Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Estill County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Estill 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 Estill County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement. Because of the issues described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Audit evidence indicated intentional override of internal controls by management and employees that had a potentially material effect on the financial statement. The Estill County Fiscal Court had serious weaknesses in the operation of its internal control procedures and failed to implement effective oversight and review procedures to prevent and detect errors, misstatements, and fraud in the county's financial activities. The absence of effective internal controls, oversight, and review procedures created an environment in which funds were misappropriated and financial records were manipulated. Based on these conditions, we determined the fraud risk to be too high and were unable to apply other procedures to mitigate this risk.

The significance of these issues, in the aggregate, prevents us from placing reliance on the financial activities contained in the Estill County Fiscal Court's fourth quarter financial report and from expressing an opinion on the financial statement of the Estill County Fiscal Court.

Because of the significance of the issues described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

This report will be referred to the Office of the Attorney General (OAG), Kentucky State Police (KSP), and the Department for Local Government (DLG).

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 Estill County Fiscal Court's internal control environment is ineffective: The fiscal court and management failed to establish adequate internal controls, oversight, and review procedures for material financial processes, namely for information technology, receipts, disbursements, and payroll. Additionally, management intentionally circumvented existing controls. The fiscal court has numerous internal control and non-compliance issues that are discussed in detail in Findings 2017-002 through 2017-030, that result in significant errors, misstatements, violations of statutes, and violations of the Estill County Administrative Code. Furthermore, there is no assurance that transactions processed are allowable, adequately supported, and a proper use of taxpayer funds.

Management did not adequately assess and identify risks associated with inadequate segregation of duties over revenues, expenditures, and payroll. Management was aware of noncompliance issues reported in previous audit reports. Management failed to implement effective corrective action procedures to ensure these issues did not continue. The lack of corrective action resulted in repeat findings and numerous, more significant issues.

Failure to establish adequate controls, oversight, and review procedures increases the risk that undetected fraud or other errors will occur. The combination of the findings reported results in a control environment that is ineffective to produce financial information that is complete, accurate, and free from material misstatement. Furthermore, management circumventing existing controls resulted in misappropriated taxpayers funds.

Due to the pervasiveness of inadequate controls, management's intentional override of existing controls, and lack of oversight/review of significant processes, we cannot issue an opinion on the financial statement. Auditors expanded testing in all areas to address the risks noted, but our procedures could not overcome the risk of undetected errors, fraud, and misstatements and we cannot place reliance on the financial data. A disclaimer of opinion will be issued.

It is the fiscal court and management's responsibility to ensure adequate internal controls and procedures are in place to ensure complete and accurate financial reporting and to ensure taxpayers resources are used efficiently, effectively, and for intended purposes. There are numerous statutes and requirements outlined in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* that govern county operations and are detailed in the current year findings.

We recommend the fiscal court and management review all current year findings and determine adequate corrective action to ensure the issues will be corrected timely. Further, we recommend the fiscal court and management review all internal control processes to address any weaknesses noted and implement policies and procedures to ensure financial information is complete, accurate, and free of material misstatement.

Current Management's Response:

1. *Implementing better purchase order system.*
2. *Claims are reviewed by Finance Officer and Treasurer, presented to Judge and Fiscal Court for review and approval, before payments are made.*
3. *Reconciling payroll account (reports, deductions, KRS, time cards, vacation/holiday/sick time) to identify balance.*
4. *Receipts – Implemented more structured reporting Animal Shelter and Senior Center*
5. *Implementing more structure reporting of Occupational Tax receipts (Working on current and past records) Changing Occupational tax personnel and utilizing [vendor] software for more accurate reporting.*
6. *Adding and identifying line items better in new budget, educating personnel for better coding of items.*
7. *Changed passwords and access to financial software programs.*
8. *Financial statements and quarterly reports are reviewed and approved by Fiscal Court.*
9. *All bids are advertised as required, reviewed and awarded or denied by Fiscal court. (Recommendations are received from departments involved.)*

NEW JUDGE, FISCAL COURT, TREASURER, AND FINANCE OFFICER – We are working together to address issues as we become aware of them and to improve all day to day operations; and seek the advice of COUNTY ATTORNEY on a regular basis.

The fiscal court does not have adequate controls over the financial accounting software program: The fiscal court utilizes a financial accounting software program to post financial transactions. This system is shared among several employees on a computer network. The employees that have access to this system do not have unique user names and passwords. One username and password is shared among several employees.

Management failed to identify the risk associated with financial accounting data and failed to implement adequate policies and procedures to protect such data and ensure that it is complete, accurate, and free of material misstatement.

Shared usernames and passwords increases the risk that undetected fraud, errors, misstatements, etc will occur. Without proper controls over financial data, it is harder to determine which employees are responsible for problems that may arise. Employees are also in violation of the county's administrative code as it pertains to passwords.

The Estill County Administrative Code page 49 under "Password Selection" states, "1.Select a Password, which will be a minimum of 6 characters in length. 2. Passwords are not to be posted or available in any way to staff other than the individual to whose account the password applies. 3. Passwords are to be unique. 4. Passwords are to be changed on frequent intervals. 5. Passwords must not be so common or obvious as to be easily guessed by another individual. 6. If you suspect your password has been infiltrated you must report it to the Information Systems Director immediately."

Further, strong internal controls require each employee to have a unique user name and password that is changed at regular intervals. Computer programs should have a log that lists changes to data and the person performing such changes so that an appropriate level of management can periodically review to ensure all changes are necessary and approved. Furthermore, passwords should never be shared among employees and employees should be restricted to certain parts of the program they can access based on their job duties.

We recommend the fiscal court review the policies and procedures regarding computer information and implement adequate controls to ensure data is complete, accurate, and free of material misstatement.

Current Management's Response: We have four (4) software programs: [names redacted]. Each program has a different password (areas within each program are password protected). Treasurer has access to all programs. Finance Officer has access to areas she uses on regular basis. Occupational Tax assistant will have access to Fiscal Tax only.

We are talking with IT support for backup and more secure computer network – will implement soon.

The Estill County Fiscal Court failed to implement adequate internal controls and oversight for disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. Our tests of disbursements included an examination of 180 disbursements from the county's operating funds. We noted numerous noncompliance issues:

- Sixteen disbursements, about 9% of our test sample, did not have appropriate supporting documentation.
- Thirteen disbursements, about 7% of our test sample, did not have proper signatures on cancelled checks. These 13 disbursements were signed by the former county judge/executive and the former deputy county judge/executive. The former deputy county judge/executive was an authorized signatory on the county's bank accounts, however, this signatory designation was to be enacted in absence of the former county judge/executive, not the former county treasurer.
- Thirty-eight disbursements totaling $445,587, about 21% of our test sample, were not presented to the fiscal court before payment.

- Eighty-four disbursements, about 47% of our test sample, were not paid timely (within 30 working days of receiving the invoice or bill), some of which were more than 12 months overdue.
- One-hundred nineteen disbursements totaling $417,220, about 66% of our test sample, did not have a purchase order. Of the transactions that did have a purchase order, many were vague, did not have an accurate description of what was being purchased, account codes listed were incorrect, and estimated amount of purchase was not included. Additionally, encumbrances (i.e. outstanding purchase orders) were not tracked, totaled, and included on the year-end financial report.
- Bidding requirements were not followed. The fiscal court did not follow competitive bidding requirements for four different types of goods (rock, asphalt, fuel, and enviropatch liquid) that were purchased from three vendors. The fiscal court also did not competitively bid two types of services (steel drilling and bathroom renovation project) purchased through two vendors.

The fiscal court did not implement adequate procedures and oversight regarding the documentation, preparation, and authorization of disbursements. The county's administrative code outlines proper procedures for disbursements. However, management overrode these procedures and the fiscal court did not exercise adequate oversight to ensure these procedures were being followed. The former finance officer received, processed, and maintained all supporting documentation for disbursements.

The former county judge/executive and former treasurer did not review supporting documentation, including purchase orders, before signing checks printed by the former finance officer. In addition, neither fiscal court members nor management reviewed invoices or bank statements to ensure proper procedures had been followed including: all disbursements included proper signatures, were properly recorded, were included on the claims list that had been presented to the fiscal court, were paid timely, were supported by a properly executed purchase order, and were in compliance with competitive bidding requirements. Management was aware that purchase orders were required for all purchases and that encumbrances must be reported on the year-end financial statement, but did not adhere to these requirements.

The absence significant review procedures or oversight also allowed numerous invoices to not be processed timely and this occurred without detection or knowledge of the fiscal court. Another contributing factor to untimely payments was the absence of an effective purchase order system, which allows management to track outstanding obligations to ensure commitments are not made in excess of available resources/fund balances. Some invoices were not paid timely simply because the funds were not available when the invoice was received.

