



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of McCreary County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the McCreary County Fiscal Court for the fiscal year ended June 30, 2013. State law requires annual audits of county fiscal courts.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in cash and cash equivalents of the McCreary County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court did not follow this format; however, the Fiscal Court's financial statement is prepared on 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.

The audit found adequate accounting records were not maintained to reasonably determine the accuracy of the Jail Commissary Fund and Revolving Loan Fund. Therefore, the audit opinion indicated the county's financial statements are fairly presented in accordance with the regulatory basis of accounting, except for the effects of these matters.

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 Fiscal Court should improve procedures over disbursements. During our testing of disbursements we noted twenty-eight (28) invoices that were not paid within a 30 working day time period. Of those 28 invoices, 6 of them had late payment charges. Also we noted that 2 out of 2 invoices tested for health insurance were not paid within a 30 working day time period.

Failing to pay bills within thirty (30) days can result in amounts not being recorded timely on the appropriations ledger and can also result in payment of finance charges and late fees.

The Fiscal Court's lack of controls and oversight over payment of vendor invoices allowed late payments to occur.

KRS 65.140 also states "Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice."

We recommend the Fiscal Court ensure that all invoices are paid timely.

County Judge/Executive Douglas Stephen's response: Timing of the receipt of invoices relative to the dates of the Fiscal Court meetings lead to some invoices not being paid within the 30 days. We will work to pay bills in a timely manner to minimize this occurrence and avoid payment of late charges. We currently have in place general approval by Fiscal Court to pay utility bills as received.

The Jailer should maintain accurate records for the Jail Commissary Fund. During our audit of the Jail Commissary Fund, we noted that the Jailer did not maintain adequate records to satisfy the guidelines for minimum accounting and reporting standards as prescribed by the State Local Finance Officer. The Jailer did not maintain a receipts ledger and disbursements ledger for the Jail Commissary Fund. In addition, bank reconciliations were not prepared for all months. The Jailer also only maintains one bank account for both the Jail Commissary Fund and Jail Inmate Fund without accounting for the activity of each fund separately. Additionally, the Jailer did not prepare an annual commissary report and submit the report to the County Treasurer.

In addition, inaccurate bank reconciliations result in the incorrect book balance being reported. Decisions on purchasing items for the jail inmates cannot be properly made without a correct book balance. In addition, the Jailer cannot make decisions about funds available to be transferred to the Jail Fund for certain expenses.

Lack of adequate records and bank reconciliations can result in incorrect book balance being reported and misappropriation of assets.

The Jailer was not performing his job functions relating to the Jail Commissary Fund pursuant to Kentucky Revised Statutes.

KRS 441.135(2) requires "the Jailer shall keep books of accounts of all receipts and disbursements of the Commissary and shall annually report to the County Treasurer on the Commissary account." In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The County Budget Preparation and State Local Finance Officer Policy Manual provides guidelines to maintaining records for the jail commissary.

We recommend that the current administrator of the Jail Commissary Fund comply with the guidelines prescribed by the State Local Finance Officer by maintaining the required financial

records in the manner described above. In addition, we recommend that an annual commissary report is completed at year-end. We also recommend that accurate bank reconciliations be prepared monthly and in a timely manner. All outstanding checks and deposits in transit should be included on the reconciliation in order to present a correct reconciled balance.

County Jailer Tony Ball's response: Records were kept on the same basis as when I took office in 2007 until additional software was installed in 2008. The commissary fund and inmate fund were maintained by Schwantson when I took office. This is a company that supplies inmate commissary. Schwantson and the guards assigned to this task maintained records of inventory. Jailtracker/Cobra Banker was a brand of software that interfaced with the Schwantson software to maintain all commissary records. Jailtracker/Cobra Banker was implemented by me in 2008 as a means of better control of inventory, invoices, receipts, and disbursements. This process was maintained by these two companies and was existing software when the Fiscal year began in 2012. At the time I assumed the elected office, the existing officers continued to maintain these audits and were trained by Schwantson. In 3/2012, the auditing officers gave recommendations that the commissary fund and inmate fund should be kept separately. I requested that Schwantson audit our accounts and in response, they retrained the guards. For the commissary receipts ledger—there was a separate hard-copy receipt book kept in the office. These receipts of incoming monies were input into the Schwantson software daily. Disbursements for the commissary were tracked through Jailtracker/Cobra Banker and Schwantson. These are the details according to the best of my knowledge.

