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, 2021. 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 employee timesheets do not reflect actual hours worked: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. Bullitt County employee 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 8 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. A new employee handbook was updated on August 1, 2021, to help clarify work hours and work schedules.

Without a clear definition of when employees are on work time versus break time, employees could end up being paid for hours not actually worked. Also, the county's personnel policy does not require salaried employees to be paid for overtime earned, resulting in a possible noncompliance with state law for salaried employees who are not exempt from overtime.

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 requires the following records to be kept by an employer for each employee:

- The amount paid each pay period to each employee,
- The hours worked each day and each week by each employee, and
- 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.
- Ensure all employee timesheets reflect actual hours worked, including overtime earned and any leave taken.

County Judge/Executive's Response: An updated Personnel Policy Handbook was adopted June 15, 2021 and effective August 1, 2021. The new handbook clearly states what defines a workday, including breaks and lunch, and that hourly employees only get paid for actual hours worked as documented on timesheets.

The Bullitt County Fiscal Court did not have adequate controls over the fuel fob system: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The Bullitt County Fiscal Court did not have adequate controls over the use of fuel by county employees at the county's fuel station. The county fuel station utilizes a fob system to track fuel usage that requires a fob and the employee's PIN number. During Fiscal Year 2021 approximately $68,716 of fuel was dispensed through use of the fuel fob system in order for the county to operate its equipment and vehicles.

All employees are assigned a fuel fob and PIN number to dispense fuel with the exception of the road department. Due to the need for all employees to have access to all road department vehicles and equipment, each piece of equipment or vehicle is assigned its own fuel fob. Road department employees are still required to enter their own unique PIN number.

There were no set policies or procedures for the following:

- Authorization to request new fuel fobs or PIN numbers for employees to allow them access to fuel station.
- Reconciling fuel transactions to the monthly statement received from the vendor by each department.
- Correcting reconciliation errors when noted.
- Cancelling PIN numbers for employees when they are no longer county employees.
- Maintaining an inventory of inactive fuel fobs or fuel fobs assigned to employees.
- Ensuring that each employee was assigned their own PIN and, when applicable, their own fuel fob.
- One department allowed all employees to use the same PIN number.

Review of the internal controls over the use of fuel by county employees at the county's fuel station shows a lack of controls and a breakdown in communication within the county concerning the management of the fuel station and fuel fob system. Failure to implement and monitor controls over the use of the fuel station and the fuel fob system by county employees at the county's fuel station leaves this process vulnerable to threats of fraud, waste and abuse and could result in the misappropriation of assets.

Good internal controls for the fuel station and fuel fob system should require policies to authorize the use of the fuel station and fuel fob system be implemented and monitored. Fuel transactions on invoices should be reviewed and reconciled to source documents and analyzed for accuracy, compliance with budget amounts and unusual trends. This review should be documented with any errors and their subsequent correction noted. Unique PIN numbers should be assigned to each employee and fuel fob assignments should be tracked to maintain the fuel fob system's integrity and to ensure fuel fobs and PIN numbers are accounted for and deactivated when circumstances warrant.

It is recommended the fiscal court work to implement policies and monitor control procedures over the county's fuel station and fuel fob system to mitigate the risk resulting from the lack of controls and oversight over the fuel station and fuel fob system.

County Judge/Executive's Response: A new vendor has been retained for county vehicles and each vehicle will have an assigned fuel card. FOB's will only be used by the Road Department for the large equipment and vehicles and the Detention Center. The fuel station and FOB system will be monitored by the Road Department Supervisor and Assistant Supervisor.

The Bullitt County Fiscal Court did not properly utilize the purchase order system as required: This is a repeat finding and was included in the prior year audit report as Finding 2020-006. During testing of expenditures, auditors noted that purchase orders were prepared after the invoice was received. The accounts payable clerk would assign a purchase order number to the invoice. The invoices from various departments would be sent to the accounts payable clerk to enter in the system. Purchase orders should be prepared prior to invoice being received.