The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance, violations of statutes, and violations of the county's administrative code as reflected above. Lack of proper accounting practices, internal controls, and oversight increases the risk that undetected misstatements and fraud will occur.

Failure to present a complete and accurate claims list to the fiscal court results in the fiscal court being unaware of all financial activity being processed, which can impact their decision making abilities and impairs the ability to effectively oversee financial activity.

Failure to pay obligations timely is indicative of poor financial management practices and can result in late fees and finance charges, which are a wasteful use of taxpayer resources. We noted $4,375 of late fees and finance charges that were incurred. It is also a violation of statute for failure to pay invoices within 30 working days of receipt of the invoice or bill. One contractor filed suit against the county for non-payment of $512,558 in outstanding invoices as of June 30, 2017. An agreement was reached between the county and the contractor to set up a payment schedule to satisfy the obligation without further legal proceedings.

The risk of overspending the budget or spending in excess of funds available increases significantly without an effective purchase order system in place. Failure to report encumbrances results in inaccurate cash balances reported on the year-end financial statement and can lead to improper financial decision making by the fiscal court. It is also a violation of Department for Local Government (DLG) regulations for disbursements to be processed without a purchase order and for failure to report encumbrances on the year-end financial statement.

Without proper procedures in place to mitigate the risks discussed above, the fiscal court is exposing public resources to potential misstatements and fraud. Due to the pervasiveness of the noncompliance issues noted above (among other issues outlined in other findings), a disclaimer of opinion was issued on the financial statements for fiscal year ended June 30, 2017.

Effective internal controls provide for adequate segregation of duties and prevent the same person from having a significant role in incompatible functions. Segregation of duties and proper oversight helps prevent fraud or misappropriation of assets and protects employees in the normal course of performing their daily responsibilities. Effective internal controls and proper oversight also help ensure compliance with laws, regulations, grant agreements, etc.

The most basic requirement of strong internal controls is to maintain adequate supporting documentation to substantiate disbursements. Additionally, KRS 68.020(1) states in part, "[t]he county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury, and shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefor."

Regarding proper signatures on checks, the Estill County Administration Code, page 12, states "[t]he depositor of Estill County funds shall not honor any warrant on the county unless it is signed by both the County Judge Executive and the County Treasurer. In the absence of the Judge Executive, the Deputy Judge Executive may sign." Further, KRS 68.020(1) states in part, "[a]ll warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive."

Guidance concerning presentation of disbursements (i.e. a claims list) to the fiscal court is outlined in statute and in the county's administrative code. KRS 68.275(2) says, "[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid." According to the Estill County Administration Code page 12, "(A) The Judge Executive shall account for all claims against the county. (B) All claims for payment from the county shall be filed in writing with the Judge Executive. (C) Each claim shall be recorded by date, receipt and purchases order number and presented to the Fiscal Court at its next meeting. (D) Each order of Fiscal Court approving a claim shall designate the budget fund and classification from which the claim will be paid and each warrant shall, specify the budget fund and classification."

KRS 65.140 stipulates timely payments to vendors by stating, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

Purchase order requirements are outlined by the DLG. 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,* page 57, requires purchasing procedures include the following:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

Furthermore, KRS 68.360(2) states "[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund…."

Competitive bidding ensures that the fiscal court procures materials and services at the best price available. KRS 424.260 states "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars ($20,000) without first making newspaper advertisement for bids."

In addition, page 52 of the Estill County Administrative Code under “Bid and Award Procedures” states: “A. Requests for goods and/or services which cost less than twenty thousand dollars ($20,000.00) or are on an annual bid, or for which there exists a State pricing contract, are not required to be purchases through the competitive bidding procedure. However, the competitive bidding procedure may be used at any time to obtain competitive pricing. When the competitive bidding procedure is desired, the Department Head must have the Judge Executive’s approval prior advertising for bids. B. The Judge Executive advertises for bids in the newspaper of jurisdiction in the County at least once, not less than seven days, nor more than twenty-one days before bid opening. The advertisement shall include the time and place the bids will be delivered and opened, and will also include the place where the specifications may be obtained. C. The Judge Executive shall open all bids publicly at the time and place stated in the advertisement. Opening of bids need to occur at a fiscal Court meeting. D. The Judge Executive checks against the specifications to insure that all bids are considered on an equal basis and to insure that all bids meet the minimum specifications. After analyzing each bid with the assistance of the particular Department Head or other expert, the Judge Executive creates a written recommendation as to the best bid by a responsible bidder. The Fiscal Court then decides whether or not to award the bid. If the lowest bid is not selected, the reasons are to be stated in writing. The Fiscal Court may choose to reject all bids if none are satisfactory. E. At the time of bid, the bid must be delivered to Fiscal Court with Proof of Insurance, and at least two references. F. All bidders are notified in writing of the Fiscal Court’s action by the Judge Executive. G. The Judge Executive, with the assistance of Department Heads, shall annually prepare a list of supplies and materials that the County expects to purchases where the value of which is $20,000 or more. This list shall be made available to vendors who will be requested to submit their bids for such items for the forthcoming fiscal year. Vendors need not bid on all items. Items on which the County may expend less than $20,000.00 during a fiscal year, but for which it may nevertheless be desirable to solicit competitive bids, may also be a part of the annual bid process. The County will purchase annual bid items from the winning vendors during the course of the fiscal year, provided however that a lower or better price is not discovered at some point in time after annual bids have been awarded. Winning vendors may adjust their prices down from that offered in a winning bid, but they may not increase their prices above their bid. H. The County may at its discretion require a bid bond, certified check, or other guarantee from vendors as insurance to the County that the material or service will be provided as specified in the bid advertisement. Bid bonds, certified checks, or other guarantees from unsuccessful bidders will be returned promptly. Successful bidders will have their bid bond, certified check, or other guarantee returned upon successful completion of the project or delivery of goods.”

We recommend the fiscal court implement adequate, effective internal control procedures for disbursements, including segregation of duties, to address each of the areas previously discussed. Additionally, strong management oversight and review procedures should be implemented to prevent and detect errors or fraud. Effective review procedures could be achieved if performed by an employee independent of the person or department initially performing those functions. All oversight and review procedures must be properly documented by initialing source documents, ledgers, reports, or other supporting documentation.

Current Management's Response: Purchase Orders are required for all purchases. All invoices must be signed by person receiving merchandize or a signed delivery ticket documenting receipt attached to invoice. Invoices are checked for PO's, signed receipt of and correct amounts before they are entered in claims. Claims are then presented to Fiscal Court for review and approval. No claims are paid without Fiscal Court approval. Any preapproved claims with questions are presented to Judge and/or Fiscal Court (example higher than normal)

Only authorized county employees can make purchases for the county and then only with PO. Purchase order process is not a choice, it is mandatory – PO must be specific with account codes and estimated amount of purchase.

Outstanding encumbrances will be included on year-end financial report. (In process utilizing [software] to issue PO's; all encumbrances will be tracked and on financial statements.) Claims must be accompanied by an invoice and verified before being presented to Fiscal Court for payment.

As we work thru the problems we try to pay everything in a timely manner.

Bidding – Competitive bidding process is being followed. Fiscal Court approves all bids before acceptance.

All checks are co-signed by Judge and Treasurer. NO BLANK CHECKS ARE SIGNED.

Former Treasurer's Response: Treasurer was not consulted in claims processing or reviewed prior to payment. All claims were rec'd in main office.

The former county judge/executive appears to have misappropriated county disbursements totaling $26,750: We noted four checks totaling $26,750 that appear to have been misappropriated by the former county judge/executive. The checks in question were endorsed by the payees and then also endorsed by the former county judge/executive, making it appear that the contractors signed checks over to him to cash or deposit. As discussed in Finding 2017-005, one check from the general fund and one check from the road fund were requested as blank checks by the former county judge/executive, signed by the former treasurer, and hand written to the bathroom renovation project contractor. These checks totaled $14,100. The other check to the bathroom renovation contractor totaling $7,400 was processed in the county's disbursement system. The fourth check totaling $5,250 was also processed in the county's disbursements system but was written to a vendor unrelated to the bathroom renovation project.

Management overrode controls to obtain blank checks. Management also circumvented controls by receiving and endorsing disbursements paid to contractors and vendors.

The former county judge/executive appears to have misappropriated $26,750 in state and county funds during fiscal year 2017. The former county judge/executive was indicted by Franklin County grand jury on September 18, 2018 on one count of abuse of public trust more than $10,000, related in part to the checks noted above. On October 11, 2019, the former county judge/executive pleaded guilty to one count of abuse of public trust less than $10,000. He was sentenced to three years to be diverted for five years and must pay restitution.

