



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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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, 2017. 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 internal control over financial operations and reporting.

The audit contains the following comments:

**The McCracken County Fiscal Court lacks internal controls over financial reporting:** The McCracken County Fiscal Court lacks internal controls over financial reporting. The fiscal court’s Fourth Quarter Financial Statement did not agree to the original budget passed for Fiscal Year 2017. During the 2017 fiscal year, the fiscal court created a separate economic development fund with money that was accounted for in the public properties fund in the prior year. The fiscal court minutes did not reflect authorization for this new fund, nor was this fund budgeted during Fiscal Year 2017. The monies that the economic development fund was created with were accounted for as receipts in the current fiscal year. Those funds were included in the prior year as fund balance. The economic development fund receipts were overstated by \$1,248,123. Additionally, these

monies were from prior year bonded debt and there was no documented action of the fiscal court to utilize the bond funds for a new purpose.

This was due to improper oversight by the fiscal court and a lack of awareness by the former treasurer of what is required to start new funds, and make cash and budget transfers. It is the fiscal court's responsibility to ensure that all changes are approved before action is taken, and to verify all reports are accurate before approving them.

Due to these errors that were made, the budget was not accurate and the Fourth Quarter Financial Statement was materially misstated. Also, a new fund was created during the year and transfers were made without fiscal court's approval. This led to county funds having an increased risk of misappropriation during the year because of poor oversight.

Strong internal controls require the county to follow correct procedures when creating funds and making transfers between funds. Fiscal court approval should be made before the transactions occur and this approval should be documented in the fiscal court minutes.

We recommend the fiscal court approve and document their approval of all creation of funds and all cash and budget transfers between funds before those actions are executed. We further recommend the fiscal court review all of the financial reports and ensure they are accurate before giving final approval.

*Former County Judge/Executive's Response: Current Treasurer is aware that approval is required by the fiscal court before the creation of any new funds and is taking corrective action.*

**Material weaknesses exist over the reporting of liabilities and debt:** This is a repeat finding and was included in prior year audit report as Finding 2016-001. Material weaknesses exist over the reporting of liabilities and debt of McCracken County. No outstanding debt balances were reported on the Fourth Quarter Financial Report as of June 30, 2017.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. By not including the outstanding debt balances, the McCracken County Fiscal Court's Fourth Quarter Financial Report was materially misstated. This was an oversight due to a turnover in the treasurer position at the end of the 2017 fiscal year.

We recommend the McCracken County Fiscal Court 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 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 the proper amounts are reported.

*Former County Judge/Executive's Response: Current Treasurer will compare payment amounts and outstanding balances to amortization and payment schedules.*

**Weak internal controls resulted in the misstatement of capital assets on the county's schedule of capital assets:** This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The fiscal court failed to periodically conduct physical inspections of all assets to make comparisons to the capital asset list. The fiscal court's beginning balance for capital assets required restatements because of errors involving prior year additions. The fiscal court's ending balance of the schedule of capital assets for the period of audit was misstated by \$29,909. However, numerous misstatements were noted involving asset additions and deletions because the fiscal court failed to recognize all asset acquisitions and disposals that occurred during the year.

Additions were misstated overall by \$58,994 because some additions were excluded from the county's capital asset schedule while some items that did not meet the threshold for capitalization had been included. Deletions were misstated overall by \$14,627. Vehicle deletions were misstated by \$104,553 because several vehicles were shown on the county's capital asset schedule as being disposed because titles were not available for them; however, it was not known at the time of audit if the county still owned the vehicles. Infrastructure deletions were misstated by \$119,180 because a road that the fiscal court had approved to remove from the county road system was not shown as a deletion. It was also noted that the fiscal court had titles to vehicles that had been sold in prior years. Also, some asset additions and disposals were not properly authorized in the fiscal court minutes and were not added to the county's insurance.

These misstatements occurred because the fiscal court failed to emphasize strong internal controls over the reporting of capital assets and instead relied on a single employee without sufficient supervision. Due to these weak internal controls, capital assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection. Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation.

In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court 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. This system should be applied consistently in accordance with the county's capitalization policy. Also, all asset additions and retirements should be properly authorized by the fiscal court and documented in the fiscal court minutes. 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 inventoried assets.

*Former County Judge/Executive's Response: Current Treasurer will update capital asset listing throughout the year. This is being done with a coordinating effort from department heads and elected officials. Annual physical inspections by all departments will be reported to the Finance Office in order to keep records current.*

**The McCracken County Jail lacks adequate internal controls over the inmate fund:** The McCracken County Jail contracts with a third party commissary company to oversee and maintain the inmate fund. The inmate fund is maintained solely by the commissary company. The

commissary company receives cash, makes the deposits, posts transactions to the inmates' accounts, posts to the ledgers, prepares checks, and reconciles the account. Employees of the jail do not have access to any accounting records of the inmate fund, including resident transaction reports and bank statements.

