

Common Audit Findings

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Office of Local Governments



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OBJECTIVES

What Is A Finding?

Common Audit Findings

How to Correct Audit Findings

Questions

What Is An Audit Finding?

- Audit Finding: Result of a deficiency(ies)/weakness(es) in internal controls over financial reporting and/or a noncompliance with provisions of laws, regulations, contracts or grant agreements
- Types:
 - Verbal
 - Exit
 - Audit Report



Factors Affecting the Type of Audit Finding

- Whether a misstatement has actually occurred.
- The magnitude of any potential misstatement.
- Whether there is a reasonable possibility that a control will not prevent, detect, or correct a misstatement.
- The risk factors impacting this possibility include the following:
- The nature of the financial information involved
 - The cause and frequency of the exceptions detected
 - The susceptibility of the related asset or liability to loss
 - The judgment level required to determine the amount involved
 - The interaction of the targeted control with other controls
 - The importance of the controls to the financial reporting process

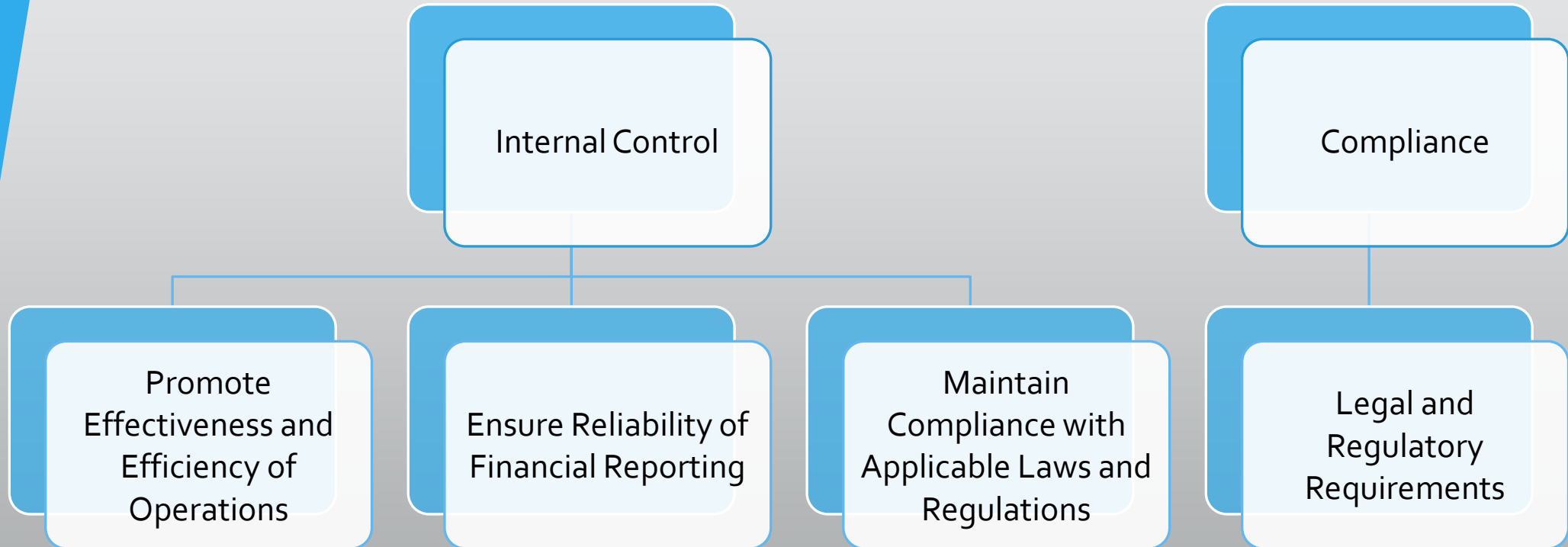


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Common Findings



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What is the most common finding in audit reports?

