



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Bullitt County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Bullitt 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 Bullitt 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 Bullitt County Detention Center does not make daily deposits:** The Bullitt County Detention Center does not make deposits daily for inmate funds collected. Deposits from Friday through the next Thursday are made the next Friday. The jailer has not implemented procedures for daily deposits of inmate funds as part of the internal control system. When deposits are not made daily, the risk of misappropriation of assets due to errors in financial reporting and theft of funds significantly increases.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual*

requires that deposits be made daily and intact. All monies collected should be deposited intact and unaltered. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the Bullitt County Jailer implement procedures to ensure that all deposits are made daily.

*County Judge/Executive's Response: None*

*County Jailer's Response: The Bullitt County Detention Center has recently changed commissary company, [vendor], using Kiosks to collect money. [Vendor] is responsible for pulling the money from machines and making deposits. Deposits will be made multiple times through the week due to different forms of payment accepted.*

**The Bullitt County Animal Shelter does not make daily deposits:** This is a repeat finding and was included in the prior year audit report as Finding 2016-002. Bullitt County Animal Shelter does not deposit animal shelter receipts on a daily basis. Daily deposits for animal shelter receipts were not made during Fiscal Year 2017 as was noted during review of animal shelter receipts per the county receipts ledger for January 2017. The county receipts ledger had six separate animal shelter receipts postings for January 4, 2017. They related to daily deposit collections for: December 20-22, 2016 and December 27-29, 2016. The county receipts ledger had six separate animal shelter receipts postings for January 13, 2017. They related to daily deposit collections for: December 27, 2016, January 3, 2017, and January 9-10, 2017, and two separate entries for January 11, 2017. During Fiscal Year 2017, Bullitt County Animal Shelter did not implement a policy to ensure deposits are made daily. When receipts collected are not deposited daily, the risk of misstatement of receipts increases due to undetected error or fraud. Receipts could be collected and not deposited. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. According to the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, deposits should be made daily. We recommend Bullitt County Animal Shelter begin making deposits daily.

*County Judge/Executive's Response: Every effort is made to make daily deposits, however sometimes circumstances beyond the control of the Animal Shelter staff prevent it. If the deposit is not made, monies are kept in a locked safe, which is also continuously monitored by a security camera.*

**Bullitt County employees' timesheets do not reflect actual hours worked:** Bullitt County employees' timesheets do not accurately reflect actual hours worked by employees. The following weaknesses were noted during testing procedures and auditee staff inquiry:

- Most employees work from 8:00 a.m. until 4:00 p.m. daily. The employees leave during this period for a lunch break. However, the employees' timesheets show time worked of eight hours each day, which would include the lunch break. So employees that are paid on an hourly basis are being paid for time not spent working.
- Salaried employees who work overtime do not account for overtime worked on their timesheets because the county will not compensate them for their overtime. They track their own overtime hours earned and take that time off later.

The county's personnel policy is not clear in defining what hours constitute a full work day, including breaks and lunch. If the county wants to allow employees to work through lunch and be paid for that, there needs to be a policy in place to allow the employee and employer to enter into a mutual agreement for such an arrangement. Without a clear definition of when employees are on work time versus break time, employees could be paid for hours not actually worked. Furthermore, the county's personnel policy does not indicate salaried employees are to be paid for overtime earned, resulting in possible noncompliance with state law for salaried employees who are not exempt from overtime. Additionally, because employees track their own overtime rather than enter the hours worked on official timesheets, the amount of overtime worked has not been approved by a supervisor, which could lead to inaccurate or unauthorized reporting even if the compensatory leave was permitted.

KRS 337.355 states, "[e]mployers, except those subject to the Federal Railway Labor Act, shall grant their employees a reasonable period for lunch, and such time shall be as close to the middle of the employee's scheduled work shift as possible. In no case shall an employee be required to take a lunch period sooner than three (3) hours after his work shift commences, nor more than five (5) hours from the time his work shift commences. This section shall not be construed to negate any provision of a collective bargaining agreement or mutual agreement between the employee and employer."

KRS 337.320(1) states, "[e]very 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."

We recommend the fiscal court implement the following procedures:

- review the personnel policy to ensure it clearly states what defines a work day, including breaks and lunch, and that hourly employees only get paid for actual hours worked as documented on timesheets,
- review each salaried employee's job duties, and if the employee is deemed exempt from overtime, then document the assessment and conclusion in the employee's personnel file, and
- ensure all employee timesheets reflect actual hours worked, including overtime earned and any leave taken.

*County Judge/Executive's Response: The county provides a paid lunch period as part of the employee benefit. We respectfully disagree with this finding. According to the U.S. Department of Labor, the Fair Labor Standards Act provides an exemption for overtime pay for certain employees. Some of the criteria is as follows: management of a department; direct the work of at least two or more full-time employees; recommend hiring and/or firing of employees; primary duty must be the performance of office work. All county employees classified as salaried meet one or more of the criteria.*

Auditor's Reply: As stated, the county should review the personnel policy to ensure it clearly states what defines a work day, including breaks and lunch, and that hourly employees are only paid for actual hours worked as documented on timesheets; review each salaried employee's job duties, and if the employee is deemed exempt from overtime, then document the assessment and conclusion in the employee's personnel file; and ensure all employee timesheets reflect actual hours worked, including overtime and any leave taken. KRS 337.320 states "(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."

