



Auditor of Public Accounts
Mike Harmon

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Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Meade County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Meade County Fiscal Court for the fiscal year ended June 30, 2019. 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 Meade 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 Meade County Fiscal Court did not bid expenditures over \$20,000: Payments totaling \$356,377 to the jail food service provider were not bid. Payments totaling \$38,546 for fuel were not bid. Further, paving expenditures exceeded \$20,000 and were not bid. The treasurer stated that this was purchased under state price contract, however, the fiscal court did not maintain supporting state price master agreement documentation as evidence.

Internal controls were not in place to ensure all expenditures exceeding \$20,000 were bid and that sufficient documentation is maintained for purchases on state price contract. By limiting competition or not receiving bids at all, the fiscal court may not get the benefits of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best

price available. The fiscal court approved an ordinance for the county to adopt the Kentucky Model Procurement Code, KRS 45A.343 to 45A.460, which requires the county regarding project expenditures of \$20,000 or more, to either bid, use state price contract, or negotiate with a vendor. Maintaining proper bid documentation also ensures all bids are considered on an equal basis and ensures all bids meet the minimum specifications of the fiscal court.

We recommend the fiscal court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 45A.343 to 45A.460. We further recommend the fiscal court maintain documentation for bids, state price contracts, or negotiations.

County Judge/Executive's Response: Fiscal Court will follow proper bid laws and regulations on all purchases.

County Jailer's Response: The food vendor was the same when I took office in 2015, and I have continued to use the company. I was unaware the food provider contact needed to be placed out for bid. We will place this contract out for bid in the future.

The Meade County Detention Center lacks adequate segregation of duties over receipts and bank reconciliations: During review of controls over commissary/canteen receipts, we note the detention center deputy, who is also the commissary/canteen bookkeeper, receives funds for woodworking projects, fees from individuals on home incarceration wearing ankle sensors, and accounts for the cash received in the kiosks for booking, phones, and commissary/canteen purchases. She batches the receipts she issues for woodworking fees and home incarceration fees. She verifies the kiosk report to the cash she pulls from the kiosk machines. She records the receipts into the accounting system. She prepares the deposit ticket. She takes the deposit ticket to the bank. She prepares the bank account reconciliation.

The jailer did not have segregation of duties over receipts and bank reconciliations included in the internal control procedures for the detention center. The jailer stated that he has compensating controls in place, reviewing bank reconciliations and comparing deposit tickets to the ledger and to reports, however, he was not aware of the need to initial these documents in order to evidence his reviews. The lack of segregation of duties over financial reporting significantly increases the risk of financial misstatement due to error, waste, fraud, or abuse. A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts is 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. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the jailer adequately segregate the functions related to receipts and bank reconciliations. If that is not possible, we recommend the jailer, implement compensating controls with strong management oversight, by the reviewer signing or initialing reviewed documents.

County Judge/Executive's Response: Please see Meade County Jailer Scarborough's response.

County Jailer's Response: After careful review of the auditor's findings, I do understand the importance of not just reviewing the bank statements, deposits, and other financial statements, and have begun providing proof that each transaction is reviewed by myself or another manager within the jail.

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

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