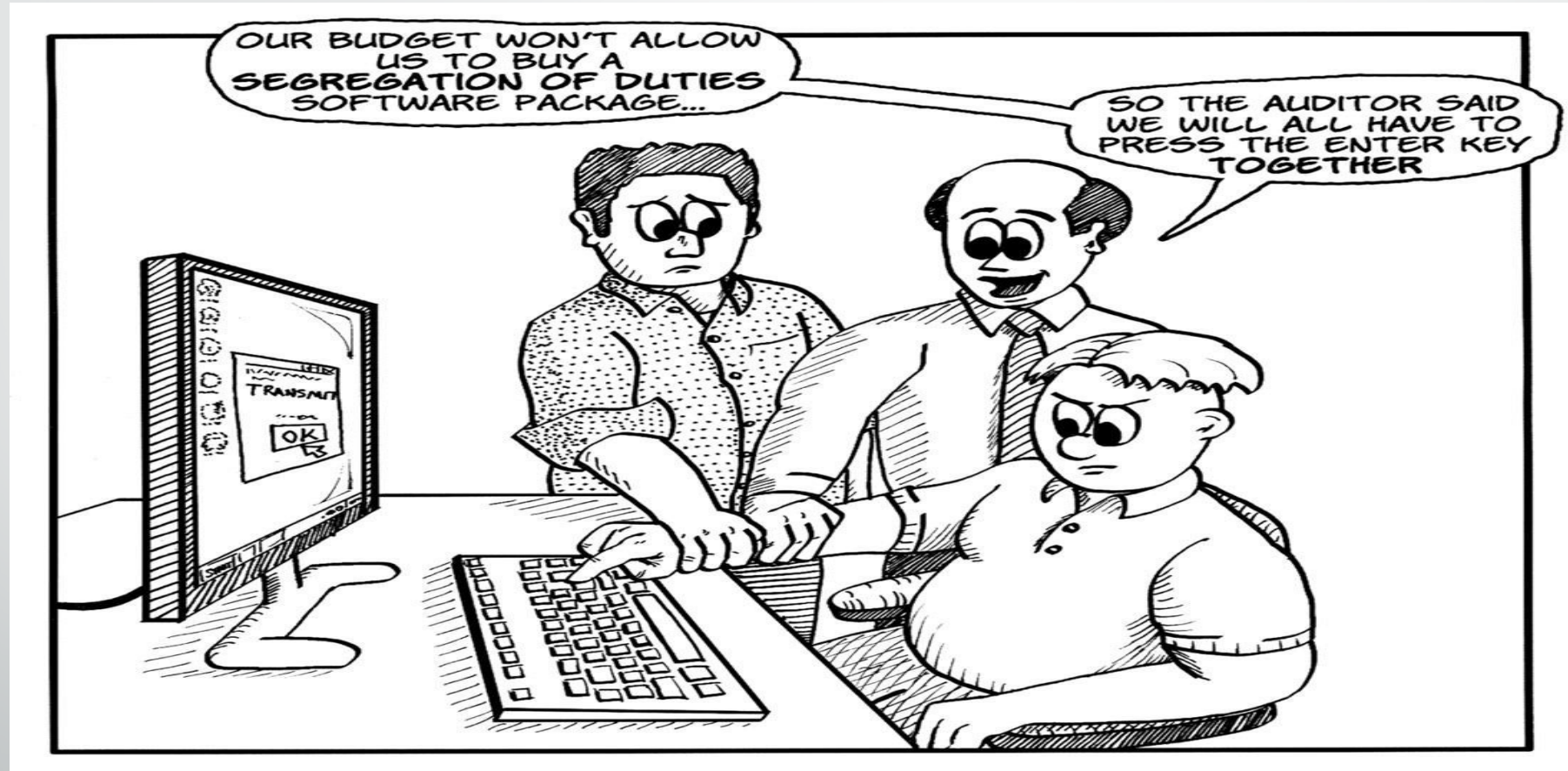


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How can we segregate duties with so few employees?



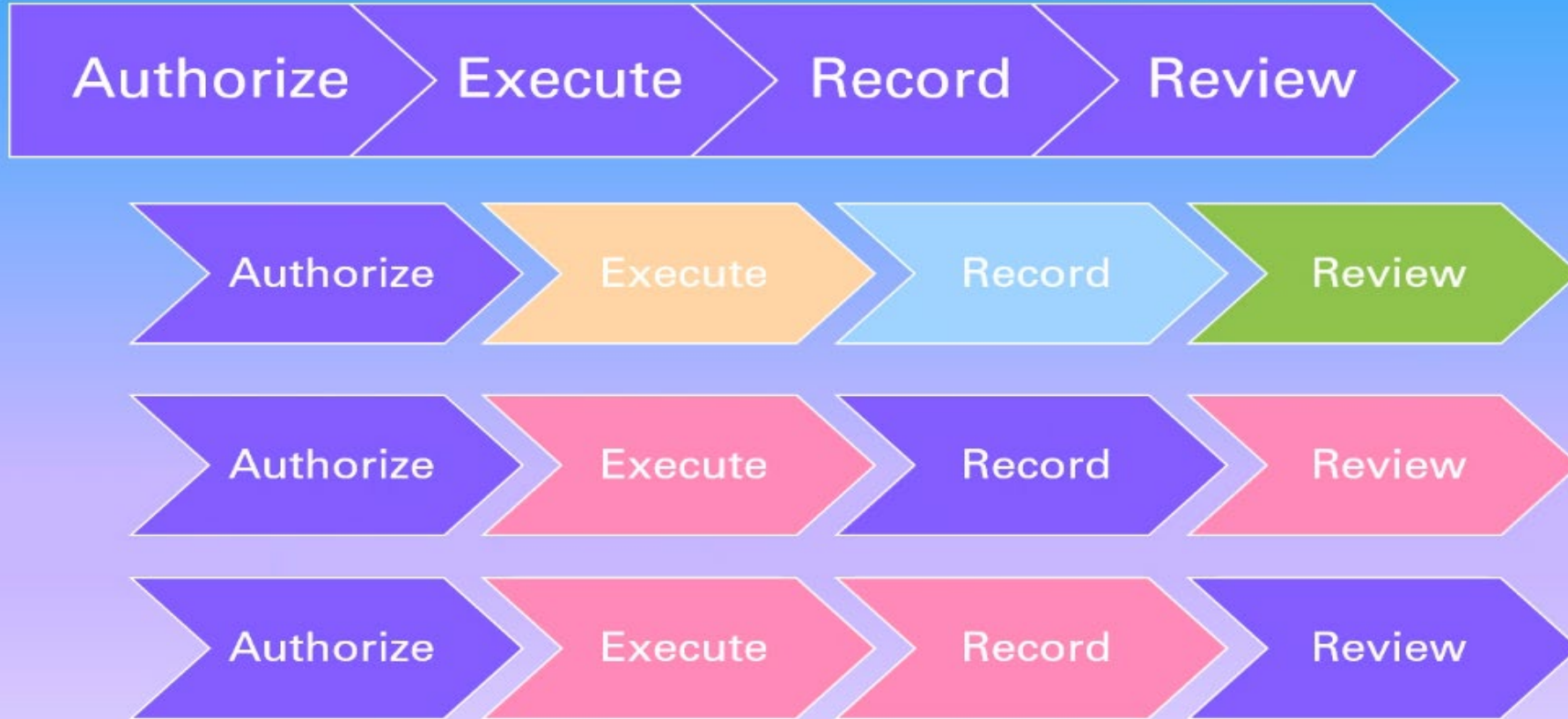
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Segregation of Duties

One person should not have access to an entire transaction cycle.