In addition to the charges brought against the former county judge/executive, misappropriation of taxpayer funds affects the ability of the government to provide resources to its citizens and future funding sources (such as state and federal grants) could be in jeopardy.

KRS 64.850 states, “[i]t shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited.”

We recommend the fiscal court establish effective review and oversight procedures to determine if management is abiding by the policies and procedures set forth by the fiscal court, the county’s administrative code, and applicable statutes. We also recommend the fiscal court remind all employees that suspected fraud, override of controls, misappropriation of resources, misuse of public funds, etc. can be reported to the county attorney, the Auditor of Public Accounts fraud hotline, the Kentucky State Police (KSP), or the Kentucky Office of the Attorney General (OAG).

Current Management’s Response: THIS WILL NOT HAPPEN. PERIOD. Better accountability practices have been implemented, including but not limited to improved Fiscal Court oversight of accounts and requirements of Treasurer and Judge Executive to co-sign checks.

Former Treasurer’s Response: [Former] Judge requested blank check, stating it would be used to purchase road equipment. Did not receive invoice after requesting several times from [former] Judge.

An area development funds grant was handled inappropriately: The fiscal court received approval from the Department for Local Government (DLG) to use area development funds totaling $17,000 through Bluegrass Area Development District (BGADD) for a bathroom renovation project. Inspection of documentation related to this grant revealed numerous improprieties.

The first issue with this grant was that the fiscal court failed to solicit bids for the project. Information submitted with the grant application indicated expenditures would not exceed the bid threshold of $20,000. However, disbursements for the project totaled $29,740. The scope of the project was clearly outlined in the grant agreement and management used local funds to cover expenditures in excess of the project estimates. One of the disbursements for the bathroom renovation project was paid from the road fund, which is not an allowable disbursement from this restricted fund.

Additionally, the fiscal court paid for the supplies, materials, and equipment necessary to complete the project. It is unusual for an entity to hire a contractor and also provide all necessary supplies, materials, tools, and equipment for a project. The county failed to execute a contract or other legally binding document with the contractor which outlined the responsibilities of each party such as who was responsible for supplying the items necessary to complete the project. As discussed in Finding 2017-006, the fiscal court paid for many of these supplies via the contractor charging the items to the county at a local store.

Another issue of concern is that the documentation submitted to DLG upon completion of the project did not agree to the invoices and other disbursement documentation maintained by the county. For instance, the invoice submitted to DLG indicated the contractor billed the county for supplies, materials, and labor for completion of the project. As previously discussed, the county purchased supplies, materials, and equipment for this project. Further, invoices and purchase orders were not provided for three payments to the contractor so it is unclear where the invoice submitted to DLG came from as it was not part of the county's invoice files to substantiate disbursements associated with the project. None of the payments to the contractor were presented to the fiscal court as part of a claims list.

Finally, and most concerning, is that the former county judge/executive appeared to have intentionally circumvented internal controls by requesting blank checks from the general fund and the road fund (all other disbursements for this project were executed in the state grants fund). The former finance officer provided the blank checks to the former county judge/executive and he requested the former county treasurer sign the checks. She complied with this request. The checks were hand written to the bathroom renovation project contractor for $6,550 and $7,550, endorsed by the contractor, but subsequently also endorsed by the former county judge/executive making it appear as though the former county judge/executive received the funds personally. Further discussion on the disposition of these checks can be found in finding 2017-004.

The fiscal court failed to implement effective internal controls and adequate oversight for grant expenditures. Management was aware that issuing and signing blank checks is a violation of internal control procedures and state law, but all three individuals involved in this process proceeded anyway.

Grant funds appear to have been misspent and documentation submitted to the state with the reimbursement request appears to be inaccurate and potentially fraudulent. The fiscal court is in violation of the terms of the grant agreement. This situation created a significant risk of waste, fraud, and abuse.

Basic internal controls do not allow for management to override controls by requesting blank checks to be signed by the treasurer. In addition, basic internal controls require supporting documentation for every expenditure. Furthermore, the grant agreement signed by DLG and the former county judge/executive states: "(2) All federal and state laws and regulations pertaining to the completion and operation of the project must be met. These may include, but are not limited to, laws and regulations on nondiscrimination, prevailing wage, unemployment compensation, bid advertisement and award and other such laws applicable to the project. (3) Beneficiary agencies receiving direct grants shall spend funds only for the project for which the grant was made. Agencies shall be liable to repay to the Area Development Fund any grant funds expended in violation of regulations and statutory provisions. (4) Complete and accurate records of all expenditures of Area Development Funds shall be maintained and kept subject to audit by the Commonwealth for a period of five (5) years after completion of the project."

We recommend the fiscal court implement effective internal controls and exercise adequate oversight for all grants. We also recommend the fiscal court contact the Department for Local Government to determine the implications of the misuse of these grant funds. We will refer this matter to DLG. Law enforcement agencies have already addressed this issue as discussed in Finding 2017-004.

Current Management's Response: Invoices are not paid without Fiscal Court approval. Claims are not submitted to Fiscal Court without signed receipt or receipts with signed delivery ticket to backup each invoice. NO BLANK CHECKS ARE SIGNED. PERIOD.

Management allowed non-employees to charge purchases to the county: We noted 40 transactions totaling $3,392 in which purchases were made at a local store by non-employees. These purchases were charged to the county, the bills were sent to the fiscal court, and were paid. Most of these purchases related to the bathroom renovation project as discussed in Finding 2017-005. Most of the purchases (35 of the 40) were executed from February 27, 2017 to March 23, 2017 under a blanket purchase order issued by management. The purchase order did not include a detailed description of items to be purchased and did not include an estimated amount.

Management was aware of the risk associated with issuing blanket purchase orders and allowing purchases to be made by individuals other than county employees but decided to allow this practice anyway.

The risk of undetected fraud and misstatements increases significantly when established procedures are intentionally circumvented. In addition, blanket purchase orders and purchases by non-employees increase the risk of personal purchases being made or other misappropriation of government funds.

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*, page 57, requires purchasing procedures include the following:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

In addition, strong internal controls require purchases to be made by authorized county personnel only with a detailed purchase order to accompany each transaction.

We recommend the fiscal court adhere to purchasing guidelines established in the *County Budget Preparation and State Local Finance Officer Policy Manual*. Further, we recommend the practice of issuing blanket purchases orders cease and that only authorized personnel be given authority to execute purchases.

Current Management's Response: The only authorized non-employees allowed to make purchases are affiliated with the county through the Fire Department and Rescue Squad and they must have prior approval and PO.

The fiscal court did not have adequate controls and oversight for credit card Purchases: The county utilized two credit cards for various purchases. One was a general credit card and one was a store specific credit card. None of the transactions for the general credit card were presented to the fiscal court on a claims list and none had properly executed purchase orders. Most, but not all, of the transactions on the store specific card were presented to the fiscal court on a claims list. We noted numerous questionable items purchased on these cards – purchases that are potentially personal in nature (numerous transactions for deck building materials, appliances, and chairs) and multiple purchases of like type items (tools, drill kits, etc.) for which the inventory could not be located. For all questionable purchases (totaling $5,705), the receipt was signed by the former county judge/executive. Below is list of questionable purchases noted on credit cards:

Quantity	Description	Price
	Kobalt 11-Piece Polished Chrome Standard (SAE) Wrench Set	37.97
	Kobalt 26mm Combination Wrench	23.72
	Kobalt 27-mm Combination Wrench	26.10
	Kobalt 5-Piece Standard Polished Chrome Standard (SAE) Wrench Set	56.97
	Kobalt Ratchet	15.16
	Portfolio 250-Watt Brown Lamp Socket	33.15
	Portfolio 2-Pack 0.875-in x 4-in White Lamp Socket Covers	25.47
	Southwire 250-ft 18-AWG 2-Conductor Clear Lamp Cord	39.30
	Blackstone 4-burner griddle	284.05
4	Proven Winner 1-Gallon Multicolor Weigela Flowering Shrub	75.92
2	Frigidair 10000 BTU Window Air Conditioner	807.30
4	Coleman 60-Quart Wheeled Plastic Chest Cooler	132.88
3	Red Barrel Chair	134.97
3	Red Shed High Back Rocking Chair	113.97
	Utilitech Gray Range Appliance Power Cord	20.87
	Whirlpool Smooth Surface Freestanding 5.3-cu ft Self-cleaning Electric Range (White)	474.05
10	4-4-8 treated #2 grade lumber	78.50
2	Bostitch 1-in Finish Pneumatic Staples	51.26
	Bostitch 6-Gallon Portable Electric Pancake Air Compressor	265.05
	DEWALT 7-in Wet Continuous Diamond Circular Saw Blade	33.22
	Kobalt 10-in 15-Amp Single Bevel Sliding Laser Compound Miter Saw	170.05
	Kobalt 7-in Wet/Dry Tabletop Sliding Table Tile Saw with Stand	274.55
2	st 1.5in x 14 ft 1000 lb ties	37.96
	Stanley 3.5-in 15-Gauge 28-Degree Framing Pneumatic Nails (2000 Count)	75.98
	Stanley 3.5-in 28-Gauge 28-Degree Framing Pneumatic Nails (2000 Count)	52.23
6	Top Choice (Assembled: 6-ft x 2.69-ft) Pressure Treated Pine Deck Railing Kit	199.32
336	Top Choice Pressure Treated Brown Pine Deck Baluster	309.12
2	Top Choice Natural Pressure Treated Pine Deck Handrail	25.59
4	Top Choic Prime Treated Lumber	21.44
	5-lbs 2-1/2-in Countersinking-Head Polymer-coated Phillips-Drive Deck Screw	24.68
	5-lbs 2-in Countersinking-Head Polymer-coated Phillips-Drive Deck Screw	24.68
	5-lbs 3-1/2-in Countersinking-Head Polymer-coated Phillips-Drive Deck Screw	24.68
	5-lbs 3-in Countersinking-Head Polymer-coated Phillips-Drive Deck Screw	24.68
	DEWALT XR-Amp 20-Volt Max Lithium Ion Cordless Brushless Screw Gun Kit	189.06
2	ELMER'S Probond Professional Strength 6-oz Golden Oak Wood Filler	12.30
	Kobalt 15-Amp 7-1/4-in Magnesium Corded Circular Saw with Brake	84.56
	1-1/4-in Countersinking-Head Polymer-Coated Phillips-Drive Deck Screw	8.05
	DEWALT 1/2-in 20-Volt Max-Volt Variable Speed Cordless Hammer Drill (Battery Not Included)	132.05
	DEWALT 10-Pack T-Shank Jigsaw Blade Set	14.23
	DEWALT 18-Volt 1/2-in Cordless Drill	94.05
	DEWALT 18-Volt Variable Speed Keyless Cordless Jigsaw (Bare Tool)	122.55
	DEWALT 20-Volt Max Variable Speed Keyless Cordless Jigsaw (Bare Tool)	141.55
	Kobalt 200-Piece Standard and Metric Polished Chrome Mechanic's Tool Set	141.62
	Kobalt 3-Pack Locking Plier Set	18.98
2	Pressure Treated Southern Yellow Pine Deck Post Cap	85.80
2	Reese Black Nickel Triple Ball Mount Bar	94.98
10	Severe Weather Max Standard Radius Edge Pressure Treated Southern Yellow Pine Deck Board	47.30
96	Top Choice Pressure Treated Brown Pine Deck Baluster	88.32
4	Treated Lumber	32.56
80	Top Choice Prime Treated Lumber	355.20
5	USP 1 4.8125-in G90 Galvanized Corner Brace	20.80
6	USP 6.5625-in G90 Galvanized Finish Corner Brace	26.10
	Total	**$ 5,704.90**

The fiscal court did not have adequate internal controls and oversight procedures in place for credit card usage. No one independent of the former judge/executive's office reviewed the detailed credit card receipts to ensure proper use of public funds.

Credit card transactions are inherently risky but can be acceptable if adequate, effective controls are in place. In instances where controls are inadequate and there is little to no oversight, the risk of misappropriation increases significantly. Due to lack of review and oversight in this situation, potentially improper purchases occurred and were not addressed by the fiscal court. These transactions and the lack of proper internal controls create a high risk of waste, fraud, and abuse and public funds were potentially misspent.

The fiscal court must apply best practices when exercising its fiduciary responsibility to act as agents of the public trust. Strong internal controls over credit card purchases require the county to develop procedures and protocols for credit card use, including authorized users and the types of purchases that can be made with credit cards. Before credit cards are utilized, the authorized purchaser should request a purchase order to include the items to be purchased, an estimated amount, and the account code and fund from which the disbursement will be paid. Basic internal controls over credit cards include requiring a detailed receipt or invoice for each transaction, a review of credit card statements to match receipts/invoices to the statement, and a review of each item purchased. Preferably, these controls should be executed by someone independent of the authorized credit card users. Even if the account code for credit card purchases is included on the pre-approved expenditure list, we recommend all credit card transactions be detailed and submitted to the fiscal court for review.

We recommend the fiscal court implement effective internal controls over credit card purchases and institute rigid oversight and review procedures for all credit card purchases to ensure the purchases are adequately documented and are an appropriate use of taxpayer resources. We will refer this matter to the Kentucky Office of the Attorney General (OAG).

Current Management's Response: The only credit cards the county has at this time are [vendor] cards for fuel purchases. All charges are reconciled with statement monthly. All cards are assigned to departments.

Internal controls over occupational tax collections are not adequate: Occupational tax collections comprise about 42% of the county's general fund operating revenue – by far the single biggest source of revenue for this fund. Internal controls over occupational taxes are not adequate to ensure amounts reported are complete, accurate, and free of material misstatement due to the following issues:

- Occupational taxes are sometimes batched and posted to the ledgers in a lump sum rather than listing each individual taxpayer.
- Occupational taxes are not reconciled to the ledgers by someone independent of receiving and posting occupational tax receipts.
- Delinquent occupational tax notices are not sent out with any regularity or consistency.
- Records could not be located to support occupational tax payments handled in person (i.e. three part receipt books).
- There are no effective review or oversight procedures for occupational tax collections

The fiscal court failed to adequately assess risk associated with occupational tax collections and has not implemented effective internal controls, review procedures, or oversight for occupational tax collections.

Failure to implement adequate controls over occupational tax collections increases the risk that material misstatements and fraud will occur and go undetected, especially considering occupational taxes comprise such a large portion of general fund revenues.

Strong internal controls over occupational taxes require each transaction be recorded separately so that finding errors, discrepancies, etc. is possible. Additionally, a log or receipt books should be maintained that list each transaction so that a comparison can be made to deposit slips and to the ledgers by someone independent of the receiving and posting functions. Delinquent notices should be sent out regularly and consistently in order to collect amounts owed to the county and to detect any misstatements, errors, or misappropriation of funds. The delinquent notices should direct any questions or concerns to someone independent of occupational tax collections so that discrepancies can be investigated and resolved without risk of alteration of records by staff involved in the collection process.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of deposit tickets, tax returns, and occupational tax ledger by someone independent of occupational tax collections. This could be documented by initialing all supporting documentation after the review is complete.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for occupational tax collections and document the procedures performed that ensure recorded amounts are complete, accurate, and free of material misstatement.

Current Management's Response: We are currently working on this. There will be a change of personnel in Occupational Tax, once the courthouse re-opens. Returns and receipts will be entered timely and correctly. The [vendor] software will be utilized for better accounting practices, will be able to track delinquent returns and non-compliance for better notification. Currently working on forms and notifications with plans to utilize county website for better access to information for taxpayers and availability of forms.

Former Treasurer's Response: Occupational Tax is the county's major fund source. Discussions per the Treasurer with FC was attempted many times the importance of controls. Requested additional personnel, but was not granted.

Cash collected at the animal shelter was missing from deposits: The animal shelter collects receipts for adoption fees. The animal shelter director issues receipts for these transactions and periodically batches amounts collected to take to the county judge/executive's office for deposit. The animal shelter director lists the total checks and total cash he has collected and gets the county judge's office to issue a receipt for the funds he remits. Receipts issued to the animal shelter director were signed by either the former solid waste coordinator or the former county treasurer. The checks documented by the animal shelter director were deposited and recorded in the ledgers. Comparison of the animal shelter director's available records and the deposits of animal shelter funds revealed $4,405 of cash that was accounted for by the animal shelter director but was never deposited into the county's bank accounts after it was turned over to the county judge/executive's office.

Additionally, cash and checks are sometimes collected for rental of the senior citizens center. No records were maintained to be able to determine if senior citizen receipts were accounted for properly.

The fiscal court and management failed to implement effective internal controls, review procedures, and oversight for offsite collections, especially as it relates to cash receipts.

At least $4,405 of fees generated from the animal shelter may have been stolen or misappropriated and this was undetected by management. Due to lack of records and inconsistent recordkeeping, we could not determine the total amount that was not deposited or accounted for.

Strong internal controls require three part receipts be maintained for all revenues. All receipt numbers should be accounted for and compared to the total listing of receipts to ensure completeness. Deposits should agree to the batched receipts for cash and check totals. The amounts collected should be accurately reflected in the receipts ledger. Cash collected should be recounted by at least two people, with each signing and agreeing to the amount collected.

Further guidance on issuance of receipts can be found in KRS 64.840, which states, "(1)…all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid: (a) In cash; (b) By a party appearing in person to pay; or (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt. (2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit."