The purchase order system utilized by the county tracks all invoices to be paid. Invoices tested had appropriation account code indicated, stamped with date received, claims list was prepared and approved by fiscal court, and appropriation ledger was updated on a regular basis. However, purchase order listing as required was not prepared and expenditures to be paid were not checked to see if they exceeded available line item balance.

By not properly following the purchase order system as required, the county exceeded budgeted line items during the year which is prohibited. Claim checks should not be signed unless the following conditions exist:

- Claim reviewed by the fiscal court.
- Sufficient fund balance and adequate cash in the bank to cover the check.
- Adequate free balance in a **properly budgeted** appropriation account to cover the check.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "PURCHASE ORDER JOURNAL - A daily, chronological listing of all purchase orders issued. The journal should indicate the P.O. number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of the invoice, date claim reviewed by fiscal court, date paid, and amount paid." The Department for Local Government (DLG) guidelines state that the main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. The expenditure to be paid cannot exceed available line item without prior approval of transfer.

We recommend the fiscal court establish a well planned and executed purchase order system and monitor their budget to ensure expenditures do not exceed budgeted appropriations.

County Judge/Executive's Response: A new Purchase Order software program has been purchased to ensure expenditures do not exceed budgeted appropriations. Accounts payable staff and department heads are working together to ensure procedures are followed correctly and all purchase orders and invoices are approved by department heads before submission.

The Bullitt County Detention Center did not have segregation of duties over the jail commissary fund: This is a repeat finding and was included in the prior year audit report as Finding 2020-003. The Bullitt County Detention Center lacked adequate segregation of duties over the accounting functions related to the jail commissary fund. The former bookkeeper collected funds, issued receipts, posted transactions to the ledgers, and performed the monthly bank reconciliations. Checkout sheets were prepared by the former bookkeeper as well as making the deposits. In addition, two kiosk machines were reconciled by the former bookkeeper with no documentation by the jailer or other designee that the amount of cash was properly recorded and deposited. Deposits were not made daily and receipts issued were not accounted for in numerical sequence.

For disbursements, the former bookkeeper prepared all checks and posted to the ledger. The invoices were not stamped with received date or cancelled when paid. There was not always documentation that invoices or other supporting document was approved prior to payment however, two signatures are required. Oversight by either the jailer or another employee was not documented for these activities.

The jailer did not implement adequate policies and procedures to ensure effective internal controls to ensure proper segregation of duties. A new bookkeeper was hired in April 2021, and new compensating controls have been implemented.

A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Good internal controls dictate that the collection of receipts, recording of transactions, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in receiving cash, recording transactions, and reporting financial information. If segregation of duties is not possible, implementation of strong compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting.

We recommend the detention center segregate duties where possible. If segregation of duties is not possible, the detention center should offset the lack of adequate segregation of duties by implementing compensating controls, such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkouts and the receipts ledger, reconciling any differences. In addition, there should be a comparison of the monthly reports to the receipts and disbursements ledgers for accuracy by someone other than the preparer. Initialing and dating the bank reconciliations, bank deposits, daily checkout sheets, receipts and disbursements ledgers, and reports can document this review.

County Jailer's Response: The Jailer will implement a monthly audit at his discretion. The kiosk machines will be reconciled every Wednesday. Deposits will be counted by two employees. All bills paid by check will have two signatures. All invoices will be date stamped. Monthly reports, receipts and disbursements ledgers will be reviewed by the preparer and the Jailer or a Deputy Jailer.

The Bullitt County Detention Center does not make daily deposits or have adequate controls in place to properly account for kiosk transactions: This is a repeat finding and was included in the prior year audit report as Finding 2020-004. The jailer reported an instance of cash totaling $5,477 was missing from the January 4, 2021 kiosk withdrawal by the former bookkeeper. The cash was found in the bottom of the kiosk machine and deposited on March 9, 2021. Another kiosk deposit from booking for the same day totaling $2,987 was discovered in a drawer and a deposit dated December 12, 2020 totaling $2,831. Both were deposited on February 22, 2021.