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Solution: Example of Segregation of Duties:

Segregation of Duties Related to the Payroll Cycle

Human Resources

Authorize hiring and employee payment



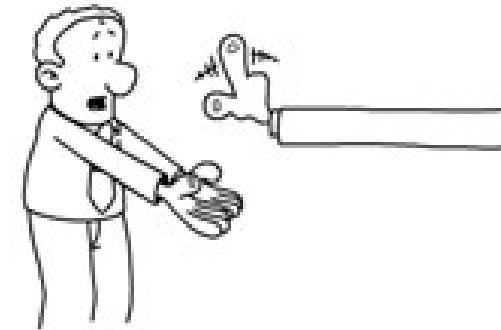
Payroll (Accounting)

Responsible for calculating employee payment



Treasurer

Responsible for issuing employee payment



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Small Offices: What is the solution?

- Not every organization has the manpower and resources to segregate employee duties.
- Incompatible duties performed by a single employee should be reviewed by a supervisor or other knowledgeable employee.

Compensating Controls:

- An internal control that reduces the risk of an existing or potential control weakness resulting in errors or omissions.
- Compensating controls must be documented.



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Other Common Internal Control Issues

Lack of written policies and procedures

Lack of formally documented reviews and approvals

Missing supporting documentation

Lack of understanding of grant requirements

Controls while implemented are not followed

Incorrect information submitted on quarterly reports



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Solutions?

- Have policies in place and hold departments accountable.
- Train staff.
- Be familiar with applicable laws, regulations, and federal requirements.
- Actively monitor.
- Document approval of fiscal court.
- Review of all processes.
- Document your internal control policies.



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COMMON FINDINGS - RECEIPTS



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Failing to make Daily Deposits

Handling Public Funds Minimum Requirements Pursuant to KRS 68.210 For All Local Government Officials (& Employees)

- Daily deposits intact into a federally insured banking institution. (KRS 68.210)



"Of course the bank didn't credit your account. You can't make online banking deposits by putting cash into the DVD slot."



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HOW TO CORRECT

- Ensure Deposits are made **INTACT**
 - **Intact**: All monies received should be deposited as they were received
 - Payments made by Check – Check should be deposited
 - Payments made by Cash – Cash should be deposited
 - **Do Not Cash Personal Checks** – The make-up of the deposit should mirror the actual funds received for the daily business



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Common Findings - Receipts



Failure to batch receipts and prepare daily checkout sheets



Failure to agree to daily records



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HOW TO CORRECT

Batch

Batch Pre-
Numbered
Receipt Forms

Prepare

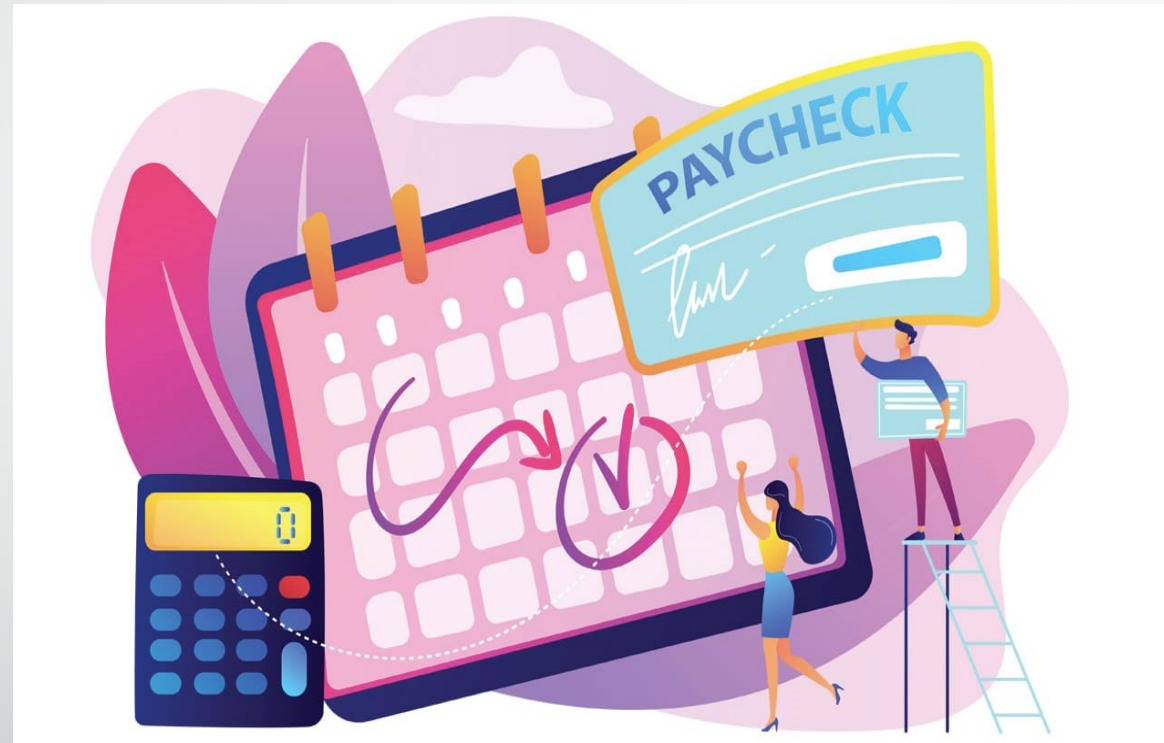
Prepare A
Daily Checkout
Sheet

Agree

Agree
Information
Between Daily
Records:

- Pre-numbered receipt forms
- Daily Checkout Sheets
- Daily Receipts Ledger Posting
- Daily Deposit

Common Findings - Payroll



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Payroll

Consider:

- What are your major threats over payroll?
- What controls can you put in place to minimize those threats?

