



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Logan 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 Logan 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 Logan County Jail did not have sufficient internal controls or maintain proper records for the jail commissary fund.

The Logan County Jail had the following deficiencies:

- A lack of segregation of duties existed since the bookkeeper collects money, makes deposits, prepares daily checkouts, writes checks, prepares ledgers, and reconciles the jail commissary account.
- No daily checkout sheets were being maintained to support receipts that have been collected or deposited.

- Deposits were not being made daily.
- Deposits, which heavily consisted of cash, were left in the collection machines for long periods of time without being collected and deposited into a bank account. Several deposits by the jail included collections of over a week's worth of receipts.
- Receipts were being prepared by computerized software; however, receipts were not being provided to the inmates or batched daily to prepare the deposit of the day's funds.
- Jail fees were not being turned over to the county treasurer in a timely manner. For example, April fees were not received by the county treasurer until June 2.
- Bank reconciliations were being performed by the jail, but questionable items did not receive the appropriate follow-up. A June credit card deposit was listed as a deposit in transit as of June 30, 2015, but was not actually deposited until after a year later.

The lack of segregation of duties occurred because the jail's budget for staff is limited. By not segregating incompatible duties, the opportunity for errors, inaccurate financial reporting, and misappropriation of assets increases. The other deficiencies were caused by a lack of internal controls as well as a lack of experience by the new jailer and new bookkeeper who lacked knowledge of accounting requirements under KRS and DLG standards. By not implementing adequate internal controls and preparing accurate records timely for the jail commissary fund, the opportunity for errors, inaccurate financial reporting, and misappropriation of assets increases due to complete documentation not existing for comparison to financial records. The possibility of theft increases by keeping cash onsite instead of depositing daily.

Adequate segregation of duties prevents the same person from having a significant role in incompatible functions. Compensating controls can offset this control deficiency. Implementing adequate internal controls over the jail commissary activities is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, internal controls protect employees in the normal course of performing their daily responsibilities, give them detailed guidance in their job duties, and ensure compliance with state laws and regulations. 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*. These minimum accounting standards are to be used by jails for jail commissary funds maintained pursuant to KRS 441.135. The guidelines include preparing a daily checkout sheet, making daily deposits, and preparing accurate bank reconciliations. In addition, KRS 441.265 requires that all fees received for prisoner reimbursement be turned over to the county treasurer to be included in the jail's budget. Good internal controls dictate that accurate records be maintained and prepared in a timely manner to ensure financial information is available to the official to make management decisions and for budgeting purposes.

We recommend duties be segregated or oversight be implemented when duties cannot be segregated. In addition, internal controls over the jail commissary fund should be strengthened. We also recommend the jail maintain proper accounting records by preparing a daily checkout sheet, batching the receipts to agree to the daily checkout sheet, and making deposits daily. We also recommend the jail complete the monthly jail fee report and turn over those fees to the county treasurer in a timely manner. Finally, the jail should perform a monthly bank

reconciliation on the jail commissary account and ensure that all transactions have either been accounted for or followed up in an efficient manner.

County Judge/Executive's response: No response.

Jailer's response: We are aware of the deficiencies and have implemented the recommended changes that will rectify the lack of segregation.

Proper documentation was not maintained for jail commissary fund disbursements. Eight of 17 disbursements tested from the jail commissary fund did not have adequate supporting documentation to corroborate the purchase because the invoices were missing. This deficiency was caused by lack of oversight by the bookkeeper. By not requiring an itemized invoice for all commissary disbursements, the jailer is unable to adequately review disbursements to ensure they are for the benefit and to enhance the well-being of the inmates in compliance with KRS 441.135. Personal items or expenses could be paid from the commissary account without management's knowledge.

KRS 441.135(3) states, "Allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes." Good internal controls dictate that adequate supporting documentation be maintained for all disbursements. All vendor invoices and receipts should be maintained, including any additional supporting documentation, and agreed to the disbursements ledger.

We recommend that an original, itemized invoice for all disbursements from the jail commissary fund be obtained and kept for documentation purposes.

County Judge/Executive's response: No response.

Jailer's response: We are aware of the deficiencies and have implemented the recommended changes that will rectify the itemized invoices for all disbursements.

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

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