Rather than implement internal controls over the inmate fund, the McCracken County Jail relies on the commissary company to oversee all accounting functions of the fund. This lack of adequate internal controls increases the risk of undetected fraud and errors.

Because the jailer is responsible for the inmates of the county, it is imperative for the jailer to provide sufficient oversight of all accounts associated with the inmates, including the inmate fund.

We recommend that the McCracken County Jailer implement internal controls over the inmate fund. These controls should include the jailer or designee reviewing the inmates' accounts to ensure correct fees are being charged, deposits are being posted correctly, and inmate balances are being refunded properly upon release of the inmates.

*Former County Jailer's Response: No say in future use of jail funds.*

**The McCracken County Fiscal Court has deficiencies in controls over maintaining records for bids:** The McCracken County Fiscal Court has deficiencies in controls over maintaining records for bids. During the 2017 fiscal year, there were six disbursements tested that required bids. Records could not be found for those six disbursements that show that the bid process was followed. Due to inadequate record management, bid documents were not kept with the disbursement invoices, and could not be found. Without proper documentation or detailed minutes that discuss the bid process, it cannot be verified that the bid process was followed. Maintaining records is an important part of the bid process as it provides assurance that the county is receiving the best rate. A relaxed attitude towards the bid process has resulted in records not being kept for these transactions or potentially the bid process not being followed at all.

Because bid documentation was not maintained for six disbursements, it is possible that the county did not follow competitive bid procedures or obtain the best value. Lack of supporting documentation for management review and for an audit trail puts the county at higher risk for potential fraudulent purchases.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws, and to keep good records of all bid transactions. KRS 424.260 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 agreements for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

We recommend the fiscal court monitor all disbursements to ensure that bidding procedures are followed for all qualifying disbursements. We further recommend the fiscal court document these procedures in the fiscal court minutes.

*Former County Judge/Executive's Response: Current Treasurer is aware of procurement process outlined in the Administrative Code and is taking corrective action.*

**The McCracken County Fiscal Court did not have adequate internal controls over receipts:**  
The McCracken County Fiscal Court has internal control deficiencies and noncompliances regarding the collection of receipts. The following findings were noted with McCracken County Fiscal Court's collection of receipts:

- Triplicate receipts were not issued for applicable receipt transactions, as required by KRS 64.840.
- Receipts collected for the day and posted to the receipts ledger are not reviewed and checked for accuracy.
- Pre-numbered, triplicate receipts are not issued for funds collected at Carson Park.
- Receipts collected at Carson Park are not secured in a safe location.
- At Carson Park, collected receipts are not reviewed by someone independent of the collection function.

The findings listed above are due to the lack of effective internal controls, which left receipts vulnerable to misappropriation and loss.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

KRS 64.840(1) states,

all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

(2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit.

To address these issues, we recommend the following.

- Pre-numbered, triplicate receipts should be issued for applicable transactions according to KRS 64.840.
- Someone independent of the collection of receipts process should review the process (deposit, posting to the ledgers, etc.) to check for accuracy.
- Carson Park should obtain a bank bag to keep receipts in during the day. This bag should be locked and stored in a safe location during the day.
- An individual independent of receipts collection at Carson Park should create a ledger of all receipts received each day. This ledger should match the monies received and receipts issued for the day.

*Former County Judge/Executive's Response: Carson Park now has pre-numbered triplicate receipts. Carson Park now has a fire proof lock box to hold payments until they are delivered daily to finance. All receipts received daily by Judge/Executive Secretary are now being logged.*

**The McCracken County Fiscal Court has deficiencies with their purchase order system and reporting of encumbrances:** The McCracken County Fiscal Court's purchase order system does not work as designed. Throughout the fiscal year, purchase orders were created after invoices were received, as opposed to before the purchase was made. The county uses the purchase order system's outstanding list as their list of encumbrances. According to the treasurer, that list is not accurate as there are often encumbrances listed that have already been paid.

Department heads are often allowed to make orders and purchases without obtaining purchase orders from the finance office. Due to the system not working as designed, risk of misappropriation is elevated, and control over expenditures is reduced. Encumbrances are also misstated on the Fourth Quarter Financial Statement, and are not tracked properly.

A purchase order system that is properly designed and working effectively creates strong internal controls over expenditures and will aid in correctly reporting encumbrances.

We recommend the fiscal court strengthen internal controls over the purchase order system. Purchase orders should be acquired from the finance office before making any order or purchase. Invoices should then be matched to purchase orders and then claims can be made. Once fiscal court approves the claims, payment can be made.