KRS 441.215—Budgets submitted by myself to the Fiscal court were not reviewed by the Judge Executive. Neither Judge Blaine Phillips nor Judge Doug Stephens complied with a meeting or any kind of conference with me regarding budget issues, proposed or otherwise. During budget preparations, aforementioned Judge Executives did not include me in any decisions, meetings, or budget changes as required by KRS 441.215. The proposed jail budget was amended by fiscal court and I did submit several written requests pertaining to safety concerns, many of which were not addressed by fiscal court.

KRS 441.135(2)—Upon advisement of auditors in 3/2012, monthly Commissary reports were scheduled to be given to the County Treasurer. The annual Commissary report was inadmissible due to the lack of accessibility to the jail and all records therein after closing in 12/2012. To the best of my knowledge.

County Judge/Executive Douglas Stephen's response: This fund was outside the regulatory authority of the Fiscal Court and was the sole responsibility of the Jailer to properly manage until the jail was closed during January 2013. At the January Fiscal Court meeting, the Fiscal Court took authority of the account and has been in the process of determining what was owed to the inmates since that time. Once final determination of monies owed to the inmates is resolved, the account will be closed.

Proper documentation should be maintained for all Jail Commissary Fund disbursements and invoices should be paid within thirty (30) working days. During our review of disbursements, we noted six (6) instances of invoices that were not paid within a 30 working day time period. Also, we noted six (6) instances of missing invoices.

The Jail could potentially incur late charges and penalties for not paying invoices timely.

The Jailer did not have proper internal controls and oversight over disbursements. KRS 65.140 also states “Unless the purchaser and vendor otherwise contract all bills for goods and services shall be paid within 30 working days of receipt of a vendor invoice.”

We recommend that the current administrator of the Jail Commissary Fund ensure that invoices are maintained and that all invoices are paid with thirty (30) working days as required by statute.

County Jailer Tony Ball's response: An investigation by State Police, instigated by me, was underway during 2012 regarding the possible missing invoices. The matter of the 6 missing invoices was under investigation and in 12/2012, the jail was closed and I had no access to records to be able to resolve this matter.

County Judge/Executive Douglas Stephen's response: Please refer to Item 2013-02 above. No items have been purchased with the Jail Commissary Fund since January 2013.

Lack of documentation with Jail Fund records. During our testing of the Jail Fund, we noted that there was a lack of documentation for the following areas:

- Jail Receipts - Could not determine whether fees were properly collected from inmates. Reports could not be obtained to properly test these collections.
- Telephone Commission - Could not obtain documentation to test telephone commission.
- Department of Corrections (DOC) Billing Statements - There was no DOC billing statements available for review so it couldn't be traced to the bank account.
- Accounts Receivable - Could not determine whether old inmate accounts are being collected on. Reports could not be obtained to test collection attempts.

Lack of adequate documentation can result in misappropriation of assets. The Jailer was not performing his job functions relating to the Jail Fund pursuant to Kentucky Revised Statutes. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The County Budget Preparation and State Local Finance Officer Policy Manual provides guidelines to maintaining records for the Jail.

We recommend that the current administrator of the Jail Fund, reconcile telephone commissions with the vendor and reconcile DOC billing statements with the Department of Corrections. We also recommend that the software provider be contacted to determine whether there are any accounts receivables so collections can begin.