We recommend the fiscal court establish effective internal control procedures to ensure all revenues are adequately documented, recorded, and deposited. We recommend the fiscal court comply with KRS 64,480 regarding receipts and ensure that these records are maintained for an appropriate time period. This matter will be referred to the Kentucky Office of the Attorney General (OAG) and the Kentucky State Police (KSP).

Current Management's Response: Employee was dismissed immediately upon discovery of missing funds. Animal Shelter collects fees and donations on site. Receipts are issued, copies given to individuals, once copy kept at Animal Shelter and one returned with funds to Judge's office. Funds are counted, reconciled, receipts given to Animal Shelter and deposited to general fund.

Senior Center collects rental/donations on site. A deposit is received when center is rented and returned to renter when key is returned;this transaction is recorded with receipt when received and returned. Receipts are given, one kept a Senior Center and one turned in with funds to Judge's office. Funds are counted, reconciled, receipt given to Senior Center and deposited to general fund. Calendar showing rentals is also turned in.

Former Treasurer's Response: Prior audit findings (2016) requested more internal controls. All mail of treasurer's was opened and received, logged in software in the Judge's office by the [Solid Waste Coordinator], then given to treasurer for accuracy. A memo was presented to all departments; NO CASH will be accepted, department didn't adhere to request.

Internal controls, review procedures, and oversight for payroll processing are not adequate: The following issues were noted for payroll processing:

- Amounts paid to the County Employees Retirement System (CERS) were not accurate (see Finding 2017-011 for additional details)
- One part time employee is working more than 100 hours per month but is not receiving retirement benefits (see Finding 2017-012 for additional details)
- One employee holds a part time position and a full time position within the entity and is receiving retirement benefits for the full time position but not the part time position (see Finding 2017-012 for additional details)
- Overtime calculations and compensatory calculations are not accurate (see Finding 2017-013 for additional details)
- Timecards do not agree to amounts paid (see Finding 2017-013 for additional details)
- Pay rates were not properly documented and jailer's salary wasn't properly set (see Finding 2017-014 for additional details)

The fiscal court failed to adequately assess the risk associated with payroll processing and failed to implement adequate internal controls regarding the documentation, preparation, and authorization of payroll. Segregation of duties is not adequate since the former finance officer performed all payroll calculations, prepared all payroll reports, remitted all payroll withholding and matching payments, and maintained all documentation for payroll. There were no significant review procedures in place nor adequate oversight for payroll to ensure the completeness and accuracy of payroll information.

Failure to implement adequate controls over payroll increases the risk that material misstatements and fraud will occur and go undetected, especially considering payroll accounts for a large portion of the county's budget. Numerous undetected errors were noted for payroll processing and the fiscal court is in violation of various statutes.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of payroll reports, review of payroll payments, comparison of payroll documentation to amounts recorded, and reconciliation of withholding and matching reports to supporting documentation. Further, review procedures and oversight should be exercised consistently to detect errors and to reconcile payroll to supporting documentation.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for payroll processing to ensure the completeness and accuracy of all payroll information.

Current Management's Response: Time cards are approved by department heads before turning in to Finance Officer. Upon receipt Finance Officer and Treasurer review/proof for accuracy and compliance. Questions are discussed and corrected before payroll is completed. Time cards are turned in on Thursday and checks are issued same day – we are discussing a change in this process to give more time to review/proof time cards and payroll. Clerk's payroll is now being processed *by us. He is paying his personnel and reimbursing Fiscal Court payroll for all deductions and matches. This is helping in reconciling of reports and payments.*

Retirement is reconciled monthly against reported amounts to CERS. All payments and reports from the payroll account are being reconciled monthly.

Former Treasurer's Response: All payroll processing was prepared by Finance Officer and Dep Judge.

Amounts paid to the county employees retirement system (CERS) for retirement deductions and matching contributions are not accurate: We noted several small discrepancies in amounts reported as retirement wages on payroll summaries (amounts on employee paychecks) compared to retirement wages reported to County Employees Retirement System (CERS). Upon further investigation, we noted one employee had switched from part time to full time employment in 2013. Retirement contributions were being deducted from the employee's paychecks and matching contributions were transferred to the revolving payroll account, but these wages were not reported nor paid to CERS. We also noted this employee had retirement wages withheld before his transition to full time became effective.

Due to inadequate controls over payroll, as discussed in Finding 2017-010, the payroll clerk made an error and did not change the status of the employee from part time employee to full time in CERS. This error, and other smaller errors, went undetected due to the lack of reconciliations between the payroll summaries and retirement reports. Management has not established a policy for adequate supervisory review of the data entered into the retirement reporting system to be compared to data from the payroll system for accuracy and completeness.

The Estill County Fiscal Court owes more than $30,000 to CERS for an employee whose employment status was incorrectly reported. This employee is also owed $231 for retirement withholding amounts made erroneously. In addition, several other employees' wages were inaccurately reported. Most importantly, the amount of wages reported to CERS determines the employees' retirement benefits. It is imperative that the reported wages are complete, accurate, and supported by payroll documentation. Finally, failure to pay accurate amounts to CERS timely can result in penalties and interest charges, which are not an efficient use of taxpayer resources.

KRS 78.625 states, "(1) The agency reporting official of the county shall file the following at the retirement office on or before the tenth day of the month following the period being reported: (a) The employee and employer contributions required under KRS 78.610, 61.565, and 61.702; (b) The employer contributions and reimbursements for retiree health insurance premiums required under KRS 61.637; and (c) A record of all contributions to the system on the forms prescribed by the systems. (2) (a) If the agency reporting official fails to file at the retirement office all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars ($1,000), shall be added to the amount due the system. (b) Delinquent contributions, with interest at the rate adopted by the board compounded annually, or penalties may be recovered by action in the Franklin Circuit Court against the county liable or may, at the request of the board, be deducted from any other moneys payable to the county by any department or agency of the state. (3) If an agency is delinquent in the payment of contributions due in accordance with any of the provisions of KRS 78.510 to 78.852, refunds and retirement allowance payments to members of this agency may be suspended until the delinquent contributions, with interest at the rate adopted by the board compounded annually, or penalties have been paid to the system."

We recommend the fiscal court immediately contact CERS to correct the error regarding the improperly reported employee and pay amounts owed as determined by CERS. We also recommend the fiscal court reimburse the employee $231 for retirement withholding amounts made in error. Further, we recommend the fiscal court implement an independent review/reconciliation process for comparison of CERS retirement reports to supporting payroll documentation to ensure accuracy and completeness.

Current Management's Response: Retirement has been reviewed and correct information sent to CERS. Adjustments have been made by CERS. Several additional CERS invoices have been adjusted. Hope to have this paid and refund to employee by end of FY20, provided funds are available.

Payroll calculations for some part time employees are not correct: We noted several instances in which payroll calculations were not correct for part time employees. One employee is considered part time and does not participate in the County Employees Retirement System (CERS). This employee consistently works more than the 100 hours per month threshold for which employees must participate in CERS. For eight out of ten months tested, this employee exceeded 100 working hours per month as documented on timesheets, however, the employee was only compensated for 92 hours of working time for these same eight months. It appears the employee is maintaining an informal compensatory time system that is not reflected in the payroll processing system in order to fall below the threshold for retirement participation.

We also noted an employee that has one full time position and one part time position within the county government. This employee participates in CERS for the full time position, but wages earned for the part time position are not subject to retirement withholding or matching provisions. Finally, we noted one employee who consistently works less than 100 hours per month but is participating in the retirement system as if he were a full time employee.

Internal controls and review procedures over payroll processing are not adequate as further discussed in Finding 2017-010.

There are errors in payroll calculations for part time employees that have gone undetected. Hours documented on timesheets do not agree to hours compensated, retirement benefits are not extended to all qualifying employees, wages subject to retirement benefits are understated on retirement reports, and participation in CERS is not applied consistently.

KRS 337.020 states, "[e]very employer doing business in this state shall, as often as semimonthly, pay to each of its employees all wages or salary earned to a day not more than eighteen (18) days prior to the date of that payment." In addition, a strong internal control system requires supporting documentation for all hours worked and paid be reconciled to payroll summary reports in order to catch any errors, misstatement, or discrepancies. Ideally, this comparison or reconciliation should be performed by someone independent of the payroll process.

KRS 78.615(1)(a) established participation requirements for members of CERS and states, "[f]or employees who are not employed by a school board, service credit shall be allowed for each month contributions are deducted or picked up during a fiscal or calendar year, if the employee receives creditable compensation for an average of one hundred (100) hours or more of work per month based on the actual hours worked in a calendar or fiscal year. If the average number of hours of work is less than one hundred (100) hours per month, the employee shall be allowed credit only for those months he receives creditable compensation for one hundred (100) hours of work." Furthermore, the fiscal court's administrative code Chapter 5 states, "All employees working 100 or more hours per month (except seasonal employees who work a maximum of six (6) months per calendar year) must participate in the County Employment Retirement System."