**The Bullitt County Fiscal Court did not have a collateral security agreement and deposits of \$3,583,693 were uncollateralized:** The Bullitt County Fiscal Court changed banks for their accounts on June 1, 2017. They did not have a collateral security agreement in place with the new bank as of June 30, 2017. Currently, fiscal court staff are working with the bank to have a security agreement in place. Per the deputy judge/executive, the agreement is to be presented to the fiscal court for approval at the February 2018 meeting. Deposits held at the new bank on June 30, 2017, of \$3,833,693 were only insured for \$250,000 Federal Deposit Insurance Corporation (FDIC) coverage, leaving \$3,583,693 uncollateralized. The pledges provided by the new bank were void since there was no collateral security agreement in place on June 30, 2017. The county staff did not ensure a collateral security agreement was in place, reviewed, and finalized within 30 days of the close of the fiscal year.

According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. We recommend the Bullitt County Fiscal Court obtain a collateral security agreement with the new bank. We recommend the agreement be approved by the fiscal court and signed by the county judge/executive and a president of the bank or his/her designee.

*County Judge/Executive's Response: Bullitt County Fiscal Court respectfully disagrees. All deposits were fully collateralized at the time the accounts were funded, by [the bank] in June of 2017. Please see the attached pledge reports from [the bank]. [The bank] entered the agreement into their ALCO minutes for February of 2018.*

Auditor's Reply: We reviewed the attachments to the county judge/executive's response and while the bank provided securities for collateral, the absence of a valid collateral agreement is the issue noted in the finding.

**The Bullitt County Fiscal Court's capital asset beginning balance was materially misstated:** The county's inventory list as of June 30, 2016 did not agree to the audited capital asset listing as of June 30, 2016, resulting in a material adjustment, or restatement, to the beginning balance for Fiscal Year 2017 of (\$3,033,954).

Machinery and Equipment

Beginning Balance	\$	6,230,050
Adjustment to Beginning Balance-PY calculation error		(2,196,332)
Adjustment to Beginning Balance Historical Cost (Add Change in Value)		41,303
Adjustment to Beginning Balance (Add Asset)		173,409
Adjustment to Beginning Balance (Remove Asset)		(169,295)
Restated Beginning Balance	\$	<u>4,079,135</u>

Vehicles

Beginning Balance	\$	3,648,761
Adjustment to Beginning Balance (Add Asset)		9,991
Adjustment to Beginning Balance (Remove Asset)		(893,030)
Restated Beginning Balance	\$	<u>2,765,722</u>

When the inventory list is not reconciled to the capital assets list, there is significant risk of errors in reporting capital assets. Also, not maintaining an accurate list of capital assets could result in new assets not being insured and retired assets not being removed from the insurance policy. Good internal controls related to capital asset reporting require that the county be aware of their capital asset thresholds for reporting, and that the county inventory lists be reviewed and updated regularly to ensure there are no duplicate assets, and additions and deletions are reported accurately and to the insurance company timely. We recommend the fiscal court implement procedures to ensure the county's inventory lists are reviewed to ensure assets are reported at the correct historical cost, and that the inventory lists are updated accurately and timely for new assets and retired assets.

*County Judge/Executive's Response: Procedures have been implemented to ensure capital asset reporting is accurate.*

**The Bullitt County Fiscal Court lacks segregation of duties over animal shelter receipts:** This is a repeat finding and was included in the prior year audit report as Finding 2016-005. One animal shelter staff person collects fees from the public, prepares receipt tickets, and completes the daily collection report, with no other staff person reviewing these functions. These controls did not change during Fiscal Year 2017. A new animal shelter director was named in October 2017. Upon inquiry of the new animal shelter director and auditor's review of the receipt tickets and related files as of October 2017, the animal shelter director and one animal shelter staff person review all receipt tickets each day to ensure cash and checks are accounted for accurately for deposit and are recorded accurately on the daily deposit report. Their review is evidenced by initials on the receipt tickets.

During Fiscal Year 2017, Bullitt County Animal Shelter had not implemented segregation of duties as part of the internal control system. When accounting functions are not segregated, there is a significant risk to the entity of misappropriation of assets and inaccurate financial reporting due to errors and fraud. Good internal controls dictate that accounting functions are to be segregated to reduce the risk of misappropriation of assets. We recommend Bullitt County Animal Shelter segregate the duties over receipts accounting functions or implement compensating controls. For

example, the animal shelter director, or a designee, can perform the following compensating controls: review the receipt tickets and daily deposit report to confirm they agree in total, and that all receipt tickets, and cash and checks collected are accounted for accurately. The review should be documented by initials on the documents reviewed.

*County Judge/Executive's Response: As noted in the auditor's comments, a new Animal Control Director was hired in October 2017. Since then, there has been dual control over receipts and deposits, as evidenced by the auditor.*

**The Bullitt County Detention Center did not properly reconcile the inmate bank account:**

The detention center reconciles the inmate bank account based on when receipts or disbursements clear the bank not when they are receipted or expended. This resulted in a negative bank balance on July 11, 2017. It appears that jail personnel are relying on the canteen accounting system to track and reconcile the inmate bank account. Since the account is not fully reconciled monthly, the actual bank balance is unknown and that could lead to a negative bank balance. Without a proper monthly reconciliation, account transactions could be received but not reported or disclosed accurately on the receipts and disbursements ledgers. We recommend that monthly reconciliations and complete ledgers be maintained for the inmate account.

*County Judge/Executive's Response: None*

*County Jailer's Response: Monthly reconciliations will be completed throughout the month, allowing for a more accurate account of the bank balance.*

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

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