County Jailer Tony Ball's response:

1. *Schwantsons, Jailtracker/Cobra Banker tracked all fees that were collected on inmates. To my knowledge, these records are still located within the Jail.*
2. *Inmate telephone commission—Receipts and checks received from CPC were submitted to Judge Executive's office on a monthly basis. Receipts from Judge Executive's office are located within the jail to the best of my knowledge.*
3. *The DOC billing statements were submitted to the DOC. Copies of such statements are within the jail records at this time, to the best of my knowledge.*
4. *Schwantson and Jailtracker/Cobra Banker software tracked these collection accounts.*

County Judge/Executive Douglas Stephen's response: Please refer to Item 2013-02 above.

The County Treasurer should maintain accurate financial records. During our audit, we had to make several material audit adjustments to reclassify receipts and disbursements into their proper account codes as defined by the County Budget Preparation and State Local Finance Officer Policy Manual.

The financial reports that are approved by the Fiscal Court have misleading information and overstate the financial condition of the County. The County Treasurer is not following the County Budget Preparation and State Local Finance Officer Policy Manual. The County Budget Preparation and State Local Finance Officer Policy Manual list the duties of the County Treasurer based on KRSs 68.020, 68.300, 68.360(1), and 441.235. This manual requires the County Treasurer to maintain the financial records, to receive and disburse money, to invest funds, to prepare financial reports monthly, and to settle accounts within thirty (30) days after the close of each fiscal year.

We recommend that the County Treasurer ensure that the receipts and disbursements are properly recorded in their applicable account code to minimize the risk of incorrect financial statements.

County Judge/Executive Douglas Stephen's response: *I will work to ensure that the Treasurer understands and works to follow through with the recommendations set forth in this audit report. We have implemented a new financial management system (FiscalSoft Software) to aid in the management of our records and to aid the Treasurer in the independent fulfillment of her duties, completion of reports, and accuracy of reports as well as the management of the county budget as it pertains to adequate allotment of line item disbursements. We will work with the Treasurer to assist her in learning and utilizing the software.*

The Fiscal Court should properly reconcile the Payroll Revolving Account. During our audit, we noted that the County Treasurer was not completing a reconciliation of the Payroll Revolving Account. The account did not reconcile to a zero balance as of June 30, 2013 and the remaining balance could not be readily explained.

The payroll revolving account is a clearing account and should reconcile to a zero balance at the end of the month. The Fiscal Court lacks adequate oversight over the payroll revolving account. Internal controls should be in place to provide for the accurate reconciliation of this account. We recommend the Fiscal Court strengthen its internal controls over the payroll revolving account bank reconciliations to ensure that the account is reconciled properly.

County Judge/Executive Douglas Stephen's response: *I will work with the treasurer to reconcile the payroll revolving account.*

The Fiscal Court should improve internal control procedures over receipts by maintaining proper segregation of duties over accounting functions. During our audit, we noted a lack of segregation of duties exists over the following accounting functions: preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. No documented review or compensating controls exist over these areas. We noted the following during our review of internal controls:

- The County Treasurer prepares and deposits the receipts, posts to the ledger, and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations
- The Occupational Tax Administrator receives and documents payments received for occupational taxes
- The Administrative Clerk prepares a listing of bills for Fiscal Court's approval
- The Finance Officer prints and mails the checks
- The County Judge/Executive and County Treasurer sign the checks without comparing the invoices to the checks
- Items returned from the bank are returned to the County Treasurer
- Deposits were not made in a timely manner
- Banks statements only contained the front of checks issued
- Purchases orders were not always issued
- Ledgers are not being reconciled between the County Treasurer and the Finance Officer

Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. The lack of segregation of duties occurs because the Fiscal Court has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Proper internal controls require that all significant roles be segregated or implement oversight when duties cannot be segregated.