KRS 78.510(13)(a) defines compensation for retirement contribution purposes and states, "[e]xcept as provided by paragraph (b) or (c) of this subsection, means all salary, wages, and fees, including payments for compensatory time, paid to the employee as a result of services performed for the employer or for time during which the member is on paid leave, which are includable on the member's federal form W-2 wage and tax statement under the heading "wages, tips, other compensation", including employee contributions picked up after August 1, 1982, pursuant to KRS 78.610(4)[.]" According to this statute, all wages paid for all positions within a local governmental entity would be considered creditable compensation for employees who meet the participation threshold and would have to be reported as such to CERS.

We recommend the county implement procedures to ensure payroll calculations are reviewed for accuracy and compliance with laws and regulations. Likewise, we recommend the payroll clerk ensure all hours worked by employees are compensated in accordance with state and local regulations and that retirement participation is applied consistently among all classes of employees and follows applicable statutes regarding member participation.

Current Management's Response: Working with CERS as incorrect information is found. Hope to pay outstanding invoices by end of FY20, provided funds are available.

Overtime calculations and compensatory time calculations are not accurate and time records do not agree to amounts paid to employees: The Kentucky Labor Cabinet investigated overtime and compensatory time in 2016. As a result of this investigation, the Estill County Fiscal Court had to pay $8,863 to six employees for overtime hours worked but not properly compensated. Our payroll testing revealed that the fiscal court still has not implemented an overtime and compensatory time policy and continues to allow employees keep track of their own compensatory time instead of paying overtime. The former finance officer did not keep track of any compensatory time through the payroll system.

Additionally, it was noted that one employee is paid two different salaries for two different positions from two different funds. During testing it was noted that the employee's timecard split the hours between the two positions, but the payroll summary indicated a full 80 hours per pay period for one position and the salary amount with no hours listed for the other position.

Testing also revealed that the former finance officer correctly accounts for her time worked on her timecard, however, only gets paid a portion of those hours. According to the finance officer's timecards, 1,362.75 hours were worked during fiscal year 2017, however, only 1,241.50 hours were paid according to payroll summaries. According to the investigation done by the Kentucky Labor Cabinet, the finance officer states she had no compensatory time that needed to be paid out.

The fiscal court lacks adequate controls over payroll processing as discussed in Finding 2017-010. The former finance officer performs all calculations, prepares all reports, and maintains all documentation for payroll. There are no significant review or oversight procedures in place to ensure the completeness and accuracy of payroll information.

Estill County Fiscal Court had to back pay six employees for overtime not paid. Failure to implement a policy for compensatory leave time and failure to track compensatory time through the payroll system creates an opportunity for employees to take advantage of compensatory leave time and increases the risk that overtime violations will occur and go undetected.

Additionally, the risk of improper payments to employees increases when wages paid do not agree exactly to timecards and when time worked is not properly allocated to each position within the entity.

KRS 337.320 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." Strong internal controls over payroll processing require amounts paid to each employee agree exactly to the time records on file and require review and oversight over this process to ensure proper payments are made and all amounts recorded for payroll are complete and accurate.

Further, KRS 337.285 states, "(1) No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed…(4) Notwithstanding the provisions of subsection (1) of this section or any other chapter of the KRS to the contrary, upon written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is authorized to work one (1) or more hours in excess of the prescribed hours per week may be granted compensatory leave on an hour-for-hour basis. Upon the written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is not exempt from the provisions of the Federal Fair Labor Standards Act of 1938, as amended, 29 U.S.C. secs. 201 et seq., may be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1-1/2) hours for each hour the county or city employee is authorized to work in excess of forty (40) hours in a work week."

We recommend the fiscal court implement effective review and oversight for payroll processing to ensure hours recorded on time cards agree exactly to amounts paid. We also recommend the fiscal court develop a policy regarding compensatory time and abide by the policy. If compensatory time is earned or used, it should be recorded in the payroll system.

Current Management's Response: Time cards are approved by department heads, then reviewed by Finance Officer and Treasurer for correctness and compliance, corrections are made when needed. Over forty (40) hours worked in work week are paid at time and half (OT). CSEPP employees are salaried and receive comp time, Need to work on this.

Wage rates and increases were not documented in personnel files and the fiscal court failed to set the jailer's salary as required: The personnel files for employees did not contain supporting documentation for approved salaries/wage rates and pay increases. The fiscal court did not set the jailer's salary by May 1 each year as required.

The fiscal court lacks adequate segregation of duties for payroll processing. The former finance officer performs all calculations, prepares all reports, and maintains all documentation for payroll. There are no significant review or oversight procedures in place to ensure the completeness and accuracy of payroll information.

The risk of improper compensation increases when adequate documentation of personnel actions is not maintained. Supporting documentation, as well as fiscal court approval, is necessary for pay increases to help protect against employees being unfairly overcompensated. The fiscal court is also in violation of KRS 441.245 for failure to set the jailer's salary.

According to KRS 64.530(1), with certain exceptions, "the fiscal court of each county shall fix the reasonable compensation of every county officer and employee…." Good internal controls require all personnel actions be documented in personnel files.

Additionally, KRS 441.245 states, "(1) The jailer who operates a full-service jail shall receive a monthly salary pursuant to any salary schedule in KRS Chapter 64 applicable to jailers operating a full-service jail from the county jail operating budget. (2) No jailer holding office in the Commonwealth on or after January 6, 1999, shall receive an annual salary of less than twenty thousand dollars ($20,000). (3)(a) The salaries of jailers who are not subject to any salary schedule in KRS Chapter 64 may be set at a higher level if the salary does not exceed the constitutional salary limit applicable to jailers. These jailers' salaries shall at least equal the prior year's level and may be adjusted by the fiscal court for the change in the prior year's consumer price index according to the provisions of KRS 64.527. (b) For jailers governed by this subsection: 1. By May 1 of each year, the fiscal court shall pass a resolution detailing: a. The duties to be performed by the jailer in the upcoming fiscal year; and b. The compensation for the jailer for the upcoming fiscal year, including any cost-of-living adjustments according to the provisions of KRS 64.527."

We recommend the fiscal court implement effective controls and exercise adequate oversight over payroll processing to ensure all salaries and wage rates are approved by the fiscal court and this action is reflected in personnel files. We also recommend the fiscal court set the jailer's salary and job duties by May 1 each year in compliance with KRS 441.245.

Current Management's Response: Currently making notes in payroll system. Working on this. Jailer/Transport Officer salary was included in Jail Budget for FY 20 and FY 21.

Former Treasurer's Response: All payroll processing was prepared by Finance Officer and Dep Judge.

The revolving payroll account reconciliation was not complete and accurate: The former treasurer prepared monthly bank reconciliations for the revolving payroll bank account. These reconciliations did not include receivables and liabilities that resulted from errors in payroll processing as noted in Finding 2017-011. The fiscal court also pays health insurance premiums for other governmental agencies and is supposed to be reimbursed for those amounts. The former finance officer did not maintain records to determine if reimbursements were made timely and could not determine the balance due at year end. Some agencies reimburse periodically and had not made the required reimbursements for a significant period of time. These issues affect the true balance in the revolving payroll account.

The fiscal court did not implement adequate procedures and oversight regarding the payroll process. The former finance officer received, processed, and maintained all supporting documentation for payroll. No effective review or oversight procedures were in place, resulting in undetected errors and misstatements. These errors and misstatements affect the revolving payroll account balance.

Failure to account for all items affecting the revolving payroll account balance, including receivables and liabilities not yet processed in the accounting system, increases the risk that these items are never properly resolved, especially if only one person has any knowledge of their existence.

Strong internal controls over the revolving payroll account require all items that affect the account to be properly summarized and included on the reconciliations whether or not those transactions have occurred or are due to occur in the future.

We recommend the fiscal court implement effective internal controls and oversight procedures regarding the revolving payroll account reconciliations to ensure completeness and accuracy.

Current Management's Response: Beginning January 2020 all matches are calculated with each payroll and transfers made before payroll released. All payroll expenses (health, retirement, tax) are reconciled. Clerk's payroll processed through Fiscal Court payroll system and reported with payroll. (Clerk still writes checks to his employees and check to payroll for all deduction/matches). Working on this, almost there, hopeful before FY 20 end.

Former Treasurer's Response: Payroll software did not include line item outstanding of receivables or liability. Finance Officer did not submit written reports to treasurer, detailing or reflecting O/S liability or receivables, therefore making the true balances inaccurate.

