



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Jackson County Fiscal Court for the fiscal year ended June 30, 2020. 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 Jackson 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 Jackson County Fiscal Court did not accurately report financial information on the annual financial statement and the fourth quarter financial report:** This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The Jackson County Fiscal Court’s annual financial statement and the fourth quarter financial report contained the following errors:

- The annual financial statement did not include a complete listing of disbursements for each vendor.

- The general fund was misstated by \$5,033 due to the balance of a certificate of deposit being omitted from the final balance reported on the financial statements.
- Budget amendment approved on September 9, 2019, totaling \$59,151 for the LGEA fund was not included on the annual financial statement or the fourth quarter financial report.
- The fiscal court failed to report encumbrances as required.

Controls were not in place to ensure that staff knew the requirements and to make sure they were being followed. The county also did not have sufficient controls in place to ensure all budget amendments had been included on financial reports. This has resulted in the financial reporting errors for county funds.

KRS 68.360(2) states, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund.” Those encumbered balances are required to be reported on the county’s annual financial report.

KRS 424.220(2) states, “[t]he statement shall show: (a) The total amount of funds collected and received during the fiscal year from each individual source; and (b) The total amount of funds disbursed during the fiscal year to each individual payee. The list shall include only aggregate amounts to vendors exceeding one thousand dollars (\$1,000).”

Strong internal controls over financial reporting are vital in ensuring the fiscal court’s financial reports accurately reflect the financial activity of the fiscal court. These controls should include an individual independent of the accounting function reviewing the financial reports for compliance with reporting requirements.

We recommend the Jackson County Fiscal Court improve procedures over financial reporting to ensure accurate reporting of the county’s financial status and compliance with applicable statutes.

*County Judge/Executive’s Response: The Treasurer’s office corrected the financial statement when it was discovered that a couple of transactions were not accounted for. The system created 2 transactions per entry in the software and one of the transactions of each did not clear and reflect on the financial statement.*

**The Jackson County Fiscal Court’s disbursement exceeded budgeted appropriations for several funds:** The Jackson County Fiscal Court exceeded budgeted appropriations in the road fund, jail fund, Local Government Economic Assistance (LGEA) fund, and the transfer station fund. Fiscal courts are required to maintain expenditures within budgeted appropriations in all operating funds. The following amounts were overspent when compared to the budgeted appropriations:

- Road fund budget was overspent in the amount of \$7,118.
- Jail fund budget was overspent in the amount of \$53,410.
- LGEA fund budget was overspent in the amount of \$1,948.

- Transfer station fund was overspent in the amount of \$92,439.

The fiscal court failed to properly monitor budgeted expenditures of the county's operating funds and to submit budget amendments for approval as necessary. A portion of expenditures of the Jackson County Fiscal Court's road fund, jail fund, LGEA fund, and transfer station fund were made without sufficient budget appropriations. KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." Strong internal controls over financial reporting are vital in ensuring the fiscal court's actual expenditures do not exceed the budgeted expenditures in each fund.

We recommend the Jackson County Fiscal Court implement controls to ensure that expenditures are within budget appropriations as required by statute.

*County Judge/Executive's Response: The fiscal court had a state of emergency that exceeded budgeted appropriations unexpectedly.*

Auditor's Reply: KRS 67.078 allows a fiscal court to declare an emergency and act in a single meeting, thus allowing fund transfers to take immediate effect when made in accordance with KRS 68.290, which specifically provides for this situation, stating, "The fiscal court may transfer money from one (1) budget fund to another to provide for emergencies... The order of the fiscal court making the transfer shall show the nature of the emergency...and the reason for making the transfer." These procedures were not followed.

**The Jackson County Fiscal Court did not have adequate controls over cash transfers between funds:** The Jackson County Fiscal Court did not have adequate controls over cash transfers between funds during Fiscal Year 2020. Cash transfers were not consistently approved by the fiscal court prior to being transferred. As a result the following cash transfers were not properly authorized:

- Sixteen out of 44 transfers totaling \$568,000 were not documented in the minutes of the fiscal court meetings with approval to transfer amounts.
- Twelve out of 44 transfers were approved in the minutes of the fiscal court after the transfer was already made.
- One transfer was approved in the minutes of the fiscal court for \$50,000 but the actual transfer made was \$150,000 for a difference of \$100,000 that was not approved.

Additionally, the fiscal court transferred \$430,000 from the road fund to the general fund during the fiscal year ending June 30, 2020, for administration expense. State truck license distribution receipts for Fiscal Year 2020 were \$250,741, which is the maximum amount allowable for the road fund to transfer to the general fund, meaning the general fund was overpaid by \$179,259. During the year, a total of \$150,000 was transferred back to the road fund from the general fund, leaving a total of \$29,259 yet to be reimbursed to the road fund.