*Former County Judge/Executive's Response: Current Treasurer is working on enforcing a Purchase Order System county wide. Our goal is to have this accomplished by the end of FY18/19.*

**The McCracken County Fiscal Court did not approve cash transfers before they were made:** Throughout Fiscal Year 2017, cash transfers were made prior to being approved by fiscal court. They were then later recognized by the fiscal court in future fiscal court meetings. The former treasurer was responsible for all cash transfers, and the fiscal court did not require prior approval for them to be made.

Due to the lack of controls over cash transfers, the county's funds were at an increased risk of misappropriation. Strong internal controls require oversight over the movement of funds in order to decrease risk. The fiscal court is responsible for providing oversight of the treasurer and making the county's financial decisions.

We recommend that all cash transfers be approved and documented in the fiscal court minutes before the transfers take place.

*Former County Judge/Executive's Response: Current Treasurer is working on a process where cash transfers are approved by fiscal court prior to those cash transfers being made.*

**The McCracken County Fiscal Court lacks internal controls over state and federal grant funds:** The McCracken County Fiscal Court lacks internal controls over state and federal grant funds. During the 2017 fiscal year, a federal pass through grant was deposited into the state grant fund, and was subsequently paid out of the federal grant fund. There were also three transfers in the amount of \$1,394,542 to the general fund from the state grant fund and federal grant funds in order to reimburse the general fund for prior year FEMA, CDBG, and reimbursement grants. Since these grants had been sitting in the state grant fund and federal grant fund for multiple years, it was difficult to determine what specific grants those funds were for, and whether or not they were restricted.

The McCracken County Fiscal Court did not have the proper oversight or organization over the state and federal grant accounts to ensure all money was properly classified. Money was not kept in the appropriate fund, and due to poor recordkeeping, the fiscal court was put at risk of transferring restricted grant funds to non-restricted accounts.

Strong internal controls require the fiscal court to keep accurate records of grant money received and to keep that money separate if it is for a restricted purpose. Strong internal controls also require reimbursement grants to be transferred timely to the funds that the disbursement was made from.

We recommend the fiscal court keep accurate records and documentation for grant funds received, and if those grants are a reimbursement for disbursements previously made, transfers should be made timely to the fund from which those disbursements were made.

*Former County Judge/Executive's Response: Current Treasurer is aware of the requirement to keep state and federal grants accounted for separately and is taking corrective action.*

**The McCracken County Jail did not follow proper procedures for the acquisition or disposal of assets:** The McCracken County Jail did not follow proper bidding procedures for two assets totaling \$70,538 in which the purchase price exceeded \$20,000. The jail paid \$32,696 to one vendor for the purchase of a compact utility tractor and loading equipment, and paid \$37,842 to another vendor for a Chevy Tahoe without advertising the purchases for bidding. Furthermore, the jail sold \$7,239 in retired assets at auction that were not declared surplus by the McCracken County Fiscal Court before disposal and the proceeds from the sale of retired assets was improperly deposited into the commissary account rather than being transferred to the general fund of the

county as required by statute. These assets included a 2004 Chevy pickup, a 2007 Crown Victoria, and corn hole games.

According to jail staff, it was believed that proper procedures had been followed for the acquisition and disposal of assets. However, supporting documentation for bids was not available and the fiscal court minutes did not show that retired assets had been declared surplus property. Also, jail staff was unaware of the statute which requires proceeds from the sale of assets be transferred to the general fund of the county.

Because the McCracken County Jail did not follow proper bidding procedures for assets in which the purchase price exceeded \$20,000, the jailer is not in compliance with KRS 424.260. Because retired assets were not declared surplus by the fiscal court before they were disposed, the jailer is not in compliance with KRS 67.0802.

KRS 424.260 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...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 twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

KRS 67.0802(2) states, “[b]efore selling or otherwise disposing of any real or personal property, the county shall make a written determination setting forth and fully describing:

- (a) The real or personal property;
- (b) Its intended use at the time of acquisition;
- (c) The reasons why it is in the public interest to dispose of it; and
- (d) The method of disposition to be used.

KRS 67.0802(3) states, “[r]eal or personal property may be:

- (a) Transferred, with or without compensation, to another governmental agency;
- (b) Sold at public auction following publication of the auction in accordance with KRS 424.130(1)(b);
- (c) Sold by electronic auction following publication of the auction...; or
- (d) Sold by sealed bids in accordance with the procedure for sealed bids under KRS 45A.365(3) and (4).”

KRS 67.0802(5) states, “[a]ny compensation resulting from the disposal of this real or personal property shall be transferred to the general fund of the county.”

We recommend the McCracken County Jail follow proper procedures when acquiring or disposing of assets. We further recommend the proceeds from the sale of the retired assets be turned over to the county treasurer and deposited into the general fund of the county.

*Former County Jailer’s Response: No say in future jail funds.*



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

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