



**Auditor of
Public Accounts
Allison Ball**

Adair County Fiscal Court

Audit

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Adair County Fiscal Court for the fiscal year ended June 30, 2023. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Adair 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 116 of 120 fiscal court audits in Kentucky.

Finding: Does not have adequate controls over the commissary and inmate accounts.

Part of this finding is a repeat finding and was included in the prior year audit report as finding 2022-001. The Adair County Jail lacked adequate segregation of duties over jail commissary activity. The following findings were noted as a result of the inadequate internal controls:

- Inmate deposits were not being made in a timely manner.
- There was no evidence that the fees being collected by the jail were ever approved by the fiscal court, which could result in excessive or inadequate fees being charged to the inmates.
- Receipts are not being issued for items received by the commissary account nor are daily checkout sheets being prepared for the deposits.
- Additionally, the following issues were noted with jail commissary disbursements:
 - Four transactions totaling \$39,833 were for unallowable expenses from the commissary account, including lump sum payments to the fiscal court for the medical contract, purchase of a washer and dryer, and replacing lost inmate property.
 - Four transactions totaling \$30,690 did not have invoices to support the payment.
 - The jailer failed to follow proper bidding procedures for the purchasing e-cigs, which totaled more than \$40,000 for the year.

Recommendations

We recommend the Adair County Jail implement sufficient internal controls over the jail commissary account and be in compliance with applicable commissary statutes.

County Officials Response

Jailer's Response: I will continue to check both accounts (Canteen and Commissary) to ensure the safety and accuracy of these accounts.

Finding: Lacks adequate segregation of duties.

The fiscal court does not have adequate segregation of duties. Mail is received by the deputy judge/executive; the treasurer rotates the duties of preparing deposits with the finance officer. The treasurer or finance officer, whoever did not prepare the deposit, takes the monies to the bank. The treasurer posts the deposit to the receipts ledger. Additionally, both the finance officer and treasurer rotate the duty of preparing disbursement checks (which are automatically posted to the ledger by the accounting software). The treasurer is also responsible for reconciling bank accounts and preparing monthly or quarterly reports with the county judge/executive reviewing for accuracy. The fiscal court has instituted additional reviews to offset this risk. These additional reviews do not offset the deficiency as the controls did not catch the errors the controls were implemented to stop. According to the county judge/executive, this was caused due to a lack of adequate office personnel to be able to separate the duties between employees without duty overlap. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Recommendations

We recommend the county segregate the duties of accounting functions. If segregation of duties is not feasible due to lack of staff, we recommend the county continue to implement and document compensating controls to offset this control deficiency.

County Officials Response

County Judge/Executive's Response: The Adair County Fiscal Court determines the number of employees and salary the Judge Executive is allowed to have in his office. The employees will continue to have these same issues until additional staff is hired.

Finding: Lacks internal controls over disbursements.

The Adair County Fiscal Court failed to implement proper internal controls over disbursements. We tested 114 transactions and 4 credit card statements totaling \$3,107,535, which resulted in the following issues:

- Thirty-five disbursements totaling \$35,753 did not have a purchase order.
- Ten disbursements totaling \$9,948 were not coded properly.
- Nine invoices totaling \$55,519 were not paid within 30 business days.
- Three invoices had finance charges and late fees totaling \$207.
- Nine invoices for \$630,222 could not be found approved in the Fiscal Court Orders or were only partially included in the court orders and did not document the amount approved.
- The transfer station property had documented approval to sign the deed in the minutes, but the purchase price of \$441,250 was not documented as approved in the minutes.
- One invoice for \$9 did not have a description of what was purchased on the invoice.
- One credit card statement was not provided.
- Three credit card transactions did not have an invoice documenting the purchase.
- One credit card transaction included sales tax of \$1.
- Ten purchase orders on credit card transactions for travel did not document the reason for travel.
- Meals on credit card transactions of \$121 for travel did not document the reason for travel and should be included as taxable fringe benefits on the employees' W-2s as they were for same day travel. These meals were paid properly per the county's administrative code as they were out of county.
- Invoices for asphalt paving and jail inmate meals were not paid at the bid rate approved in fiscal court and did not have documentation for the deviation in price.

Recommendations

We recommend the Adair County Fiscal Court implement internal controls over the disbursement process to ensure there are purchase orders issued to all purchases being made and use the purchase orders to maintain an accurate list of encumbrances on the fourth quarter financial statement. We further recommend the fiscal court implement controls over the review process to ensure all purchases are coded properly, paid within 30 business days, late fees and finance charges are avoided, approved claims are clearly documented in fiscal court orders, have an invoice, agree to the contracted amount, travel invoices are documented with the purpose of the travel, and meal receipts for same day travel are included as taxable fringe benefits.

County Officials Response

County Judge/Executive's Response: The Adair County Fiscal Court has amended its travel ordinance to comply, P.O. numbers are being put standing orders, and a new Finance Officer is being trained to comply with audit recommendations.