We recommend the Fiscal Court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this oversight. We also recommend the following:

- County Treasurer and County Judge/Executive should compare checks to original invoices prior to signing the checks
- Deposits should be made in a timely manner
- Bank statements should contain both the front and backs of checks
- Outstanding items should be researched and resolved
- Purchase orders should be issued for all purchases
- Ledgers maintained by the County Treasurer and Finance Officer should be reconciled monthly and this reconciliation documented

County Judge/Executive Douglas Stephen's response: *Due to limited staff, segregation of duties is always difficult to achieve, but I will work to make sure all parts of the process have adequate oversight. Steps have already been enacted to duplicate effort in keeping track of monies received and to ensure it is deposited in a timely manner. We are currently implementing the recommendations set forth in this audit report.*

The McCreary County Airport Board lacks an adequate segregation of duties over all accounting functions. During our testing of the Airport Board, we noted a lack of segregation of duties exists over the following accounting functions of the McCreary County Airport Board:

receipts collection and processing, recording-keeping, disbursement processing, and report preparation.

Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The lack of segregation of duties occurs because the Airport Board has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Proper internal controls require that all significant roles be segregated or implement oversight when duties cannot be segregated. To adequately protect employees in the normal course of performing their assigned functions and to protect the McCreary County Airport Board against inaccurate financial reporting, we recommend the board separate the duties in preparing and depositing receipts, recording transactions, preparing and signing disbursements, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive Douglas Stephen's response: *The Airport Board, by law, operates autonomously of the Fiscal Court, but I will request the Board comply with these recommendations.*

The McCreary County Tourist Commission should improve internal control procedures over receipts and disbursements. During our audit, we noted a lack of segregation of duties exists over the following accounting functions of the McCreary County Tourist Commission: receipts collection and processing, recording-keeping, disbursement processing, and report preparation. In addition, auditor noted financial statements provided did not accurately reflect the Tourist Commission's financial position and that bank reconciliations were not being accurately completed on the bank accounts maintained by the McCreary County Tourist Commission.

Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. The lack of segregation of duties occurs because the Tourist Commission has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Proper internal controls require that all significant roles be segregated or implement oversight when duties cannot be segregated.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Tourist Commission against inaccurate financial reporting, we recommend the Tourist Commission separate the duties in preparing and depositing receipts, recording transactions, preparing and signing disbursements, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive Douglas Stephen's response: *Segregation of duties is hard to accomplish with a minimal staff but I will work with the Tourist Commission to resolve these issues. The Tourist*

Commission currently directly manages that portion of their budget that is derived from the Transient Hotel Tax but only after it has passed through the Fiscal Court. All other financial transactions regarding the Tourist Commission are managed by the Fiscal Court.

The revolving loan program controls needs improvement. During our testing of the revolving loan program, we noted that many of the loans are not current and noted no collection efforts were made on the noncurrent loans.

Payments on some loans are not being collected. There are no procedures in place to monitor and attempt collection on outstanding loans. Internal controls should be in place to provide for collection on outstanding loans.

We recommend that the Fiscal Court have a formal collection process for collecting on noncurrent loans and have the accounts receivable balances monitored and implement a policy with regard to aging of accounts receivable and subsequent write-off of uncollectible accounts as approved by the proper authority.

County Judge/Executive Douglas Stephen's response: The revolving loan program has been occurring for several years and was launched with a USDA grant. The program formerly had oversight by the McCreary County Industrial Authority until that board was dissolved nearly approximately three years ago and the finances brought under the authority of the fiscal court. During the early months of this current administration, with assistance from the County Attorney's office, all previous information for loans was organized as to status. Much information from outstanding loans at that time was incomplete but we were able to present adequate information to the USDA to fulfill proper reporting requirements. All subsequent loans have the proper paperwork completed and all information pertaining to principal and interest for each loan is readily available. Currently this program has oversight by my office as well as the Economic and Community Development Advisory Council. That board has members from both local banks who review all small business loan requests for risk. In addition, the current economic and community development director has been in communication with previous inactive loan holders to begin the process of recovering funds owed the county revolving loan program.

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

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