Adequate controls over the payroll cycle will meet:

- Management's Needs
- Employee Needs
- Compliance with Laws and Regulations

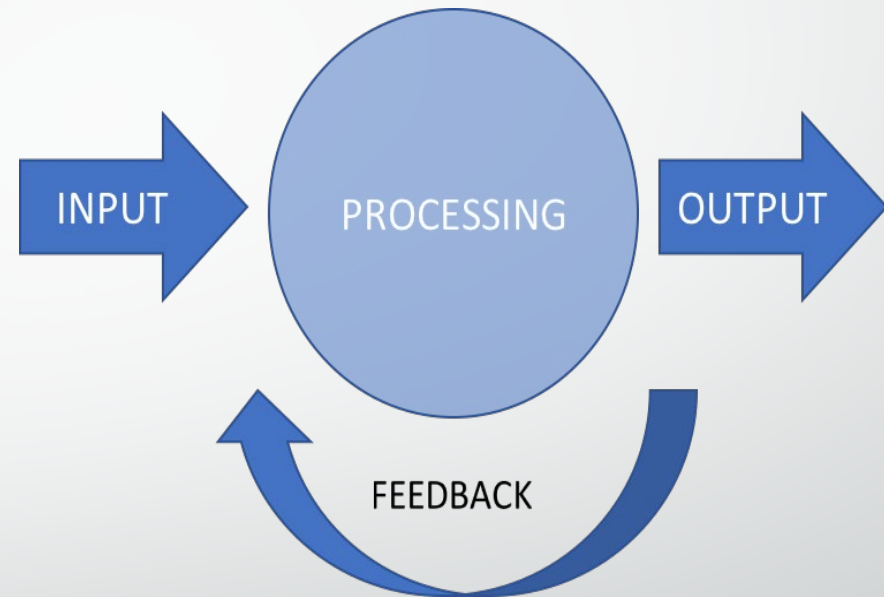


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Payroll

- Payroll Input
 - Human Resources
 - Employees
 - Government Agencies
- Payroll Output
 - Paychecks
 - Direct Deposits
 - Checks/ACHs to Other Organization for Withholdings
 - Various Payroll Reports



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KRS 337.320 Record to be kept by employer:

- (1) Every employer shall keep a record of:
 - (a) The amount paid each pay period to each employee;
 - (b) The hours worked each day and each week by each employee; and
 - (c) Such other information as the commissioner requires.

**Lack of
Support for
Payroll
Charges**



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SOLUTION

- How you keep your employee time records is up to you.
- Time records should be accurate and reflect actual hours worked.
- Good internal controls require the review and approval of timesheets prior to payment.



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Common Findings - Payroll

FINDING

- Lack of payroll/salary authorizations
- Overspending salaries established by fiscal court

SOLUTION

- Ensure employee action forms are maintained (hire forms, deduction changes, salary adjustments, termination forms); All forms should be signed by the employee, HR employee and management.
- KRS 64.530 (3) states in part, "The fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant."
 - Salary limits should be submitted to Fiscal Court for approval
 - Payroll expenditures should be monitored during the year to ensure they are within the approved limits, any amendments should be obtained, prior to year end



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Common Findings - Payroll

FINDING

- Violation of employment laws
- Inaccurate processing of payroll

SOLUTION

- Document all actions related to recruiting, hiring and dismissal; provide continued training to keep employees current with employment laws
- Run/reconcile totals before and after processing; Payroll journals should be reviewed and reconciled to control totals and approved by management or their designee



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Common Findings - Payroll

FINDING

- Not properly/timely reconciling the payroll account
- Giving Bonuses
- Office practice not in agreement with written policies and procedures

SOLUTION

- Reconcile the payroll account monthly; ensure amount transferred to the payroll account are supported by payroll totals (payroll registers, etc.). Any balance in the account should be identified.
- Do Not Give Bonuses - They are prohibited by KY Const. Sec. 3
- Review written policies and procedures to ensure that what you are actually doing lines up; Actual everyday practice should be in compliance with written policies