Finding: Schedule of expenditures of federal awards submitted to the Kentucky Department for Local Government was materially misstated.

The Adair Fiscal Court's Schedule of Expenditures of Federal Awards (SEFA) that was presented with their fourth quarter report to the Department for Local Government (DLG) at the end of the fiscal year was materially misstated. The SEFA should have shown \$2,234,378 for American Rescue Plan Act (ARPA) expenditures. However, only \$1,440,518 was included on the submitted SEFA. Per the county treasurer, this was due to a misunderstanding of which funds should have been included. The treasurer included the amount transferred out of the account during the fiscal year but failed to take into account items expended from ARPA funds for the fiscal year, but not yet transferred out. By not preparing and submitting a materially accurate SEFA with the fourth quarter report to DLG, the inaccurate records limit DLG's ability to oversee financial compliance requirements.

Recommendations

We recommend that the Adair Fiscal Court ensure the accuracy of the SEFA that is annually submitted to DLG with their fourth quarter report.

County Officials Response

County Judge/Executive's Response: The Adair County Treasurer has consulted with auditors on the proper procedures of filing the SEFA report.

Finding: Failed to implement adequate internal controls over cash processes.

The Adair County Fiscal Court had internal control weaknesses and noncompliances regarding cash processes and financial reporting. The following findings were noted with Adair County Fiscal Court's cash processes and financial reporting:

- The Adair County Fiscal Court failed to approve all cash transfers before they took place. For fiscal year 2023, two cash transfers totaling \$95,200 were not approved by the fiscal court before the transfers took place. However, approval was documented after the transfers took place.
- The Adair County Fiscal Court did not separately account for transfers from the LGEA Fund. We observed \$70,000 in transfers from the LGEA Fund to the Jail Fund, and \$30,000 in transfers from the LGEA Fund to the Parks & Recreation Fund.

- We observed the Adair County Fiscal Court had numerous bank error and corrections, where amounts were deposited incorrectly into incorrect funds then transferred to the correct fund. We also observed numerous checks outstanding for over one year.

Recommendations

We make the following recommendations to address these findings:

- The fiscal court should ensure that they properly record all transfers in the Fiscal Court Orders.
- The fiscal court should account for all funds expended from restricted funds to ensure they are spent on appropriate categories.
- The fiscal court should implement controls to ensure outstanding checks are investigated to get the amounts clear.
- The fiscal court should implement controls to ensure funds are deposited into the correct account to reduce the amount of bank errors and corrections.

County Officials Response

County Judge/Executive's Response: The Adair County Treasurer asked to resend the transfers and will pay funds out of the LGEA instead of transferring to other accounts from this point on. The Adair County Treasurer is looking at daily cash recaps on deposits before they are being deposited in the bank.

Finding: Lacks adequate controls over leases and their reporting.

The Adair County Fiscal Court did not maintain a complete and accurate schedule of leases for the 2023 fiscal year. While the county did maintain a schedule of assets in which they were lessor and lessee, the schedule was not accurate and did not include all necessary information. During fiscal year 2023, the Adair County Fiscal Court received \$966,331 in lease receipts and disbursed \$24,262 in lease commitments; however, the Adair County Fiscal Court's schedule of leases reported \$63,285 in lease receipts and \$825,564 in lease commitments.

Recommendations

We recommend Adair County maintain a complete schedule of all leases and follow the standards set forth by GASB 87 to ensure note disclosures are complete and accurate. We further recommend Adair County review all of their lease agreements to ensure they are current, a record of the county, approved by the fiscal court, are collected timely, and are recorded properly in the ledgers.

County Officials Response

County Judge/Executive's Response: The Adair County Treasurer is working on getting the GASBY report accurate.

Finding: Lack of controls over payroll processing.

The Adair County Fiscal Court has a lack of controls over payroll processing. During testing, auditors noted the following exceptions.

- The county treasurer processes payroll, but also edits employees time when needed. There was no documentation of review and approval of the employee whose time was being edited.
- There were two employees tested that had access to edit their own time without approval and whose time in/out did not accurately reflect the action time when the entry was completed in the system.
- There was one employee whose timesheet was not signed by the employee, nor supervisor.

- Magistrates were being given a monthly allowance for being on a committee and attending monthly meetings. There was no documentation maintained by the county treasurer that would support the monthly payment amount.

Recommendations

We recommend the fiscal court implement controls over payroll processing to ensure that timesheets are signed by both employee and supervisor prior to processing, any edits on timesheets should be signed by the employee whose time is being edited and limited access to make edits in the system be implemented. Documentation should also be maintained by the county treasurer to support the magistrates' allowance being paid monthly.

County Officials Response

County Judge/Executive's Response: The payroll process has been edited and the committee reports are being put in the books.

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



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