The county treasurer transferred funds before approval due to timing issues in an attempt to avoid late payment fees and penalties that would have incurred if she had waited until the next upcoming fiscal court meeting. The fiscal court did not have controls in place to ensure compliance with state law regarding the uniform system of accounts which requires all cash transfers to be properly authorized and only the allowable amount should be transferred from the road fund to the general fund. The transfer of road fund monies to the general fund reduces the amount of funds available to maintain county roads. Furthermore, by not properly authorizing cash transfers, the risk of misappropriation of assets is increased as cash could be transferred to non-county funds.

Strong internal controls over cash transfers are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. The fiscal court should also have a process to monitor amounts transferred from the restricted road fund into the unrestricted general fund to ensure that amounts transferred do not exceed what is allowable.

In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, requires all cash transfers to be approved by court order and be documented in the *Fiscal Court Orders Book*.

According to page 73 of DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[a]ll transfers require a court order." Also, according to page 19 of DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[t]he total of road fund dollars appropriated for administrative costs must not exceed truck license distribution receipts.

We recommend the fiscal court implement stronger internal controls over the cash transfer process to ensure all cash transfers are approved by the fiscal court and the approval by the fiscal court prior to the transfer being made. In addition, we recommend the Jackson County Fiscal Court reimburse the road fund a total of \$29,259 from the general fund and to also establish procedures to ensure that transfers from the road fund do not exceed what is allowable based upon funds received from the state for truck license distribution.

*County Judge/Executive's Response: The transfers are now being reported in the minutes before they are executed.*

**The Jackson County Fiscal Court did not have adequate procedures for reporting county liabilities:** This is a repeat finding and was included in the prior year audit report as Finding 2019-004. The Jackson County Fiscal Court had posting errors related to debt service payments. The liabilities section of the financial statement was misstated. Of the five debts listed, the principal balances for four of the debts were not reported correctly, resulting in a difference of \$1,248,692. The interest balances on all five debts were not reported correctly, resulting in a difference of \$1,436,783.

The fiscal court does not have controls in place to ensure balances were reported properly. Some of the differences in the principal and interest balances are likely due to posting errors in prior

years. The software used by the fiscal court calculates the balances for principal and interest based upon when debt service payments are issued. If the debt service payments were misclassified when issued, then the balances would not calculate properly. This has resulted in the misstatement of county liabilities, making it difficult for management to easily determine where the county's debt balances stand.

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 report all liabilities of the county, even when related to unbudgeted funds. The schedules should be reported with correct balances. Procedures should be in place with the fiscal court to ensure that all liabilities held at fiscal year-end are reported on the liabilities schedule and have accurate ending balances.

We recommend the county improve procedures to ensure proper reporting of all county liabilities on the financial statement. We also recommend that the county ensure that debt service payments are properly recorded on the disbursement ledgers.

*County Judge/Executive's Response: Software is not deducting correctly when each payment is processed from the balance.*

**The Jackson County Fiscal Court does not have adequate procedures over handling of disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2019-005. During testing of disbursements, the auditor tested 144 disbursements and 11 lease invoices. The following issues were noted:

- Five disbursements did not have adequate supporting documentation. Invoices could not be found. It could not be determined if disbursements were a valid obligation of the fiscal court at time of payment due to missing invoices.
- Eleven disbursements were not presented to the fiscal court before being paid.
- Three disbursements were not properly recorded. One disbursement was listed on ledgers as a check, but cleared as an Automatic Clearing House (ACH). Two disbursements posted to ledgers as being paid have not cleared the bank.
- Eight disbursements were not paid within 30 working days of receiving the invoice. The fiscal court does not document when an invoice is received. The invoice date was used to determine if the invoice was paid timely.
- Eighty-three disbursements did not have a purchase order prepared before the purchase of the item.
- Six disbursements included late fee/service charges.
- One disbursement amount paid did not agree to the invoice.
- One disbursement was paid from a monthly statement and not a detailed invoice. It could not be determined if the disbursement was a valid obligation of the fiscal court at the time of payment due to the invoice not being detailed.
- Food service for the detention center was never properly bid. The county judge/executive presented the contract with a vendor for food service during a fiscal court meeting in 2014. The contract was for a three year term and annually renews thereafter.
- One health insurance disbursement was paid late.

- Four out of eleven lease invoices for three leased vehicles were paid late and incurred finance charges of \$136.

The fiscal court failed to establish appropriate internal controls over disbursements and has failed to document review activities performed by the county judge/executive. The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance reflected above.