Auditors reviewed all checkout sheets and compared to bank deposits per monthly bank statements. In addition, one week of daily checkout procedures were tested. Based on our review and testing, auditors determined that:

- Receipts were not deposited daily as required.
- Receipts were not attached to four deposit tickets.
- The bookkeeper used pre-numbered receipts from various receipts books but the numerical sequence was not accounted for and copies of voided receipts were not kept with the checkout sheets.
- Two kiosk machines were reconciled by the former bookkeeper with no documentation by the jailer or other designee to verify the amount of cash was properly accounted for and deposited.
- The former bookkeeper was the only employee with access to the kiosk machines. The kiosk machines were only emptied one to two times per month.
- A deposit ticket was found by auditors that had been prepared by the former bookkeeper dated May 13, 2020 totaling $10,226. The deposit consisted of checks from various vendors for deposit to the commissary profit account. The deposit was promptly put in the bank on May 26, 2021 and accounted for in the current year audit.
- Auditors located unopened mail that contained checks to be deposited totaling $21,010. All checks that were found were opened and deposited promptly put in the bank on May 26, 2021, by the official and accounted for in the current year audit.

The Bullitt County Jailer had not implemented effective policies and procedures to properly outline requirements for commissary daily receipts. There was no management oversight in place over inmate and commissary accounting functions to ensure receipts are batched and deposited daily and that adequate policies were in place for kiosk transactions. A new bookkeeper was hired in April 2021, and compensating controls over daily and kiosk transactions have been implemented.

The lack of management oversight, supervision, proper internal controls, and review resulted inadequate accounting for daily receipts and reporting.

Good internal controls dictate that policies and procedures be implemented for commissary daily receipts to ensure compliance with statutes and policy manuals.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) C*ounty Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. This manual includes the following accounting and reporting guidance:

"DAILY CHECK-OUT SHEET - Daily deposits are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the checkout sheet. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal."

"JAIL COMMISSARY RECEIPTS JOURNAL - Receipts should be posted to this journal on a daily basis. The total amount category should agree with the amount deposited line on the Daily Check-Out Sheet."

We recommend the Bullitt County Jailer implement strong oversight, internal controls, supervision, and review to ensure receipts are batched and deposited daily. In addition, strong internal control need to be implemented for kiosk withdrawals to ensure that cash is properly accounted for and deposited intact the same day. This would require that two employees open the kiosk and the jailer or designee verify the deposit by initialing the deposit and daily checkout sheet. The jailer should comply with the applicable statutes by maintaining required records.

County Jailer's Response: The kiosk will be emptied and verified by two employees. All deposits verified and made daily as needed. A new bookkeeper has been hired and will received additional supervision.

The Bullitt County Jailer failed to properly implement controls over the inmate trust account: This is a repeat finding and was included in the prior year audit report as Finding 2020-005. The Bullitt County Jailer failed to implement controls over the inmate account. This account is a custodial trust account used to maintain funds deposited by or on behalf of inmates. Funds deposited by inmates are reduced for allowable jail costs and fees as well as inmate purchases from the jail commissary. At the time of an inmate's release, if the inmate owes no additional amounts, the amount remaining in the inmate's account is refunded to the inmate upon their release. The following deficiencies were noted:

- There was no management oversight over the removal, deposit, and recording of cash from kiosk machines.
- Disbursements from the inmate account were not reviewed by a person independent of the accounting function.
- Refunds issued to inmates upon release were not properly accounted for or reviewed by a person independent of the accounting function.

The jailer failed to properly implement internal controls and provide sufficient management oversight over the kiosk accounting process, daily deposits, inmate reports maintained, refunds made to inmates upon release, separate accounting for jail inmate trust bank account, and proper financial statement reporting.

A lack of internal controls over the accounting functions for the inmate trust account allows for undetected errors and possible fraud to occur. In addition, a lack of segregation of duties over this process increased the risk of misappropriation of assets, errors, fraud, and inaccurate financial reporting.