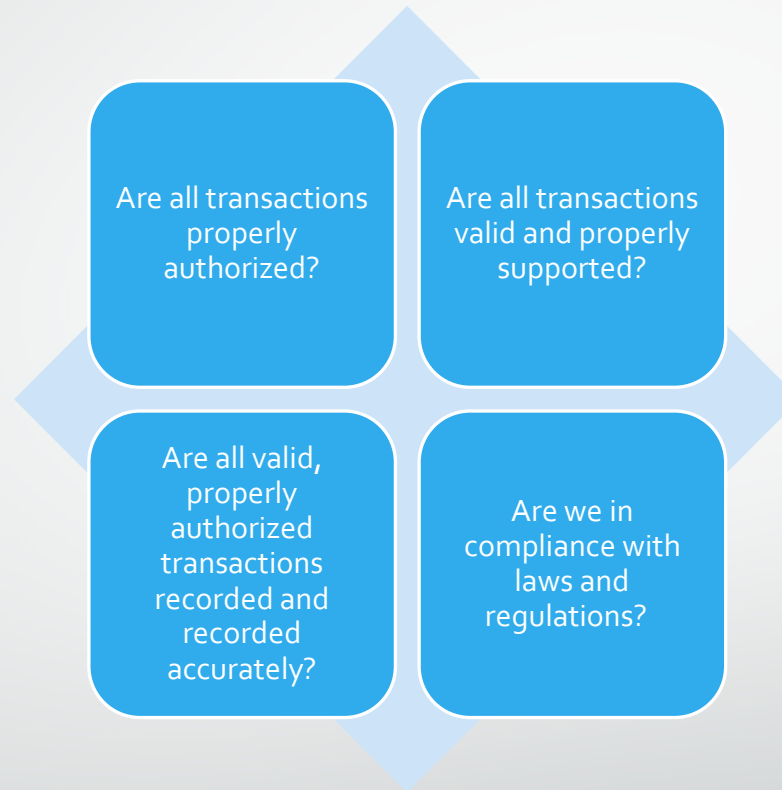


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Overall Considerations - Payroll



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Common Findings - Disbursements



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Most Common Issues:



No support or insufficient support for disbursement



Unallowable items



Late fees/penalties



Procurement policies not followed (Not bidding when required)



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Avoid Procurement Findings: Know Your Administrative Code



KRS 424.260 Bids for materials, supplies, equipment, or services

(1) 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:

- a) Materials;
- b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits;
- c) Equipment; or
- d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids. This subsection shall not apply to the transfer of property between governmental agencies as authorized in KRS 82.083(4)(a).

(2) If the fiscal court requires that the sheriff or county clerk advertise for bids on expenditures of less than thirty thousand dollars (\$30,000), the fiscal court requirement shall prevail.

Or follow **KRS Chapter 45A** if your county has adopted the model procurement code.



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Fee Official Account Issues:

Moving Funds
Between Years

Under 70,000
Counties

Over 70,000
Counties

Each
Calendar Year
Stands Alone

Each Term
Stands Alone



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Fee Officials: Unallowable expenses may be disallowed:

In **Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958)**,
Kentucky's highest court reaffirmed the rule that
county fee officials' expenditures of public funds
will be allowable only if they are:

Necessary

Adequately
documented

Reasonable in
amount

Beneficial to
the public

and not
personal in
nature



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How Avoid Findings:

You guessed it...**MAINTAIN SUPPORT!**

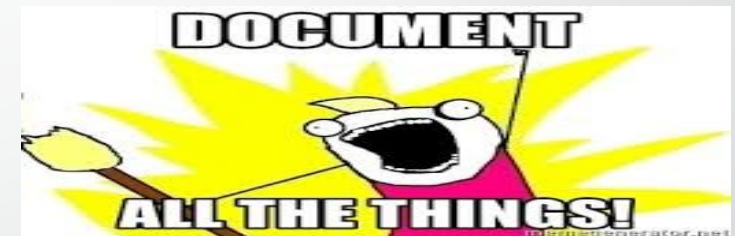
Acceptable Supporting Documentation:

- Original bill, invoice, or receipt
- Needs to be itemized

Original contract or agreement

Credit Cards:

- Credit card statement – not enough
- Need the supporting documentation for the purchase -(Original bill, invoice, or itemized receipt)



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Common Findings - Reporting



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The Fourth Quarter Financial Statement Is Materially Misstated

What is wrong?

Cash Balances

- Cash balance incorrect
- Reconciliation incorrect
- Not all accounts included

Receipts and Disbursements

- Material errors
- Not cumulative
- Not supported by ledgers

Significant Items Omitted

- Omission of debt
- Omission of receipts
- Omission of disbursements



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How To Correct:

Follow The County Budget Preparation and State Local Finance Officer Policy Manual Directions



The Department For Local Government sets the accounting standards for local officials.

The County Budget Preparation and State Local Finance Officer Policy Manual states:

All county money is to be reported on the financial statement whether it is included in the budget or not. The statement is a cumulative report and is prepared, signed and dated by the county judge/executive and the county treasurer pursuant to KRS 68.210.

The report is comprised of six sections:

Section I

- Summary and Reconciliation

Section II

- Receipts Section

Section III

- Contingent Liabilities Section

Section IV

- Appropriation Condition Report

Section V

- Fixed Asset Section—4th quarter reporting only

Section VI

- Schedule of Expenditures of Federal Awards—4th quarter reporting only



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Finding: Summary Page of Fourth Quarter Financial Report Not Balanced

Financial Statement

_____ County

SUMMARY						
FUND	General	Road	Jail	LGEA	Federal Grant	Totals
Total Receipts To Date	\$5,300,000.00	\$3,700,000.00	\$3,800,000.00	\$200,000.00	\$6,000,000.00	\$19,000,000.00
Total Claims	\$4,002,000.00	\$2,952,000.00	\$2,700,000.00	\$150,250.00	\$2,300,500.00	\$12,104,750.00
Cash Balance	\$1,298,000.00	\$748,000.00	\$1,100,000.00	\$49,750.00	\$3,699,500.00	\$6,895,250.00
Encumbrances	\$2,000.00	\$1,500.00	\$546,000.00	\$1,520.00	\$0.00	\$551,020.00
Unencumbered Cash Balance	\$1,296,000.00	\$746,500.00	\$554,000.00	\$48,230.00	\$3,699,500.00	\$6,344,230.00
RECONCILIATION						
Bank Balance	\$1,725,000.00	\$847,000.00	\$650,000.00	\$49,750.00	\$5,590,000.00	\$8,861,750.00
Plus Deposits in Transit	\$128,000.00	\$53,000.00	\$550,000.00	\$0.00	\$0.00	\$731,000.00
Less Outstanding Checks	\$555,000.00	\$152,000.00	\$100,000.00	\$0.00	\$1,890,500.00	\$2,697,500.00
Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reconciled Bank Balance	\$1,298,000.00	\$748,000.00	\$1,100,000.00	\$49,750.00	\$3,699,500.00	\$6,895,250.00

To the best of my knowledge the information reported herein is accurate and complete.