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* presents requirements for counties handling of disbursements, including:

- County should have a purchase order system where all purchases are approved and the budget is checked for sufficient available appropriation.
- Operating disbursements are required to have appropriate supporting documentation and be properly coded prior to inclusion on the monthly claims list.
- Claims against the county are required to be paid within 30 days pursuant to KRS 65.140.

KRS 68.275(2) states, in part, “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment[.]”

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.”

Good internal controls over disbursements are necessary to ensure proper reporting and ensure the county is conducting business that is compliant with required statutes.

We recommend the fiscal court improve procedures over disbursements to ensure the proper handling of disbursements.

*County Judge/Executive's Response: Fiscal Court was unaware of the need to bid food service for the Jail. Fiscal Court is continuing to improve disbursement procedures.*

**The Jackson County Fiscal Court does not have adequate segregation of duties over receipts, record keeping, report preparation and reconciliations:** This is a repeat finding and was included in the prior year audit report as Finding 2019-006. Segregation of duties did not exist over the fiscal court receipts process including collection and processing, record-keeping, report preparation, and reconciliations. The county treasurer and assistant treasurer perform all receipt functions, including preparing deposits, posting to ledgers, preparing reports, and performing bank reconciliations. The county has implemented compensating controls, including the county judge/executive reviewing deposits; however, these reviews are not documented. The fiscal court operates with a small staff, making it very difficult to adequately segregate responsibilities. This

deficiency increases the risk of misappropriation of assets, errors, and financial reporting going undetected.

The segregation of duties over various accounting functions such as collecting receipts, preparing deposits, report preparation, and bank reconciliations are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court separate the duties in preparing deposits, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this by signing or initialing the supporting documentation.

*County Judge/Executive's Response: Fiscal Court doesn't have enough funds to employ enough people to supply adequate segregation of duties.*

Auditor's Reply: While segregating duties is the best to improve controls, the fiscal court can implement documented strong oversight and review with existing staff that would not require the hiring of additional staff.

**The Jackson County Fiscal Court does not have internal controls over transfer station receipts and deposits:** The following issues were noted with regard to internal controls over receipts and deposits at the county transfer station:

- Daily check-out sheets were not prepared.
- Receipts were not accounted for in numerical sequence.
- Proper review of collections was not documented when the deposit was prepared and delivered to the county judge's office for deposit into bank.

The Jackson County Judge/Executive and the fiscal court have failed to establish internal controls over receipts and deposits from the county's transfer station. Inaccurate financial reporting and misappropriated funds may occur when receipts are not accounted for on a daily basis, daily check sheets are not prepared, and receipts are not accounted for in numerical sequence.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* establishes several procedures to institute a strong internal control environment, including issuing pre-numbered three-part receipts for all receipts and ensuring that deposits are made daily intact.

We recommend the judge/executive and fiscal court strengthen internal controls to ensure daily check-outs are performed and receipts are processed in order. We also recommend the employee providing oversight document this by signing or initialing the supporting documentation.

*County Judge/Executive's Response: Fiscal Court is working to correct the transfer station transactions.*

**The Jackson County Fiscal Court does not have internal controls over occupational tax collections:** This is a repeat finding and was included in the prior year audit report as Finding 2019-007. The Jackson County Fiscal Court does not have adequate controls over occupational tax collections. The occupational tax administrator performs all duties associated with occupational taxes. All receipts are collected, recorded, and deposited by the occupational tax administrator and the occupational tax administrator makes payments to the fiscal court on an as needed basis. The payments do not relate to the actual receipts collected over any defined period and there is a lack of segregation of duties related to the occupational tax office. According to personnel, the county judge/executive does review monthly bank statements and deposits, but this review is not documented.

This is a result of the fiscal court's failure to establish internal controls to mitigate the risk involved with the collection of occupational tax receipts. Without proper internal controls, the county is exposed to the risk of not receiving all occupational license taxes and erroneous recording of receipts. Also, without occupational taxes being paid periodically and being supported by receipts documentation, it is impossible for the treasurer to determine if amounts being transferred are complete or accurate.

Appropriate internal controls would have additional personnel involved in the occupational tax process. With only one person involved in the process with no evidence of review or management oversight, it is impossible for the county to be able to detect errors, waste, fraud, and abuse.

KRS 68.210 gives the state local financier 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*, which dictates that, "the county treasurer is the sole officer bonded to receive and disburse county funds and could be liable on the county treasurer's bond if correct records are not maintained and the procedures are not followed as required by law."

Without adequate support for occupational tax funds received, it is impossible for the treasurer to determine if the amount being deposited to the general fund is complete or accurate.

