



Auditor of Public Accounts Allison Ball

FOR IMMEDIATE RELEASE

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Ball Releases Audit of Jackson County Fiscal Court

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Jackson County Fiscal Court for the fiscal year ended June 30, 2022. 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 Jackson 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.

The audit contains the following findings:

The fiscal court failed to implement a strong internal control system leading to a disclaimed opinion. The fiscal court failed to implement a strong internal control system, which allowed an ineffective control environment, inadequate management oversight over financial records, a lack of knowledgeable employees available to provide records to auditors, and a material amount of expenditures not being supported with adequate documentation.

Due to an ineffective control environment and the risk of material errors due to a lack of strong internal controls over the financial reporting process, we cannot overcome the risks with additional audit procedures; therefore, we are unable to provide the fiscal court with an opinion on whether the financial statement is free from material misstatement. A disclaimer of opinion will be issued.

We recommend the fiscal court implement internal controls and management oversight over the financial reporting process. By implementing these procedures, the fiscal court can strengthen its internal control system, ensure accurate financial reporting, and deter misappropriation of assets. This finding will be referred to the Kentucky Department for Local Government (DLG).

County Judge/Executive's Response: Jackson County has a limited amount of tax revenue which only allows for a limited amount of staff. We will utilize what staff we have by letting them observe each other's work and double check for errors.

The fiscal court did not accurately report financial information on the annual financial statement and the fourth quarter financial report. The fiscal court's annual financial statement and the fourth quarter financial report contained several errors such as omitting a complete listing of disbursements for each vendor, misstating the General Fund by \$5,049, approving an emergency budget amendment that did not appear to be for an actual emergency which overstated allowed receipts and disbursements, and failing to report encumbrances as required.

We recommend the fiscal court improve procedures over financial reporting to ensure accurate reporting of the county's financial status and compliance with applicable statutes. We further recommend the fiscal court review the statutes and the DLG Budget Manual associated with the use of budget amendment and implement policies and procedures to ensure emergency budget amendments are only used when a true emergency exists and has been declared. The fiscal court should monitor budgeted and actual expenditures at all times in order to comply with statutory requirements.

County Judge/Executive's Response: The Fiscal Court will approve budget amendments in a timelier manner to prevent another emergency amendment.

The fiscal court lacks adequate segregation of duties over the accounting function. The fiscal court does not have adequate segregation of duties over receipts, disbursements, and reconciliations. The county treasurer and finance officer are responsible for preparing deposits, posting to the receipts and disbursements ledgers, signing checks, reconciling all bank accounts, preparing monthly reports for the fiscal court and quarterly reports for the DLG with little to no documented review.

We recommend the fiscal court separate the duties involving receipts, disbursements, and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas should occur and involve an unassociated employee. This should be documented by initialing all source documentation. The county judge/executive could provide this oversight and document it on the appropriate source documents by initialing.

County Judge/Executive's Response: Due to the sickness and death of our finance officer, we were even more understaffed than usual. We have new finance officer in place to work on correcting these issues.

The fiscal court did not establish and maintain effective internal controls over financial reporting of federal awards. The original SEFA prepared by the county reported federal expenditures totaling \$813,950. The SEFA included items that were not federal grants and understated others. The county emergency manager then revised the SEFA and reported federal expenditures totaling \$897,671.

We recommend the fiscal court implement internal controls to ensure that the SEFA is properly prepared and federal expenditures are reported accurately.

County Judge/Executive's Response: The Finance Officer assisted in the preparation of the SEFA and also served as the Assistant EM. Again, her sickness and passing did not allow preparation in a timely manner.

The fiscal court lacks proper controls and oversight over bank reconciliations. The fiscal court failed to establish appropriate oversight of the county treasurer's reconciliation activities leading to deficiencies such as inaccurate bank reconciliations, negative reconciled account balances, and inappropriate interfund transfers.

We recommend the fiscal court establish controls and procedures to review and document all reconciliations prepared by the county treasurer to determine the validity and accuracy of the amounts presented to the fiscal court and submitted to the state-local government. We further recommend the fiscal court investigate the balance in the Jail Fund Account and Payroll Revolving Account to determine how to resolve the accounts' negative balances and ensure no further liabilities need to be paid. We further recommend the fiscal court implement a procedure to regularly reconcile the Payroll Revolving Account balance to zero.

County Judge/Executive's Response: Again, the sickness and passing of the finance officer left a shortage in staff to properly maintain bank reconciliations. We are working on reconciling each account for accuracy.

The fiscal court did not have proper controls over transfers. The county treasurer made 57 interfund transfers during fiscal year 2022. Of the 57 transfers, four transfers received approval after the transfer was issued and made and two transfers were approved to be deposited into the Jail Fund but were erroneously deposited into the Special Grant Fund.

We recommend all transfers are approved by the fiscal court before the transfer is made. The approval should be clearly reflected in the fiscal court minutes. In addition, funds should only be transferred to the approved accounts and only if sufficient funds are available.

County Judge/Executive's Response: The official did not provide a response.

The fiscal court does not have adequate procedures for reporting county liabilities. The fiscal court did not report outstanding balances correctly for long-term liabilities related to debt service payments. The principal and interest balances on all debts were not reported correctly, resulting in liabilities being overstated by \$2,331,250 for principal balances and \$1,025,497 for interest balances due as of June 30, 2022.

We recommend the fiscal court improve procedures to ensure proper reporting of all county liabilities on the financial statement.

County Judge/Executive's Response: The Jail was refinanced in another Fiscal Year and was not accurately reported. We have since corrected the issue.

