



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Lee County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Lee 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 Lee County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

The fiscal court lacks adequate internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The following was noted during disbursements testing:

- Four disbursements did not include the original invoice or sufficient documentation, including a transaction totaling \$407 at Walmart.
- One invoice was not paid within 30 days of the receipt.
- The claims list was not made an official part of the fiscal court minutes and filed in the same manner as the official minutes.

The fiscal court failed to follow established procedures and statutory requirements. As a result:

- Claims are being paid without adequate supporting documentation.
- Noncompliance with KRS 65.140 could result in penalties and interest being assessed to the county.
- Claims lists were not available for public inspection.

Good internal controls require that all disbursements be supported by adequate original supporting documentation.

According to KRS 65.140, “(2) [u]nless the purchaser and vendor otherwise contract, all bills for goods or 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. (3) An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser.”

Pursuant to KRS 67.100(2), “[e]very official action of the fiscal court shall be made a part of the permanent records of the county.” KRS 67.100(5) states, “[a] copy of all records required by this section shall be kept in the office of the county clerk.”

According to the fiscal court’s administrative code, the clerk of the fiscal court shall keep an index of all fiscal court records and make such index and records available for public inspection in accordance with KRS 61.870 to 61.884.

We recommend the fiscal court reevaluate controls over disbursements to determine the controls that would best address the issues discussed. We further recommend the fiscal court implement strong internal controls over disbursements.

Former County Judge/Executive’s Response: We will correct.

The fiscal court lacks adequate internal controls over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. Fifteen employees were tested and noted the following:

- One employee’s time sheet was not signed by a supervisor.
- One full-time employee did not have a time sheet to reflect 40 hours was worked during the week to participate in the county’s retirement and health insurance benefits.
- One employee’s overtime was not approved by a supervisor.
- Several employees were not listed on the approved salary schedule.

Weak internal controls have allowed issues with the payroll process to occur without notice by management. As a result:

- Employees are receiving benefits when they are not eligible or are not receiving benefits when they are eligible.
- Paychecks are being paid without proper authorization.
- Employees are being paid without presenting a time sheet as required by Kentucky Revised Statutes (KRS).
- By not including each individual position on the Salary Schedule, the fiscal court is not in compliance with KRS 64.530(1). Furthermore, employees could be paid an incorrect or unauthorized amount. By not maintaining timesheets, the fiscal court is not in compliance with KRS 337.320. Leave balances could be inaccurate and retirement benefits could be adversely affected.

Good internal controls require timesheets should be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. Furthermore, a supervisor should sign all employee timesheets to indicate review and approval. According to the county's administrative code, full-time employees should work a minimum of 40 hours to receive benefits.

Pursuant to KRS 337.320(1), “[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.”

KRS 64.530(1) states, “[e]xcept as provided in subsections (5) and (6) of this section, the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer.”

We recommend the fiscal court reevaluate their controls over payroll to determine the controls that would best address the findings discussed. We further recommend the fiscal court implement strong internal controls over payroll.

Former County Judge/Executive's Response: We will look into correcting for future.

The fiscal court lacks adequate internal controls over credit card purchases: After noting several credit card charges did not have proper or adequate documentation, testing was expanded and every credit card statement was reviewed for Fiscal Year 2017. The Lee County Fiscal Court had credit card expenditures with no itemized receipts in the amount of \$5,416 for meals, fuel, and postage. Numerous restaurant expenditures, including: Joe's Crab Shack (\$251.54), TGI Fridays (\$219.34), Morton's Steakhouse (\$203.91), and The Chop House (\$263.41) were charged to the credit card without sufficient documentation to determine how many diners there were or what was purchased. The county's administrative code does not address allowances or reasonable spending limits during travel for training conferences. The county judge/executive also used the credit card for personal expenses totaling \$417, which he later reimbursed.

The lack of oversight by the fiscal court over the use of credit cards allowed the officials to make charges that did not meet a public purpose for the county. Credit card statements without proper supporting documentation are being submitted to the fiscal court for payment. The fiscal court is

approving payment of the credit card bills without proper supporting documentation. It appears there is not enough oversight by those involved in preparing and approving the claims.

As a result, credit card statement claims tested lacked itemized invoices/receipts, and finance charges were incurred. Without original invoices/receipts detailing the transactions, there is not sufficient documentation to determine if the charge was valid. In addition, without proper documentation, undetected fraudulent charges could occur.

KRS 68.275(2) states, “[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.” Also, good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports.

Good internal controls dictate the fiscal court create administrative policies and procedures to provide guidance to public employees on the use of credit cards, spending limits during travel and training conferences, and reasonable determination of acceptable purchases.

We recommend the fiscal court have more control of credit card usage and require documentation of the reason the card was used with supporting documentation attached. Furthermore, we recommend the fiscal court not approve payment of any claims that lack sufficient supporting documentation or original invoices. The fiscal court should implement policies and guidelines for employees that address spending while traveling for county business and attending training conferences. The personal use of the county credit card for personal expenses should be prohibited. We remind the fiscal court that use of credit cards is a convenience only, and without adequate oversight, creates greater opportunity for fraud to occur.