Interfund transfers were not approved by the fiscal court and were not recorded properly: The fiscal court utilized interfund transfers to move money between funds as the necessity arose. Of the 57 transfers tested, ten were not approved by the fiscal court. In two of these instances, a transfer amount was approved by the fiscal court but the amount transferred exceeded the amount approved. In the other eight instances, totaling $146,132, the transfer was not approved by the fiscal court at all. We also noted several instances in which the approved transfer amount exceeded the amount actually transferred.

In addition, 11 transfers totaling $88,090 were not recorded properly. Nine transfers were recorded as operating disbursements in the fund for the transfer of money out and recorded as operating receipts for the fund to which the money was transferred. In all nine instances, the money was transferred to reimburse expenses paid out of a different fund. Two transfers were recorded as a reduction of receipts when deposit errors occurred and grant monies were deposited into the wrong fund. Neither of these two deposit error corrections were approved by the fiscal court.

The fiscal court does not properly utilize a purchase order system, which limits the ability to properly plan and anticipate expected expenses. Without proper procedures in place to track upcoming expenses, the fiscal court is never entirely sure how much money is available in each fund, which is indicative of poor financial management practices and can result in cash flow issues. This sometimes requires unanticipated transfers between funds to cover expenses. Management has not established proper controls, review procedures, and oversight to ensure all cash transfers are approved by the fiscal court in amounts that agree to actual transfers made.

In reference to recording interfund transfers as operating receipts and disbursements, the former treasurer indicated she records these transfers this way to match disbursements to receipts in the same fund in order to properly track reimbursements from various funds to the general fund. The former treasurer thought this was the best way to handle these types of transactions.

The fiscal court is not fully informed of the financial activity of the county and cannot exercise adequate oversight with incomplete information. In addition, cash flow issues that contribute to the cash transfers have a significant impact on the county's ability to provide services to citizens and to meet financial obligations timely. Furthermore, improper oversight and inadequate controls over interfund transfers increases the risk of undetected improper transfers, such as transfers from restricted funds that are not returned by fiscal year end or transfers in excess of allowable amounts. Finally, the process of recording interund transfers as operating receipts and disbursements overstates receipts and disbursements for the affected funds. Operating receipts are essentially doubled for these transfers since the money is recorded as an operating receipt when deposited and recorded as an operating receipts again when transferred to the match the disbursement from a different fund. The same is true for disbursements. Recording certain transfers in this manner also increases the risk that the fiscal court is making financial decisions based on incorrect information.

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* states "All transfers require a court order." In addition, a strong and properly implemented internal control system requires approval and oversight of all financial activity, especially moving money between funds. Even though matching and tracking disbursements is important, this process can be completed while still recording transfers properly. A strong and properly implemented internal control system requires all amounts transferred between funds be recorded as transfers in and transfers out of the appropriate funds.

We recommend the fiscal court implement proper controls, review procedures, and oversight for interfund transfers to ensure all are approved properly, are properly recorded, and are in compliance with applicable restrictions so that financial data is complete and accurate.

Current Management's Response: Interfund Transfers are approved by Fiscal Court before being made, amounts only vary if funds are not available to make full transfer at once. The Fiscal Court has authorized pre-approval for an Interfund Transfer from the general fund to the jail fund to cover Jail payroll and expenses of payroll. Payroll is pre-approved but Jail does not have funds to cover this, so a transfer is needed with each payroll. Interfund Transfers are being identified better and for specific amounts and claims – not just to move money. (911 Payroll Reimbursement/CSEPP reimbursements/jail claims with dates)

Former Treasurer's Response: All transfer requests prepared by treasurer were presented to FC for approval. Logged in Fiscal Books, not being involved in claims totaling, the amount of transfer was based on after the fact, when all claims owed were not shown to treasurer, finance officer did not use the purchase order system available in software.

The depository institution did not pledge or provide sufficient collateral to protect deposits and the fiscal court did not have a written agreement to protect deposits: On August 31, 2016, the fiscal court's deposits of public funds were uninsured and unsecured in the amount of $100,691. In addition, there was not a sufficient written agreement between the fiscal court and the depository institution, signed by both parties, securing the county's interest in the collateral.

The depository institution failed to provide sufficient collateral in accordance with statutes and both the depository institution and the fiscal court were unaware that there was not an adequate collateral security agreement in place. The depository institution and fiscal court have subsequently executed a valid collateral security agreement.

By not providing adequate collateral, deposits of public funds were at risk in the event of a bank failure.

According to KRS 66.480(1)(d) and KRS 41.240, financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). In addition, there must be a written agreement for pledged securities and, as outlined in 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 fiscal court ensure a valid collateral security agreement is in place at all times to secure the county's interest in the collateral pledged or provided by the depository institution. We also recommend the fiscal court implement procedures to ensure the depository institution is properly monitoring bank balances and providing adequate coverage of public funds.

Current Management's Response: Have copies prior years. Bank has insurance now. They don't issue agreements anymore. Per bank April 15, 2020.

Former Treasurer's Response: Written agreement from [name redacted] Bank & ECFC was in force. Report was received via email monthly and placed in Pledge Security folder for documentation.

The former Estill County Judge/Executive executed a loan before obtaining fiscal court approval: The former county judge/executive executed a four year loan totaling $31,400 for the purchase of a transport van for the jailer. The loan was dated June 28, 2017 but the county judge/executive did not receive fiscal court approval to execute the loan until June 30, 2017.

The former county judge/executive was aware that fiscal court approval should be obtained before contacting the bank and executing loan documents, however, he decided to execute the loan anyway and get fiscal court approval at the next meeting.

The risk of misappropriation of government resources increases when management intentionally circumvents oversight procedures. Additionally, there is an increased risk that loans, leases, or other debt will be incurred without the knowledge of the fiscal court.

Good internal control systems require fiscal court approval for all actions, especially those that obligate government resources for a significant time period. Proper oversight is an essential component of a strong internal control structure. If management intentionally overrides existing controls and oversight procedures, the control structure is ineffective and essentially worthless.

We recommend the fiscal court implement effective internal control procedures to ensure adequate oversight and review of all debt, leases, notes, etc. is in place.

Current Management's Response: Fiscal Court approves all expenses, agreements beforehand. Judge <u>DOES NOT/WILL NOT</u> sign any agreements before the Fiscal Court approval.

The fiscal court did not properly budget for and record all debt related disbursements: The fiscal court entered into loan agreements in the amounts of $60,050 for the purchase of road equipment and $31,400 for the purchase of a jail transport vehicle. These transactions were not reflected in the county's bank activity, budget process, or fourth quarter financial report as these funds were paid directly to the vendor by the financing entity.

The treasurer was not aware that these transaction should be reflected on the county's financial information. As a result, the fiscal court failed to properly budget and record $91,450 in debt related receipts and disbursements for the fiscal year.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all borrowed money that is not part of the original budget be amended into the budget and be properly reflected on the financial report. Further, KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby."

We recommend the fiscal court comply with regulatory reporting requirements by budgeting and recording all borrowed money, including those transactions handled by a third-party lender.

Current Management's Response: Working on this. Continuing to train and implement quality control with software.

Former Treasurer's Response: Noted. County Treasurer discussed with dep judge & judge improper procedures.

The Estill County Fiscal Court did not classify debt service payments properly: Two leases were noted in which the entire amount paid was classified a lease principal paid instead of split between principal and interest paid. We noted payments (totaling $21,074) for one lease were recorded in an operating account code instead of a debt service account code.

The fiscal court failed to implement adequate internal controls, oversight, and review to ensure debt payments were properly recorded and classified. A simple review of these transactions would have revealed this error. The risk of material misstatements and undetected errors increases when proper internal controls, oversight, and review procedures are not implemented.

Good internal controls over the processing and review of financial reporting could eliminate these errors. It is important to separate debt payments (which are ongoing obligations) from operating expenditures in order to properly budget, plan, and allocate resources in accordance with the needs of the county. It is easier to ensure debt payments are being made timely and it is easier to ensure the county doesn't over-extend financial resources when all expenditures are properly classified.

We recommend that fiscal court implement adequate internal controls, oversight, and review procedures to ensure all debt service payments are recorded in the correct classification.

Current Management's Response: Working on this. Continuing to train and implement quality control with software.

Former Treasurer's Response: Discussed with Finance Officer the importance of principal & interest be paid from correct disbursement line.

