the quarterly report and budget accordingly.** The Hart County Fiscal Court did not report the correct amount of liabilities on the fourth quarter financial report. The fiscal court reported \$8,615,000 for the First Mortgage Revenue Bonds, Series 2007 (Judicial Center Project), while the correct balance should have been \$555,000. The First Mortgage Revenue bonds, Series 2007 were partially defeased by the First Mortgage Refunding Revenue Bonds Series 2015 on February 19, 2015. In addition, the fiscal court reported \$7,065,135 for the First Mortgage Refunding Revenue Bonds Series 2015, while the correct balance should have been \$7,290,000. Furthermore, the fiscal court entered into lease agreements on behalf of the Hart County Solid Waste and the Hart County Library during Fiscal Year 2016, and the lease proceeds of \$791,981 and total debt payments of \$196,998 were not included in the budget.

The fiscal court was not aware they needed to budget or include these payments since the Hart County Solid Waste and the Hart County Library were making the debt payments directly to the Kentucky Association of Counties. The prior year exit conference was held subsequent to Fiscal Year 2016; therefore, the fiscal court did not have time to correct this issue. By not correctly reporting or budgeting for outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year. Total principal debt obligations as of June 30, 2016 were overstated by \$7,835,135 and total interest obligations as of June 30, 2016 were overstated by \$2,443,579 on the liabilities section of the fourth quarter report. In addition, since the fiscal court did not budget or include these debt service payments,

the general fund total disbursements exceed budgeted appropriation amounts by \$704,379 after adjustments.

KRS 68.280 states, “[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby.” KRS 68.240(1) states, “[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.” According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG), “[a]ll borrowed money received and repaid must be reflected in the county budget. Any borrowed money that is not reflected in the original budget estimate must be amended into the budget and be properly reflected on the financial report as a receipt as well as an ‘expenditure’ for repayment of borrowed funds.” Furthermore, all funds should be recorded in receipts and appropriation ledgers. DLG’s manual also requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt.

We recommend the fiscal court properly disclose all debt on the quarterly financial reports. We also recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary, and report the receipt and disbursement of all funds on the quarterly financial reports.

*County Judge/Executive’s response: I did not know this until the closing of 2015/2016 Fiscal Year. The budget as of today has been amended to include this.*

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

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