We recommend the fiscal court implement internal controls over the receipt and disbursement of occupational taxes. The fiscal court should also ensure occupational tax receipts are paid over to the fiscal court on a regular periodic basis and supported by receipt documentation to ensure the completeness of the transfer.

*County Judge/Executive's Response: Fiscal Court is working to correct to correct the occupational tax operations.*

**The Jackson County Fiscal Court does not have adequate controls over payroll processing:** This is a repeat finding and was included in the prior year audit report as Finding 2019-008. The



Jackson County Fiscal Court did not have adequate controls over payroll processing. The lack of adequate controls resulted in the following issues:

- One employee was paid for hours not worked.
- One employee's timesheet was not approved by the supervisor.
- One employee was paid for a 40 hour work week when no time was documented on his timesheet for the week.
- One employee was allowed to use compensatory time not yet earned and has a negative balance of 13 hours as of March 2020.
- One part-time employee was paid straight time even though they had worked over 40 hours during the week.
- One employee was not charged for eight hours of sick leave used.
- One employee is receiving wages for two positions, one is documented on a timesheet and the other one is not. Since the employee is working a 40 hour work week for the first position the second position may cause the employee to qualify for overtime.
- Six part time employees hours exceeded 100 hours per month but were not included on the county's retirement report.
- Eleven employees have exceeded the authorized leave balance approved in the county's administrative code.
- Personnel are being authorized three days or 24 hours of personal time per year; however, authorization of personal days are not included in the county's administrative code.
- Five employees have been allowed to go into a negative leave status by exceeding the authorized amount of personal days or vacation days they had accumulated.
- Payroll checks are being issued the last day of the pay period.

Weak internal controls have allowed issues with the payroll process to go unnoticed. The fiscal court is not in compliance with Kentucky Revised Statutes (KRS) or the county's administrative code which is causing employees to be under and over paid as well as not being provided all the benefits they are entitled to.

KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires." Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits, such as retirement and health insurance.

Per the Jackson County Administrative Code "vacation may be accrued to 30 days or 240 hours." It further states "the treasurer shall keep a complete records of vacation leave" and that "no employee will be permitted to take advance leave or leave that has not been earned." Also per the Jackson County Administrative Code, "if an employee is absent from work due to illness, said employee may bring a doctor excuse to the County Judge Executive; the Judge may or may not grant sick time to be paid to the employee."

KRS 337.285(1) states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess

of forty (40) hours in a week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.”

Participation in the Kentucky retirement system is only required for full-time employees, defined by KRS 78.510(6), “[e]mployee’ means every regular full-time appointed or elective officer or employee of a participating county[.]” KRS 78.510(21) states, in part, “[r]egular full-time positions,’ as used in subsection (6) of this section, shall mean all positions that average one hundred (100) or more hours per month, determined by using the number of hours actually worked in a calendar or fiscal year[.]”

OAG 79-448, discusses Section 3 of the Kentucky Constitution stating that Section 3, “is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means ‘public services actually rendered.’ It does not mean ‘public services to be rendered.’”

We recommend the Jackson County Fiscal Court improve procedures over payroll by ensuring all timesheets are approved by a supervising official, employees are paid for hours actually worked and authorized compensatory time when earned and properly documented. In addition, the county should ensure leave balances are properly maintained and employees are not allowed to use time not yet earned. We also recommend payroll be examined and ensure that the monthly retirement reporting be reconciled to underlying payroll documents to ensure all employees who qualify for retirement are being properly reported. In addition, ensure all benefits the county has approved be documented in the county’s administrative code, such as personal days or sick leave. Furthermore, we recommend the county not pay employees prior to wages being earned.

*County Judge/Executive’s Response: Treasurer and Fiscal Court are working to correct any issues with payroll.*

**The Jackson County Jail does not have segregation of duties over receipts, disbursements and the bank reconciliation process:** This is a repeat finding and was included in the prior year audit report as Finding 2019-010. The Jackson County Jail’s administration duties include receiving the mail, collecting cash, issuing receipts, preparing deposits, posting receipts, preparing, signing and posting disbursements, and completing the bank reconciliation. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases.

According to the jailer, due to a limited number of staff in the jail commissary, segregation of duties is not feasible. The lack of segregation of duties or documented oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Jackson County Jailer segregate duties over receipts, disbursements, and the bank reconciliation process. If segregation of duties is not feasible due to lack of staff, we recommend the jailer implement and document compensating controls to offset this control deficiency.

*County Judge/Executive's Response: The official did not provide a response.*

*County Jailer's Response: We have tried to segregate duties, however with the limited staff at our facility this may not be possible. We will work on separating the counting of deposits and have a different person do the deposit.*

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

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