Good internal controls dictate that the collection of receipts, recording of transactions, and financial reporting functions be segregated in order to reduce the opportunity for the misappropriation of assets and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in receiving cash, recording transactions, and reporting financial information.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County's Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly cash reconciliations, daily checkout sheets, and disbursement ledgers. DLG requirements assist jailers in ensuring that records are complete and accurate.

We recommend the jailer implement procedures to strengthen controls over the inmate account and associated accounting functions which include the following:

- Kiosk machine withdrawals should be performed by two people and prepare a daily checkout sheet that accurately accounts for the funds removed and documented by signatures of both.
- Receipts should be deposited daily and deposit tickets should be prepared and reviewed by an independent person to ensure the amount of the deposit agrees to the daily checkout sheet and cash and checks listed per deposit ticket.
- After the deposit ticket is prepared and reviewed, a person other than the one taking the deposit to the bank should agree the deposit to the daily checkout sheet and receipts ledger. This should be documented by initialing the deposit, daily checkout, and receipts ledger. The deposit should be attached to the daily checkout sheet after review.
- At a minimum, on a monthly basis, a person independent of the accounting function should review deposits and compare to the inmate fund in the accounting system to ensure accuracy.
- The inmate account is considered a trust account and should reconcile to zero each month. Bank reconciliations should be performed monthly and reviewed by a person independent of the accounting process.
- All disbursements should be reviewed by a person independent of the accounting function. The jailer should implement procedures to require the inmates to sign a receipt documenting the return of their fund balance upon release.

County Jailer's Response: All checks written out of the trust account will be verified by two employees.

The Bullitt County Detention Center did not have adequate controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2020-007. The Bullitt County Detention Center did not have adequate controls over disbursements. The following deficiencies were noted:

- Fifty-two purchases were made with debit cards which is prohibited.
- Eight of 11 tested debit purchases did not have invoices.

- Late fee of $162 was paid on lease agreement not paid timely.
- Sales tax paid on purchases made for detention center with personal credit card.
- Invoices were not date stamped when received.
- Invoices were not effectively canceled in order to prevent duplicate payments.
- Back of checks were not obtained from the bank to verify endorsement.

The jailer was not aware that debit cards were prohibited. The jailer also made purchases with his personal credit card and submitted the invoices for reimbursement. He was not aware that the reimbursements submitted should have excluded the sales tax paid. The jail does have a tax exempt number and the jailer was not aware that several purchases had been made that included sales tax. These deficiencies were caused by a lack of adequate internal controls and a lack of oversight by management of disbursements procedures.

Failure to properly maintain the original invoice, use of debit cards, to document the date received, and to effectively cancel invoices, as required by the Department for Local Government (DLG), could lead to fraudulent invoices being paid or duplicate payments. The lack of internal controls increases the risk of material misstatement due to fraud or error.

The *County Budget Preparation and State Local Finance Officer Policy Manual* states that debit cards (a card which allows immediate electronic payment of expenses or access to funds), and on-line payments directly from a bank account, are prohibited. DLG requires the official to date stamp the vendor's original bill or invoice when received and retain a copy for their own records. Strong internal controls dictate that invoices or other documents should be effectively cancelled in order to prevent duplicate payments. The Department of Revenue issued a tax exemption number for Bullitt County Fiscal Court that authorizes purchases of tangible personal property, or services including utilities, without paying the vendor for sales or usage tax with respect to such purchases.

We recommend the jailer ensure all original invoices are maintained and are properly date stamped when received. Original invoices should be effectively cancelled to prevent duplicate payments. Additionally, we recommend the jailer immediately stop the use of debit card for purchases and paying sales tax on qualifying purchases. The jailer should refrain from using his personal credit card for purchases and requesting reimbursement that includes sales tax paid.

County Jailer's Response: The debit card has been cancelled. All invoices received will be date stamped. All purchases will be tax exempt.

The audit report can be found on the auditor's website.

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