Former County Judge/Executive’s Response: I agree we can do better with the oversight of credit cards. We had receipts to most of the ones listed but they were not itemized. A lot of them were meal tickets from away stays of fiscal court for trainings. We will pass along auditors requirement of their meal tickets being itemized. All credit card charges were presented as a claim and were approved by court before payment was issued.

The fiscal court lacks adequate internal controls over fuel purchases: The fiscal court lacks internal controls over fuel purchases. Receipts are not maintained for fuel purchased. The fiscal court utilizes a third party fuel purchasing system, but does not follow the procedures for fuel purchases the system is designed to monitor. The fiscal court receives a monthly invoice from the vendor used for purchasing fuel. These invoices list each person purchasing fuel along with the vehicle mileage, quantity, and price. We scanned all 12 months of detailed fuel purchasing activities and noted the following issues regarding fuel purchases:

- Fuel card users routinely did not list the accurate vehicle mileage when purchasing fuel.
- An instance of diesel fuel and motor oil purchased by the jailer.
- Numerous instances in which two fuel purchases were made within minutes or less than 12 hours of each other on the same card. For example:

- On July 2, 2016, the fuel card assigned to the county judge/executive (same vehicle and driver) was used to purchase 18.8 gallons at 11:42am and 18.8 gallons at 12:09pm, a time difference of 27 minutes. The odometer reading recorded was the same for both purchases.
- On July 30, 2016, the card assigned to the county judge/executive (same vehicle and driver) was used to purchase 17.5 gallons at 11:40am and 17.5 gallons at 11:50am, a time difference of 10 minutes. The odometer reading recorded was the same for both purchases.
- On March 3, 2017, the fuel card assigned to a sheriff's employee (same vehicle and driver) was used to purchase 18.6 gallons at 2:03pm and 9.5 gallons at 4:46pm. The odometer readings recorded were clearly inaccurate: 1535 for the first purchase and 205,999 for the second.
- On March 3, 2017, the fuel card assigned to another sheriff's employee (same vehicle and driver) was used to purchase 8.6 gallons at 1:48pm and 12 gallons at 4:05pm. The odometer reading changed by 4,067 miles during that two hour period.

The fiscal court did not have controls in place to adequately monitor fuel purchases. Without proper documentation of these fuel purchases by vehicle unit number and by the assigned employee, the risk of fuel being purchased for personal use or by unauthorized users greatly increases.

Good internal controls over fuel purchases require the fiscal court to ensure that adequate documentation is maintained to support the disbursement, including the odometer readings for all vehicles and the person purchasing the fuel. Strong internal controls over the current fuel card system would require each employee or vehicle be assigned a specific card, would specify that cards not be shared, and would prohibit multiple users from using the same card. This creates accountability for each user of the fuel cards.

We recommend the fiscal court properly use this third party fuel purchasing system and ensure that all fuel purchases are properly supported by proper documentation, including accurate odometer readings and designation of proper vehicle unit numbers. We also recommend the fiscal court review and reconcile the third party fuel reports monthly to note any employees not following proper fuel purchase procedures.

Former County Judge/Executive's Response: We will notify all our employees that they must key in the beginning and ending mileage. Some would only key in their pin number.

The fiscal court did not have adequate supporting documentation related to bid proposals and contract change orders for an illegal dump cleanup project: The fiscal court received a grant from the Kentucky Energy and Environment Cabinet's Division of Waste Management to clean up illegal dump sites. A contractor that was awarded a dump cleanup project submitted a bid proposal in which the amount was marked out three times, which was questionable. It is not clear, nor was it documented, who changed the amount on the bid proposal, when it was changed, or why. On December 2, 2016, this contractor received a payment of \$49,995 for the project. The same contractor was paid on December 6, 2016, for \$16,750 for extra work on the same site, which

caused the payments to the contractor to exceed the original project amount by \$12,243. The county failed to execute change orders or an amended contract for the additional work as advised by the grantor agency.

The fiscal court did not have controls in place to ensure proper documentation was maintained and followed for the dump cleanup project. As a result, the fiscal court received \$68,976 and spent a total of \$66,745 on the project but had to refund \$12,243 back to the grantor because only \$56,733 was allowed for the dump cleanup.

We recommend the fiscal court follow all grant agreements as required under grant programs, ensure the grant requirements are followed, obtain change orders or contract amendments for additional work, and file and maintain all supporting documentation for bid files.

Former County Judge/Executive's Response:

(1) Dump in question that was awarded to AWI. We advertised prebid conference. At prebid conference bidders were told when to submit sealed bids. All bidders attended bid opening. AWI had low bid and was awarded this particular dump.

(2) Additional monies above bid price. We did correspond with State officials at Division of Waste to see if we could pay additional above original contract. We were told we had money and with proper documentation it would be approved. We failed to do a supplement to the original contract but submitted invoice and pictures to State upon Completion. State approved closeout with the documents we submitted. Both payments were submitted in claims to court before payment was issued. In the future we will make sure a supplement contract is completed.

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

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