County Treasurer Date

County Judge/Executive Date

Cash balance and reconciled bank balance should agree!



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Finding: Summary Page of Fourth Quarter Financial Report Not Balanced

Form For Budget, Cumulative Quarterly Report and Annual Settlement For Calendar Year 20__

_____ County Sheriff

Part One - Summary and Reconciliation of All Accounts

Show & Describe All Accounts:	Column 1	Column 2	Column 3	Column 4	Column 5
	20__ Fee Account Budget Estimate	20__ Fee Account Cumulative Actual	Account (NOT FEE ACCOUNT)	Account (NOT FEE ACCOUNT)	Account (NOT FEE ACCOUNT)
1. Receipts: YTD					
2. Total Disbursements: YTD					
3. Book Balance/Excess Fees					
4. Bank Statement Balance					
5. Plus Deposits in Transit					
6. Less Outstanding Checks					
7. Other					
8. Reconciled Bank Balance					
9. Accounts Receivable as of 12/31					
10. Unpaid Obligations as of 12/31					
11. Excess Fees					

Instructions: This form is the required format for the budget and the quarterly report. BUDGET: After completing the budget estimate columns of Parts One, Two and Three, submit to the fiscal court for approval by January 15th and following approval submit to the state local finance officer. QUARTERLY REPORT: The quarterly report is cumulative. Show the status of all funds in the official's charge during calendar year to date in Part One. Line 1 Show total receipts on a cash basis for the year to date including any beginning balances for all accounts. Show current year fee account in COLUMN 2 as calculated in Part Two of report. Line 2 Show total disbursements on a cash basis for the year to date for all accounts. Show current year fee account in COLUMN 2 as calculated in Part Three of report. Line 3 Show difference between lines 1 and 2 for all accounts. Line 4 Show bank statement balance(s) at close of quarter. Line 5 Show total deposits made prior to close of quarter that are not reflected in bank statement(s). Line 6 Show total amount of checks issued prior to close of quarter that are not reflected in bank statement(s). Line 7 Show investments. Line 8 Show line 4 adjusted for lines 5, 6, and 7. Line 8 should equal line 3 for all accounts. Line 9 Complete for quarter ending 12/31. Show calculation in Part Two of report. Line 10 Complete for quarter ending 12/31. Show calculation in Part Three of report. Line 11 Complete for quarter ending 12/31. All debt to be shown in Part Four. Report due to: State Local Finance Officer, 100 Airport Road, Third Floor, Frankfort, KY 40601 by the 30th day following the close of each quarter. Fax # 502-227-6631 / Ph # 502-392-5487

Approved by the fiscal court on the ____ day of _____, 20__.

County Judge/Executive Date

To the best of my knowledge the information reported herein for the budget/quarter ended _____ is accurate and complete.

Signature of County Sheriff Date

Receipts and disbursements should agree to totals on following pages

Excess Fee amounts should agree

Form For Budget, Cumulative Quarterly Report and Annual Settlement For Calendar Year 20__

_____ County Clerk

Part One - Summary and Reconciliation of All Accounts

Show & Describe All Accounts:	Column 1	Column 2	Column 3	Column 4	Column 5
	20__ Fee Account Budget Estimate	20__ Fee Account Cumulative Actual	Account (NOT FEE ACCOUNT)	Account (NOT FEE ACCOUNT)	Account (NOT FEE ACCOUNT)
1. Receipts: YTD					
2. Total Disbursements: YTD					
3. Book Balance/Excess Fees					
4. Bank Statement Balance					
5. Plus Deposits in Transit					
6. Less Outstanding Checks					
7. Other					
8. Reconciled Bank Balance					
9. Accounts Receivable as of 12/31					
10. Unpaid Obligations as of 12/31					
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Approved by the fiscal court on the ____ day of _____, 20__.

County Judge/Executive Date

To the best of my knowledge the information reported herein for the ended _____ is accurate and complete.

Signature of County Clerk Date



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What to watch for...Fee official fourth quarter financial report

Be sure to complete the account receivable amounts

Part Two Receipts	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	Accounts Receivable 12/31	Settlement Total
1. Federal Grants/Reimbursements								
2. State Grants								
3. State Fees For Services								
4. Fiscal Court								
5. Revenue Supplement (< 20,000 pop)								
6. Licenses and Taxes								
7. Motor Vehicle:								

Be sure to complete the unpaid obligations

Part Three Disbursements	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	12/31 Unpaid Obligations	Settlement Total
Required Payments								
1. Payments to State (describe)								
2. Motor Vehicle:								
3. Licenses & Transfers								
4. Usage Tax								
5. Tangible Personal Prop Tax								



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Use The Department For Local Government Check Sheets

Quarterly Report Check Sheet Sheriff

Part One – Summary & Reconciliation

Figures are recorded in Budget Estimate column Yes _____ No _____
 Figures are recorded in Summary for all accounts Yes _____ No _____
 Receipts YTD equal line 27, Total YTD Yes _____ No _____
 Total Disbursements YTD equal Line 53, Total YTD Yes _____ No _____
 Figures are recorded in Reconciliation for all accounts Yes _____ No _____
 Accounts are labeled across the top Yes _____ No _____
 Book Balance and Reconciled Bank Balance equal Yes _____ No _____
 Quarters are combined Yes _____ No _____ N/A _____
 Calculations are correct Yes _____ No _____
 County Sheriff's signature is present Yes _____ No _____

