



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Mercer County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Mercer 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 Mercer 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 former county treasurer did not fulfill financial reporting requirements associated with the office.** The former county treasurer did not keep records and make reports as required by statute after the first quarter of fiscal year 2015:

- Monthly financial statements were not produced for the fiscal court or jailer.
- Quarterly financial statements were not produced for submission to the State Local Finance Officer.
- Annual settlement was not prepared for the fiscal court.

The fiscal court was making financial decisions on behalf of the county without reports necessary to make informed decisions.

It appears that after the first quarter of 2015, the former treasurer was unable to reconcile ledgers to cash balances. When the error could not be located, the former treasurer was unable to regain control of the financial situation and did not request assistance.

After the former treasurer left office, the county had to hire a third party to complete ledgers, reconcile bank statements, and prepare financial reports for fiscal year 2015. Neither the fiscal court, nor the State Local Finance Officer, knew the financial position of the county for nine months. Without adequate knowledge of the financial position at any given time, it is impossible for the fiscal court to make sound decisions on behalf of the county. Not having adequate financial information, e.g. ledger balances, contributed to the road fund ending the year with a negative balance. Also, not having budget-to-actual reports for the fiscal court to monitor spending contributed to the fiscal court having many line items overspend their budgeted appropriation.

KRS 68.210 gives the State Local Finance Officer the authority to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines duties of the county treasurer as maintenance of ledgers and journals associated with cash receipts, check distribution, appropriations, and investments. Quarterly financial statements are to be prepared and submitted to the State Local Finance Officer. KRS 68.360 requires the treasurer to balance the books on the first day of the month to show the correct amount on hand belonging to each fund on the day the balance is made. Financial reports are to be prepared monthly for the fiscal court and jailer, pursuant to KRS 68.360 and KRS 441.235. KRS 68.050 requires that upon vacation of office, the outgoing treasurer should make full and complete settlement of his or her accounts.

It is recommended the treasurer comply with all requirements associated with the office. It is further recommended the fiscal court ensure that they are adequately informed of the county's financial position on a monthly basis, as necessary to make prudent decisions on behalf of the county.

*Judge/Executive's response: The Mercer County Fiscal Court was aware of the findings in the 2014-2015 audit and have since made major changes in the way our office operates and conducts our financial reporting. To our knowledge, all issues addressed in this report have been corrected and we look forward to our 2015-2016 audit.*

**The fiscal court held checks to vendors to avoid overdrawing the road fund bank account.**

The fiscal court issued checks for payment for road paving on June 23, 2015, but the fiscal court did not send the checks to the vendor because funds were not sufficient in the road fund bank account to cover the checks. On July 15, 2015, a cash transfer was made into the road fund to sufficiently cover the amount of checks that had been written from the fund. At that time, the checks were sent to the vendor for payment. In discussion with the judge/executive, it appears that the checks were produced in order to be able to request reimbursement from the Kentucky Transportation Cabinet. We noted that the request for reimbursement sent to the Kentucky Transportation Cabinet was dated July 18, 2015, after the date of transfer and checks being sent to the vendor.

The ledger balance in the fund had not been maintained; therefore, it was impossible to know if sufficient cash funds were available to cover the check. This resulted in checks being produced and held by the county in order to not overdraw the bank account, which is an indicator of cash flow problems.

Aside from being a good business practice, maintaining adequate cash balances for paid claims is required by statutes. KRS 68.210 gives the State Local Finance Officer the authority to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* states that the county treasurer is only to sign checks if there is a sufficient fund balance and adequate cash in the bank to cover the check.

We recommend the fiscal court implement procedures to ensure fund balances are sufficient to cover paid claims. Checks should not be issued and held by the fiscal court, but rather produced and sent timely to vendors for payment.

*Judge/Executive's response:* Refer to previous response in first finding.

**The fiscal court allowed claims in excess of budgeted appropriations.** The fiscal court allowed for claims to be paid in excess of budgeted amounts for multiple line items in the general, road, and jail funds.

- The general fund had 26 line items overspent for a total of \$139,359, with three lines overspent more than \$10,000.
- The road fund had nine line items overspent for a total of \$163,224, with four lines overspent more than \$10,000.
- The jail fund had eight line items overspent for a total of \$61,626, with one line overspent more than \$10,000.

KRS 68.300 states, "Any 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."

The last time that the former treasurer completed financial statements for the fiscal court to review was as of September 30, 2014, leaving the court without the ability to monitor budget-to-actual amounts when approving claims and contributing to fiscal court allowing claims to be paid in excess of the budgeted amount.

It is recommended the fiscal court and county treasurer monitor the budget closely so that should it be necessary, the fiscal court can amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding line-item budget amounts.

*Judge/Executive's response:* Refer to previous response in first finding.

**County funds were not deposited daily.** Deposits were not prepared or deposited daily. One deposit for \$4,147 for the general fund that was posted to the receipts ledger in June 2015 was not deposited until September 2015. Another deposit for \$143 for the landfill fund was posted to the receipts ledger in March 2015 but was not deposited until September 2015. These funds were not deposited timely because sufficient procedures were not in place to ensure deposits were correct and promptly taken to the bank. When funds are not properly deposited, this could result in loss of receipts or misplaced monies.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made daily and intact. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the county comply with KRS 68.210 and make deposits intact on a daily basis.