The fiscal court lacks internal controls over disbursements. Auditors tested 293 regular disbursements, three credit card transactions, and two payroll disbursements. The more notable issues are that disbursements lacked supporting documentation leading to \$280,120 in questioned costs, lacked approval before payment, were paid late, did not follow bid or state price contract requirements, included finance charges and reactivation fees, lacked purchase orders.

We recommend the fiscal court strengthen controls over disbursements and the purchasing procedures by requiring disbursements to have purchase orders submitted prior to approval, invoices submitted for approval of payment. The fiscal court should also ensure all items requiring bids are being properly bid, invoices are properly supported and paid timely, and only items considered reasonable in amount, beneficial to the public, and not personal in nature are paid by the fiscal court. We further recommend the fiscal court implement a process that allows the fiscal court to create an encumbrance list.

County Judge/Executive's Response: The Fiscal Court is working on implementing a computer-generated system to assure better accuracy in disbursements.

The fiscal court lacks internal controls over occupational tax. All receipts are collected, recorded, and deposited by the occupational tax administrator and the occupational tax administrator makes payments to the fiscal court on an as-needed basis. The payments do not relate to the actual receipts collected over any defined period and there is a lack of segregation of duties related to the occupational tax office. According to personnel, the County Judge/Executive does review monthly bank statements and deposits, but this review is not documented. It was further noted that the funds held in the Occupational Tax Account were not included in the quarterly. In addition, the county could not provide a copy of the county's occupational tax ordinance for auditors to determine if the occupational tax receipts were being handled properly.

We recommend the fiscal court implement internal controls over the receipt and disbursement of occupational taxes. The fiscal court should ensure occupational tax receipts are paid over to the fiscal court on a regular basis, supporting documentation is completed, and obtain a copy of the original occupational tax ordinance. Furthermore, the treasurer should account for all funds on hand and ensure they are incorporated into the fiscal court ledgers properly.

County Judge/Executive's Response: The Fiscal Court is now working to ensure accuracy of these deposits by having the treasurer and finance officer validate deposits.

The fiscal court lacks internal controls over transfer station receipts and deposits. The fiscal court failed to establish appropriate internal controls over off-site receipts and deposits leading to deficiencies such as daily check-out sheets were not prepared, correct fees were not collected, incorrect rates were used, deposits were not made timely, accounts receivables were not accounted for properly, receipts were not batched daily, cash and checks on the daily recap of receipts could not be matched to the individual receipts, and proper review of collections was not documented when deposit was prepared and delivered to the County Judge's Office for deposit into the bank.

We recommend the fiscal court strengthen internal controls to ensure daily check-outs are performed and receipts are processed in order. We also recommend that the employee providing oversight should document this by signing or initialing the supporting documentation.

County Judge/Executive's Response: The Fiscal Court is now working to ensure accuracy of these deposits by having the treasurer and finance officer validate deposits.

The fiscal court did not have adequate controls over payroll processing. The fiscal court failed to establish appropriate internal controls over payroll processing leading to deficiencies such as salaries were not set in accordance with statutes, erroneous payments to employees, compensatory and vacation time were not properly calculated or monitored, health insurance deductions were not accurate, timesheets were not approved, and inaccurate payment of withholding to the Kentucky Department of Revenue.

We recommend the fiscal court improve procedures over payroll by ensuring all timesheets are approved by a supervising official, employees are paid for hours worked, and compensatory time is authorized when earned and properly documented. In addition, the county should ensure leave balances are properly maintained. We further recommend the fiscal court ensure employees are paying their correct portion for health insurance benefits. Furthermore, we recommend the fiscal court implement internal controls over payroll liabilities and remit amounts due to the Kentucky Department of Revenue timely.

County Judge/Executive's Response: Due to the sickness and death of our finance officer, we were even more understaffed than usual. We have new finance officer in place to work on correcting these issues by assisting the Treasurer with payroll.

The Jackson County Detention Center did not have strong internal controls over the accounting function. The Jackson County Detention Center administration duties include receiving the mail, collecting cash, issuing receipts, preparing deposits, posting receipts and disbursements, preparing checks, signing checks, posting, and completing bank reconciliations. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. Our auditors noted supporting documentation was not maintained or prepared with commissary account deposits selected for testing. Furthermore, checkout sheets were not prepared, and receipts were not issued for the Commissary Account deposits. In addition to the issues with the commissary receipts, three of 10 commissary disbursements selected for testing were not paid timely, one of the 10 commissary disbursements selected for testing was paid per a vendor statement and was not supported by individual invoices, and the jailer purchased nicotine products for use as commissary inventory from one vendor totaling \$68,711 without obtaining bids.

We recommend the jailer make all deposits for the commissary and inmate accounts in compliance with DLG's requirements. We further recommend the jailer provide proper supporting documentation for all jail commissary deposits as well as ensure all disbursements are properly supported and paid timely.

Jailer's Response: The bidding for nicotine products will be included with the Jackson County Fiscal Courts other bids this year.

The Jackson County Detention Center's Inmate Account was not properly reconciled: The Jackson County Jailer uses a separate bank account to hold inmate funds. As of June 30, 2022, the Inmate Account had a balance of \$69,874. Per the inmate accounts payable report, the inmate balance should have been \$20,590 as of June 30, 2022. Removing these items and the \$6,623 of uncleared liabilities from the fiscal year-end balance would leave an unexplained overage due to the Commissary Account of \$42,661.

We recommend reconciling the Inmate Account to a zero-ending cash balance each month and a review of the reconciliation which can be documented by initialing and dating this reconciliation. We further recommend the jailer transfer the unexplained overage due to the Commissary Account after reconciling all outstanding items.

Jailer's Response: We have asked on several occasions how to move this money into the commissary account with no definite answer. We will have this matter resolved in the near future.

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

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