Part Two – Receipts

Figures are recorded in Budget Estimate column Yes _____ No _____
 Figures are recorded in 1/1 thru 3/31 column Yes _____ No _____
 Figures are recorded in 4/1 thru 6/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 7/1 thru 9/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 10/1 thru 12/31 column Yes _____ No _____ N/A _____
 Totals entered in Total YTD column Yes _____ No _____
 Accounts Receivables listed Yes _____ No _____ N/A _____
 Settlement Totals entered Yes _____ No _____ N/A _____
 Receipts are broken down into categories Yes _____ No _____
 Total Receipts entered in Line 27 Yes _____ No _____
 Calculations are correct Yes _____ No _____

Part Three – Disbursements

Figures are recorded in Budget Estimate column Yes _____ No _____
 Figures are recorded in 1/1 thru 3/31 column Yes _____ No _____
 Figures are recorded in 4/1 thru 6/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 7/1 thru 9/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 10/1 thru 12/31 column Yes _____ No _____ N/A _____
 Totals entered in Total YTD column Yes _____ No _____
 Unpaid Obligations listed Yes _____ No _____ N/A _____
 Settlement Totals entered Yes _____ No _____ N/A _____
 Disbursements are broken down into categories Yes _____ No _____
 Total Disbursements entered in Line 53 Yes _____ No _____
 Calculations are correct Yes _____ No _____

Part Four – Liabilities Outstanding

Liabilities page included Yes _____ No _____

Checked by: _____
(initials)

Quarterly Report Check Sheet Clerk

Part One – Summary & Reconciliation

Figures are recorded in Budget Estimate column Yes _____ No _____
 Figures are recorded in Summary for all accounts Yes _____ No _____
 Receipts YTD equal line 39, Total YTD Yes _____ No _____
 Total Disbursements YTD equal Line 70, Total YTD Yes _____ No _____
 Figures are recorded in Reconciliation for all accounts Yes _____ No _____
 Accounts are labeled across the top Yes _____ No _____
 Book Balance and Reconciled Bank Balance equal Yes _____ No _____
 Quarters are combined Yes _____ No _____ N/A _____
 Calculations are correct Yes _____ No _____
 County Clerk's signature is present Yes _____ No _____

Part Two – Receipts

Figures are recorded in Budget Estimate column Yes _____ No _____
 Figures are recorded in 1/1 thru 3/31 column Yes _____ No _____
 Figures are recorded in 4/1 thru 6/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 7/1 thru 9/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 10/1 thru 12/31 column Yes _____ No _____ N/A _____
 Totals entered in Total YTD column Yes _____ No _____
 Accounts Receivables listed Yes _____ No _____ N/A _____
 Settlement Totals entered Yes _____ No _____ N/A _____
 Receipts are broken down into categories Yes _____ No _____
 Totals entered in Line 37 Yes _____ No _____
 Total Receipts entered in Line 40 Yes _____ No _____
 Calculations are correct Yes _____ No _____

Part Three – Disbursements

Figures are recorded in Budget Estimate column Yes _____ No _____
 Figures are recorded in 1/1 thru 3/31 column Yes _____ No _____
 Figures are recorded in 4/1 thru 6/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 7/1 thru 9/30 column Yes _____ No _____ N/A _____
 Figures are recorded in 10/1 thru 12/31 column Yes _____ No _____ N/A _____
 Totals entered in Total YTD column Yes _____ No _____
 Unpaid Obligations listed Yes _____ No _____ N/A _____
 Settlement Totals entered Yes _____ No _____ N/A _____
 Disbursements are broken down into categories Yes _____ No _____
 Totals entered in Line 67 Yes _____ No _____
 Total Receipts entered in Line 70 Yes _____ No _____
 Calculations are correct Yes _____ No _____

Part Four – Liabilities Outstanding

Liabilities page included Yes _____ No _____

Checked by: _____
(initials)



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Other Findings



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Failing to Keep Adequate Records for Sheriff Donation Accounts

Sheriffs may accept donations for public purpose if the office is in accordance with KRS 61.310, however, this is not an option for County Clerks.

A sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum:

1. The name and address of the donor;
2. A general description of the donation;
3. The date of acceptance of the donation;
4. The monetary amount of the donation, or its estimated worth; and
5. Any purpose for which the donation is given.



The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours.



