



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of McCracken County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the McCracken 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 McCracken 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 the internal control over financial operations and reporting.

The audit contains the following comments:

Weak internal controls over debt and debt service resulted in the misstatement of outstanding debt balances. Material weaknesses exist over the reporting of liabilities and debt of McCracken County. The June 30, 2016 outstanding debt balances reported on the Fourth Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders. This is a repeat finding and was included in the prior year audit report as finding 2015-002.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore,

we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's response: Audit comments have been discussed and procedures put in place to address this issue and will be reviewed to strengthen controls of the monitoring of debt service balances.

Weak internal controls over capital assets resulted in the omission of capital asset additions from the county's schedule of capital assets. Material weaknesses exist over the reporting of capital assets of McCracken County. This is a repeat finding and was included in the prior year audit report as finding 2015-003. The county's schedule of capital assets for the period of audit failed to recognize all asset purchases that occurred throughout the year. Furthermore, some of these asset additions did not appear to be added to the county's insurance policy. A lack of oversight as well as a breakdown of communication between the jailer and the treasurer caused the county's capital asset schedule to be materially misstated.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, those assets are left vulnerable to misappropriation or misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired, as should the county's insurance coverage. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

County Judge/Executive's response: Current procedures will be reviewed to ensure accuracy of capital asset reporting.

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

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