



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Spencer County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Spencer 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 Spencer 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 Spencer County Fiscal Court lacks adequate controls over animal services receipts, and is not compliant with state law: The Spencer County Fiscal Court lacks adequate controls over animal services receipts. The following weaknesses were noted:

- Receipt tickets are not consistently used to evidence fees collected at the animal shelter.
- Funds collected at the animal shelter were provided to the treasurer with no corresponding receipt tickets, so funds collected could not be verified to supporting receipt tickets.
- Funds collected at the animal shelter were not deposited daily.

- Supporting documents were not maintained for funds collected (i.e. adoption form for animal adopted with description of animal, information on person who adopted the animal, etc.), so status of animals and number of animals at the shelter could not be verified.

The Spencer County Fiscal Court has not implemented effective controls over animal services receipts. When controls over receipts are not operating effectively, there is significant increased risk for a material misstatement in the financial statements due to error or fraud, and in this case, has resulted in noncompliance with state law.

Strong internal controls dictate that funds collected at an animal shelter should have controls in place over them to ensure all receipts collected are accounted for, supported by receipt ticket and documentation for action on animals, and deposited daily. KRS 64.840 requires pre-numbered three-part receipt tickets to be issued to for all receipts. Per KRS 68.210, as described in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, all receipts should be deposited daily.

We recommend the Spencer County Fiscal Court implement strong controls over animal services receipts to include the following:

- Pre-numbered triplicate receipt tickets should be issued for all funds collected at the animal shelter.
- On a daily basis, funds collected at the animal shelter should be turned over to the county treasurer for deposit along with copies of the corresponding receipt tickets.
- Supporting documentation should be maintained by the animal services director for any action related to an animal at the shelter resulting in a fee collected (e.g. animal adoptions, release of animals, etc.).
- A tracking system should be implemented to document the number and status of animals at the shelter at any time, and reports from the tracking system should be reconciled periodically to the funds received at the animal shelter.

County Judge/Executive's Response: We acknowledge this weakness and have already begun implementation of adequate controls to correct and to be compliant with state law. The recent addition of a part time Administrative Assistant will be very helpful in correcting this and other weaknesses noted by the auditors.

The Spencer County Fiscal Court lacks adequate controls over parks receipts, and is not compliant with state law: The Spencer County Fiscal Court lacks adequate controls over parks receipts. The following weaknesses were noted:

- Receipt tickets were not consistently used to evidence funds collected for gate admissions or basketball registration fees.
- Funds collected for gate admissions and basketball registration fees were provided to the treasurer with no corresponding receipt tickets, so funds collected could not be verified.
- Funds collected for gate admissions and basketball registrations were not deposited daily.
- Supporting documentation is not maintained by parks staff for gate admission fees collected.

The Spencer County Fiscal Court has not implemented effective controls over gate admission fee and basketball registration fee receipts. When controls over receipts are not operating effectively, there is significant increased risk for a material misstatement in the financial statements due to error or fraud, and in this case, has resulted in noncompliance with state law.

Strong internal controls dictate that funds collected at parks should have controls in place over them to ensure all receipts collected are accounted for, supported by receipt ticket and documentation for gate admission fees or basketball registration fees, and deposited daily. KRS 64.840 requires pre-numbered three-part receipt tickets to be issued for all receipts. Per KRS 68.210, as described in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, all receipts should be deposited daily.

We recommend the Spencer County Fiscal Court implement strong controls over parks receipts to include the following:

- Pre-numbered triplicate receipt tickets should be issued for all funds collected for gate admission fees and basketball registration fees.
- On a daily basis, funds collected by parks employees should be turned over to the county treasurer for deposit along with copies of the corresponding receipt tickets.
- Supporting documentation should be maintained to support gate admission fees collected (e.g. ticket stubs, notation of number of attendees per event, etc.).

County Judge/Executive's Response: We acknowledge this weakness and have already begun implementation of adequate controls to correct and to be compliant with state law. The recent addition of a part time Administrative Assistant will be very helpful in correcting this and other weaknesses noted by the auditors.

The Spencer County Fiscal Court does not conduct an annual inventory count: The fiscal court did not conduct an annual inventory count or reconciliation of the inventories to the capital asset schedule to ensure accuracy.

The county has not implemented internal controls to ensure that an annual inventory count and reconciliation are conducted as required by the Department for Local Government (DLG).

Not implementing an annual inventory count could result in new assets not being added and retired assets not being removed from the capital asset listing or insurance policy, inaccurate descriptions on the capital asset listing, or material misstatement of the historical values of assets on the capital asset schedule in the financial statement. In addition, the fiscal court is not in compliance with KRS 68.210.

KRS 68.210 gives DLG the authority to prescribe a uniform system of accounts for local government to follow which is provided in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, which states the following in regards to inventory procedures: "[a]n annual physical inventory of property and equipment shall be conducted on or before June

30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented.”

In order to strengthen controls over capital assets and infrastructure and ensure compliance with KRS 68.210, we recommend the fiscal court implement a policy to conduct an annual inventory count and require departments to submit completed inventory sheets to the county judge/executive’s office. The submitted inventory should then be reconciled to the capital asset listing and the listing updated as needed.

County Judge/Executive’s Response: We acknowledge this and have been developing a comprehensive inventory system of spreadsheets, department by department, to accurately account for all inventory. We will continue to do this. Our goal is to have an accurate annual inventory system of equipment and supplies for accounting as well as for insurance purposes.

The Spencer County Fiscal Court lacks adequate segregation of duties over receipts: The Spencer County Fiscal Court lacked adequate segregation of duties over receipts. The county’s established controls were for the deputy judge/executive to receive all funds from off-site locations and from any walk-in customers. The county treasurer would pick up the mail and give it to the deputy judge/executive. The deputy judge/executive noted the amounts received on a receipts log in Excel each day and gave the county treasurer the checks received. The county treasurer recorded the receipts in the ledger and prepared the deposit ticket. Each day, the county treasurer printed a daily receipts ledger and provided it to the deputy judge/executive along with the deposit ticket. The deputy judge/executive would compare the receipts ledger amounts to the receipts log, and compared the receipt total to the deposit ticket. However, in review of the receipt files for Fiscal Year 2017, the auditor did not find evidence of the deputy judge/executive’s review.

The Spencer County Fiscal Court has not included segregation of duties over receipts in their internal control procedures. They set up a compensating control procedure; however, it was not implemented effectively in Fiscal Year 2017.

When receipt functions are not adequately segregated and compensating controls are not operating effectively, there is significant increased risk for a material misstatement in the financial statement due to error or fraud.

Strong internal controls dictate that segregation of duties be used to decrease the risk of misstatements due to error or theft. They also protect employees in their day-to-day responsibilities.

We recommend the Spencer County Fiscal Court either segregate duties related to receipts or ensure compensating controls are implemented effectively and evidenced by signature or initial on supporting documentation. The compensating control review should evidence review that the receipts recorded in the ledger agree to the amounts on the excel receipts log or by verification of bank direct deposit.

County Judge/Executive's Response: We acknowledge this weakness caused primarily by the inability of fiscal court to provide for adequate personnel needed for proper and adequate segregation of duties. However, we do now finally have a part-time Administrative Assistant which will make this weakness easier to address and correct.

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

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