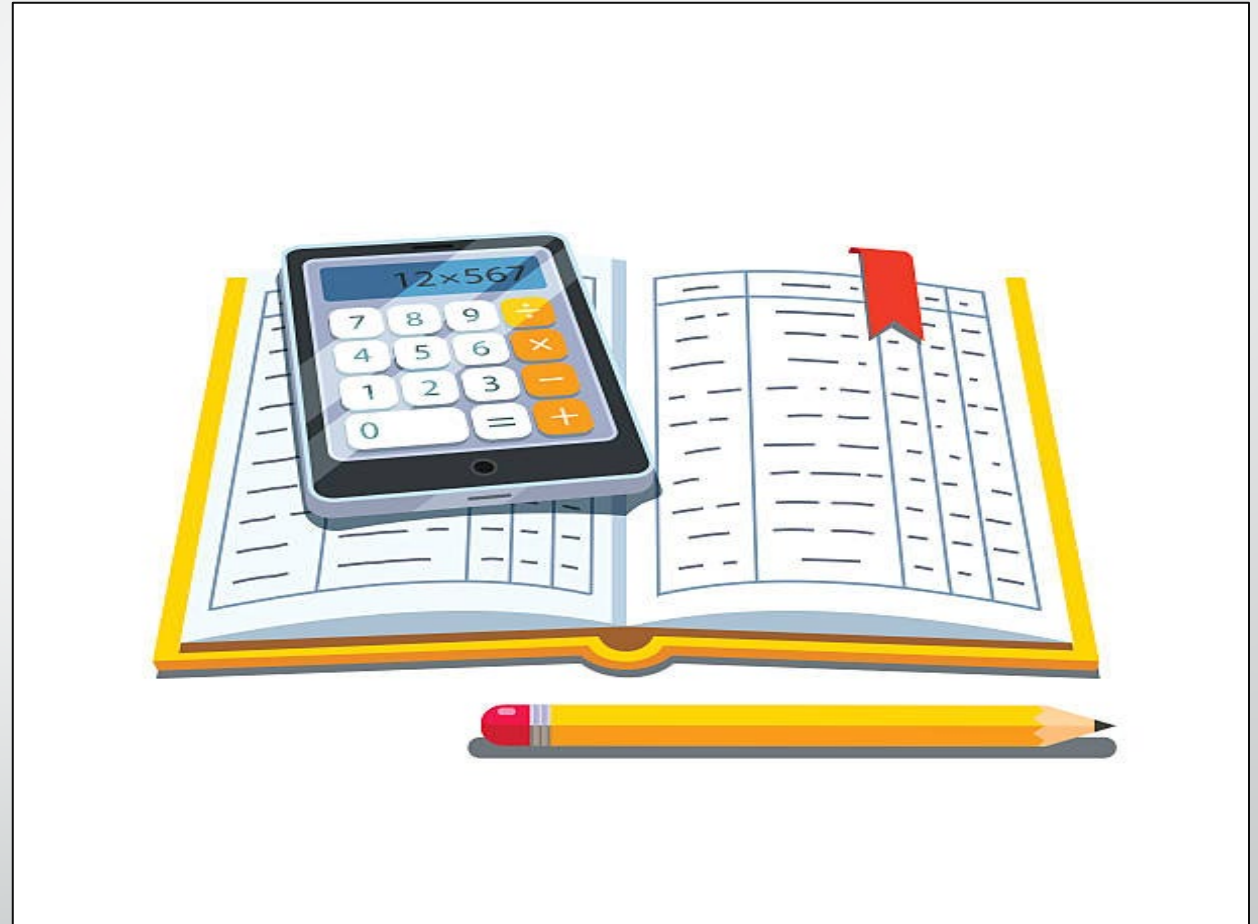
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How To Correct:

- Maintain ledgers with all information required by KRS 61.310
- Maintain separate bank account for donation
- Use funds in accordance with donor specifications
- Keep adequate documentation for funds spent



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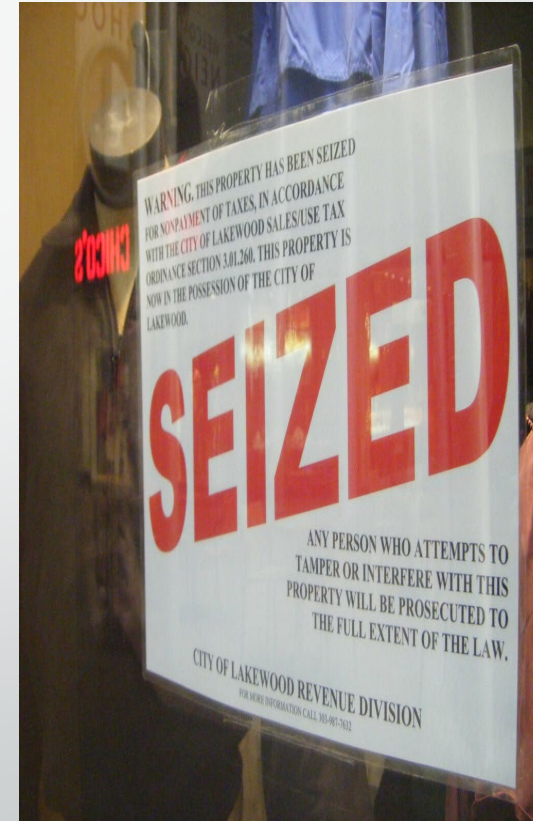
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Failing to File Statement of Seized Property

KRS 218A.440 Statement filed listing property seized -- Investigation of utilization of proceeds.

- (1) Each law enforcement agency seizing money or property pursuant to KRS 218A.415 shall, at the close of each fiscal year, file a statement with the Auditor of Public Accounts, and with the secretary of justice and public safety containing, a detailed listing of all money and property seized in that fiscal year and the disposition thereof. The listing shall identify all property so seized.
- (2) Any agency failing to report as required by this section shall be liable to the state for the full value of all property and money so seized. The Attorney General shall institute civil actions for recovery of money or property obtained or retained in violation of KRS 218A.405 to 218A.460.
- (3) The Auditor of Public Accounts, the secretary of justice and public safety or the Attorney General may at any time initiate an inquiry to determine that property is being forfeited as required by KRS 218A.405 to 218A.460.



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How To Correct:

- File statement in accordance with KRS 218A.440 with APA and KY DOJ.
- Maintain separate bank account for seized funds unless needed for evidence.
- Keep adequate documentation for disposition of all items seized.



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Internal Controls and Compliance.....



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QUESTIONS



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