The jailer did not maintain adequate controls over the jail commissary fund: This is repeat finding and was included in the prior year report as Finding 2016-003. The jailer lacked strong internal controls over the jail commissary fund. The jailer did not have controls in place over the jail commissary activities. As a result of a lack of controls we noted the following:

- An annual jail commissary report was not prepared.
- Monthly bank reconciliations were not performed.
- Deposits were not made on a daily basis and were not reconciled to supporting documentation.
- Prenumbered receipt forms were not issued and were not batched daily.
- Bond fees collected were not remitted to the fiscal court as required.
- The jail commissary expended $9,693 on disallowed items.
- Duplicate payments were made to a vendor from both the jail commissary and jail fund in the amount of $4,205.
- Checks written by another employee of the jail were not reviewed by the jailer. Dual signatures were not required on checks.
- The jailer and another employee of the jail used a debit card to purchase items to sell at the jail commissary.
- Invoices were not paid within 30 days.
- Refunds due back to the inmates at the time of their release or when the jail was shut down were not paid by check, but were paid with cash with no supporting documentation.

Good internal controls require the jailer to have adequate review procedures in place to ensure that commissary receipts and disbursements are properly handled and recorded.

We recommend the jailer ensure that adequate controls are maintained over the jail commissary fund.

Current Management's Response: Do not have full service jail at this time.

The jailer did not have adequate segregation of duties over jail commissary accounting functions: A lack of segregation of duties existed over the jail commissary. The jailer or another employee collected receipts, prepared deposits, recorded entries on inmate accounts, and prepared checks for disbursements. According to the jailer, he did not have the resources to properly segregate the duties of the jail commissary. A lack of segregation of duties increased the risk of misappropriation of assets, errors, and inaccurate financial reporting. Good internal controls require that the duties of receiving cash, making deposits, and recording transactions be segregated. We recommend the duties of the jail commissary fund be segregated.

Current Management's Response: Do not have full service jail at this time.

The jailer did not prepare and submit an annual jail commissary report to the county treasurer: This is a repeat finding and was included in the prior year report as Finding 2016-003. The jailer did not prepare and submit an annual jail commissary report to the county treasurer. The jailer was aware of the requirement to prepare and submit a canteen report but chose not to. As a result, the county is unaware of the activities of the jail commissary. KRS 441.135(2) states "[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." We recommend the jailer submit an annual canteen report to the county treasurer at the end of each fiscal year.

Current Management's Response: Do not have full service jail at this time.

The jailer did not handle receipts properly and did not make daily deposits: This is a repeat finding and was included in the prior year report as Finding 2016-003. The jailer did not issue pre-numbered receipts and did not batch receipts daily. Also, the jailer did not deposit inmate monies received on a daily basis. The jailer does not have internal controls in place to ensure that pre-numbered receipt forms were issued, batched daily, and deposited timely. As a result, the opportunity for the misappropriation and theft of receipts increases.

KRS 64.840(2) states "[o]ne (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." 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* requires officials to make daily deposits. 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 jailer ensure that receipts are properly handled and deposited in a timely manner.

Current Management's Response: Do not have full service jail at this time.

The jailer paid for plumbing repairs from the jail commissary that were also paid for from the jail fund: The jailer paid for plumbing repairs from the jail commissary totaling $4,205 that were also paid for from the jail fund. The finance officer of the county had the original invoices from the contractor for the plumbing repairs and the jailer's commissary filed included copies of the same invoices. Two payments made by the jail fund totaling $1,905 were endorsed by the contractor and deposited back into the jail commissary.

According to the jailer, he was aware that the payments to the contractor were not supposed to be paid from the jail commissary account. He said that the contractor needed to be paid and once the jail fund paid the contractor that those checks were to be deposited back into the jail commissary.

As a result, there were invoices were paid twice totaling $4,205. Of that amount, $1,905 was deposited back into the jail commissary, leaving $2,300 that was paid twice to the contractor.

Good internal controls require that original invoices be maintained for all disbursements which should be properly marked paid to prevent duplicate payment.

We recommend the jailer stop the practice of paying for jail repairs from the jail commissary with the intent to repay the jail commissary from the check written by the jail fund.

Current Management's Response: Do not have full service jail at this time.

The jailer did not use commissary profits for allowable items: The jailer expended a total of $9,693 from the jail commissary that should have been paid for from the jail fund which would have been reviewed by the fiscal court. The disallowed items are as follows:

- Plumbing repairs totaling $2,975
- A new water heater in the amount of $4,929
- Installation of a new water heater in the amount of $1,460
- Tasers in the amount of $329

According to the jailer, he was aware that these items were not allowed to be paid from the jail commissary fund, but he needed them and decided to purchase them anyway.

As a result, the jailer is in violation of KRS 441.135. The jailer circumvented the internal controls of the fiscal court by purchasing this through the jail commissary, since jail commissary disbursements are not approved by the fiscal court.

KRS 441.135(2) states that "[a]ll profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners…" KRS 441.135(3) states that "[a]llowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes."

We recommend the jailer ensure that profits from the commissary fund are in compliance with KRS 441.135.

Current Management's Response: Do not have full service jail at this time.

The jail commissary used a debit card for purchases: The jailer and another employee of the jail used a debit card to make purchases for the jail commissary. The jailer was unaware that use of a debit card which allows immediate electronic payment of expenses was an unacceptable form of disbursement. The user of the debit card has the unmonitored opportunity to spend the jail commissary funds. Disbursements are not being reviewed and approved prior to payment, which could allow misuse of jail commissary funds.

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* requires all disbursements to be made by check only.

We recommend the jailer ensure that disbursements are made by check only.

Current Management's Response: Do not have full service jail at this time.

The jailer did not pay jail commissary invoices timely: At least seven invoices in our sample of forty-four disbursements were not paid within 30 working days. This condition is a result of a lack of internal controls. Failure to pay invoices timely results in non-compliance with statutes and can result in late fees and other penalties. KRS 65.140 states, "[a]ll bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice." We recommend the jailer pay invoices within 30 days.

Current Management's Response: Do not have full service jail at this time.

The jailer did not properly close out the commissary account: The jailer maintained a commissary for the benefit of the inmates. The jail was closed on March 31, 2017. The commissary bank account remains open with a current bank balance of $12,331. Of that balance, we have determined that $3,900 is comprised of bond fees which are due to the county's jail fund. The remaining $8,431 is considered profit of the jail commissary. Jail commissary profits can be used for recreational, vocational, and medical purposes. It is also allowable for jail commissary profits to be used to offset the cost of the salary of the jail employee operating the jail commissary. The jailer did not have adequate internal controls over the jail commissary and did not ensure that it was closed out properly. As a result, the jail commissary bank account has funds that can be paid to the county's jail fund to help offset jail related costs.

KRS 441.135(1) states, "[t]he jailer may maintain a canteen for the benefit of prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation."

We recommend the jailer close out the jail commissary account by paying $3,900 to the jail fund for bond fees. Further, we recommend the jailer pay to the remaining $8,431 to the jail fund to reimburse a portion of the salary of the employee that operated the jail commissary.

Current Management's Response: Funds have been turned over to Fiscal Court and have been deposited to Fiscal Court.

The fiscal court lacks adequate internal controls over federal programs:

Federal Program: CFDA #97.040, Chemical Stockpile Emergency Preparedness Program
Federal Agency: U.S. Department of Homeland Security
Pass Through Agency: Department of Military Affairs
Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Procurement and Suspension and Debarment, Reporting
Questioned Costs: None
Audit Opinion: Disclaimer

Estill County expended $693,095 for the Chemical Stockpile Emergency Preparedness Program (CSEPP) during the fiscal year ending June 30, 2017. Due to issues found during the audit of the financial statement of the Estill County Fiscal Court, we cannot rely on the design and implementation of the internal controls over compliance with the types of requirements that could have a direct and material effect on CSEPP. Although our testing did not reveal any exceptions or questioned costs for federal awards, we note that the internal control structure and management override of controls as discussed in Finding 2017-001 increases the risk associated with federal awards since these transactions are processed in the same internal control environment as other county expenditures where numerous problems have been noted. CSEPP awards do have a review process at the state level before transactions are approved so this provides some assurance that expenditures are reasonable, necessary, and adequately documented. However, management override of controls is a risk that cannot be reduced even with state level review procedures in place.

The issues found during the audit of the financial statement were caused by a lack of internal controls or by override by the management of the Estill County Fiscal Court.

As a result, there is an increased risk that the Estill County Fiscal Court is in noncompliance with the requirements that have a direct and material effect on CSEPP.

In order to comply with Uniform Guidance requirements regarding federal grants, the entity must establish adequate internal controls to ensure compliance with each major program's applicable compliance requirements.

We recommend the fiscal court ensure that internal controls over federal awards and design and implement controls that will ensure material compliance with applicable requirements for all federal awards.

Current Management's Response: CSEPP is required to undergo sub-recipient monitoring. To continue the receipt of Federal funding CSEPP was audited from 2014-2017, every item was reviewed (it was not random) no discrepancies were found. As issues are found Treasurer and Director work together to find better way to track everything.

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

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