*Judge/Executive's response:* Refer to previous response in first finding.

**The fiscal court did not comply with bidding requirements.** During testing of disbursements, there were payments to four vendors that should have been bid by the fiscal court. There were no bid packets available for review to determine compliance with KRS 424.260. Of the four, two had evidence in fiscal court minutes of bids being awarded. Payments for a cleaning contract for the judicial center totaling \$54,000 per year, and payments to a general contractor funded by a grant in the amount of \$84,280 had no evidence of bidding. The cleaning contract had been entered into during a prior year, but no bid file or evidence of bidding was maintained.

The Mercer County Fiscal Court appeared to be aware of the requirements of KRS 424.260; however, compliance could not be determined due to a lack of maintained documentation. The lack of properly maintained bid documentation was a breakdown of filing bid documentation. Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit. In addition, the lack of proper documentation would make it difficult to prove adherence to the provisions of KRS 424.260 and the county's administrative policy.

Documentation should be complete and consistent to ensure adequate records management in terms of providing evidence to demonstrate adherence to applicable laws and regulations. KRS 424.260 states, “Except 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 for 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.” In addition, the *County Budget Preparation and State Local Finance Officer Policy Manual* states, “All contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records.”

We recommend the Mercer County Fiscal Court follow the requirements of KRS 424.260 and the county’s administrative policy. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met. Every purchase should have adequate supporting documentation, which includes bid documentation.

*Judge/Executive’s response:* Refer to previous response in first finding.

**The fiscal court did not implement adequate segregation of duties over receipts and reconciliations.** The fiscal court had inadequately segregated duties over receipts and reconciliations. Receipts were received by the former treasurer, who prepared deposit tickets, recorded to ledgers, took deposits to the bank, and then reconciled the account. Occupational tax receipts are received, processed, and the bank deposit is created by the occupational tax administrator. The deposit is given to the treasurer for review and posting to the receipts ledger. The treasurer performed all reconciliations at the times they were completed.

The fiscal court do operates with a limited staff, but the former treasurer chose to handle all aspects of the financial process with minimal interaction from others in the office.

Inadequately segregated duties significantly increase the risk of and provide opportunity for financial misstatement errors or fraud to go undetected.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. When a proper segregation of duties is not possible due to a limited number of staff, officials can implement compensating controls to mitigate associated risks. Some examples of compensating controls are:

- The judge/executive could review deposits and supporting documentation for accuracy, initialing the deposit ticket to document the review.
- The judge/executive could review bank reconciliations, initialing the reconciliation to document the review.

It is recommended the fiscal court implement a system of adequately segregated duties over receipts and reconciliations. If duties cannot be adequately segregated due to a limited number

of staff, we recommend the fiscal court ensure compensating controls are implemented to mitigate risks.

*Judge/Executive's response:* Refer to previous response in first finding.

**The fiscal court did not properly handle disbursement transactions.** Auditors tested over 81 disbursement transactions. Of those transactions, the following exceptions were noted:

- Seventeen invoices were not located.
- Three invoices located were copies, not originals.
- Three invoices were not obtained by the fiscal court prior to payment.
- Eight invoices were not paid timely, resulting in penalties of \$17.31 paid by the fiscal court.
- One invoice documented the county was billed for \$58.76, but the county paid \$60.52.
- One invoice documented that the fiscal court paid \$50 for an employee's spouse to attend a conference.
- None of the six credit card transactions tested had itemized invoices supporting the transactions.

Testing of debt service payments noted one late penalty of \$954 paid by the fiscal court. According to the bank, there is a ten day grace period prior to the late penalty assessment.

Claims lists approved by the fiscal court were not maintained in the minutes, nor in fiscal court files. The documentation on file with minutes was a disbursement listing that had been printed after the fiscal court meeting.

The fiscal court had not implemented proper accounting procedures and internal controls over disbursements. A consistent filing system was not in place to ensure supporting documentation could be located. When checks were prepared, they were not prepared using the original invoices. Controls were not in place to ensure that payments were timely and accurate when they were paid. Lack of proper accounting practices and internal controls increase the risk of undetected misstatements of financial activity and fraud. Without proper procedures in place or the proper execution of documented controls to mitigate this risk, the county is exposing public resources to potential misstatements and fraud. Further, late payment penalties and expenses for non-employees of the county are not an appropriate use of taxpayer funds and not considered valid obligations of the fiscal court.

Good internal controls dictate that adequate original supporting documentation, including itemized receipts for credit card transactions, should be maintained for all disbursements and approval be obtained before payment. Approval for payments should be documented by maintaining claims lists as they were presented to the fiscal court. All original invoices should be maintained, cancelled upon payment, and paid within thirty days. KRS 65.140(2) states, "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper

invoicing by the vendor or by the vendor's subcontractor." Without adequately detailed invoices, there is no proper justification for the disbursement.

We recommend the fiscal court implement proper accounting procedures and internal controls over disbursements. Adequate, original documentation should be provided and reviewed to ensure all disbursements are valid obligations of the county. Also, supporting documentation should be maintained as justification that the disbursements were proper. Claims listings should be maintained as presented to the fiscal court to appropriately document what has been approved. We further recommend the county ensure all invoices are paid within 30 days as required by KRS 65.140(2).

*Judge/Executive's response:* Refer to previous response in first finding.

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

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