



Auditor of Public Accounts
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Harmon Releases Audit of Leslie County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Leslie County Fiscal Court for the fiscal year ended June 30, 2018. 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 Leslie 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 Leslie County Fiscal Court lacks adequate segregation of duties over receipts, disbursements, and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The Leslie County Fiscal Court does not have adequate segregation of duties over receipts, disbursements, and reconciliations. The county treasurer is responsible for preparing deposits, posting to the receipts and disbursements ledgers, signing checks, reconciling all bank accounts, preparing monthly reports for the fiscal court and quarterly reports for the Department for Local Government (DLG) with little or no documented review.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented

to offset the lack of segregation of duties. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as DLG. Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, posting receipts and disbursements, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities

We recommend the fiscal court separate the duties involving the opening of mail, collecting and depositing of receipts, posting receipts disbursements, and preparation of reports and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

County Judge/Executive's Response: The County Judge Executive's Office will be purchasing a new software designed for local county government. This will allow the generation of financial reporting by designated employees and the Treasurer for review and submission at any time. This will allow adequate tracking of all financial records including deposits, posting receipts and reconciliation by the finance officer and county treasurer.

The Leslie County Fiscal Court failed to make continuing financial disclosures required by bond agreements: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The Leslie County Fiscal Court failed to make continuing financial disclosures that were required by Leslie County's bond issuances in the fiscal year ending June 30, 2018. The Leslie County Fiscal Court is not in compliance with the debt covenants included in the Leslie County's bond issuances. This noncompliance could cause the fiscal court's bond rating to be affected. Additionally, bondholders could seek legal action to require the submission of required financial information.

Leslie County's Judicial Center Bonds state that Annual Financial Information will be provided to the Municipal Securities Rulemaking Board (MSRB) within 210 days after the last day of the county's fiscal year. We recommend Leslie County Fiscal Court provide financial information to the MSRB as required by bond agreements.

County Judge/Executive's Response: We contacted the Kentucky Association of Counties Finance Corporation to gain more understanding around this issue. As a new Administration we are learning more about our bond agreements. We will be working with the Kentucky Association of Counties (KACo) and Compass Municipal Advisors, LLC, who helped with the most recent re-finance of these bonds to ensure that financial information is provided to the MSRB in a timely manner.

The Leslie County Fiscal Court did not follow proper bid laws and regulations: This is a repeat finding and was included in the prior year audit report as Finding 2017-003. The Leslie County Fiscal Court did not properly follow proper bid laws and regulations in the following areas:

- One invoice for road and bridge repairs was for a total of \$53,740 to one vendor without receiving any submitted bids.
- The bid submitted for gravel did not include all the types of gravel that the county purchased. Also the gravel bid did not include the delivery price when the county didn't pick up the gravel with their own trucks.
- The fuel bid was submitted at eight cents over cost but the vendor did not supply documentation each month with the invoice to prove the county was being charged the correct price.

Sufficient internal controls were not in place over the bidding process to ensure items and services were not purchased from vendors without first advertising or receiving bids when necessary on all purchases required to be bid. By limiting competition or not receiving bids at all, fiscal court may not get the benefits of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available.

KRS 424.260(1) 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 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.”

KRS 178.140 states, “(1) All bids for the construction or maintenance of county roads and bridges shall be received at the time and placed specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced. (2) The contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county.”

We recommend the fiscal court ensure any purchases over \$20,000 or more are bid in compliance with KRS 424.260 and ensure they obtain supporting documentation that bids terms are complied with.

County Judge/Executive's Response: The new administration has been working closely with the county attorney to avoid any issues in this area. The county attorney is consulted multiple times a week on a variety of issues including proper procedures for many processes. The administrative staff has been provided with copies of the relevant statutes concerning bid procedures to have on hand for reference.

The Leslie County Jailer did not present the financial statement for the commissary account to the county treasurer: The Leslie County Jailer is required by statute to present a report of all receipts and disbursements from the canteen to the county treasurer annually. The jailer presented a report to the county treasurer, but it was a report for the inmate account that is used for the holding of inmate funds, not the commissary receipts and disbursements. This is a repeat finding and was included in the prior year audit report as Finding 2017-008.

According to the jailer, they were unaware that the report was supposed to be for the commissary account but thought that the inmate account receipts and disbursements should be submitted to the treasurer. The jailer did not report to the treasurer all of the activity for the commissary account as required.

KRS 441.135 (2) states, in part, "...the 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 ensure that the proper report is given to the county treasurer in the future.

County Judge/Executive's Response: This issue has been addressed with the Jailer, he has agreed to produce all proper reporting in the future in a regularly scheduled fiscal court meeting to the fiscal court and county treasurer.

Jailer's Response: The Jailer presented the financial statement for the Jail Operating Account to the County Treasurer. He thought he had also presented the same for the Commissary Account. He will do so in the future.

The Leslie County Jailer's sales tax returns are not being properly calculated: The Leslie County Jailer collects and distributes sales tax on purchases made from the inmate commissary. During review of the sales tax returns and payments, we noted that gross sales were being reported, however the vendors discount was not calculated at all. The sales tax returns were filed on time, therefore the jailer was entitled to the vendor's discount of 1.75% of the sales tax collected; however the discount was not taken. In addition, the Leslie County Jailer paid additional sales tax and interest of \$204 on the May 2018 sales tax report. This is a repeat finding and was included in the prior year audit report as Finding 2017-009.

The former bookkeeper was responsible for filling out the sales tax returns and did not claim the vendor's compensation on any of the Fiscal Year 2018 sales tax reports. In addition, by not have controls in place to review the sales tax returns were properly completed allowed for inaccurate reporting to go unnoticed.

By not correctly filling out the May 2018 sales tax return and additional \$204 in sales tax and interest was paid and by not claiming the vendor's discount, the jail's commissary paid an additional \$426 of sales tax.

KRS 139.570(1)(a) states, "[f]or reimbursement of the cost of collecting and remitting the tax, the seller shall deduct on each return one and three-quarters percent (1.75%) of the first one thousand dollars (\$1,000) of tax due and one and one-half percent (1.5%) of the tax due in excess of one thousand dollars (\$1,000), provided the amount due is not delinquent at the time of payment."

We recommend sales tax returns be properly calculated by using the gross sales and ensuring the vendor discount is taken when applicable. We further recommend the sales tax return be reviewed for accuracy which can be documented by initialing the return prior to the return being submitted and the check being issued.

County Judge/Executive's Response: The issue has been discussed with the Jailer, he has already corrected this issue.

Jailer's Response: Upon the sale of commissary items, the Leslie County Detention Center properly calculates sales tax. The Leslie County Detention Center has then submitted all of the sales tax collected to the State of Kentucky. The Leslie County Detention Center should have retained 1.75% of the first \$1,000 collected. Leslie County Detention Center has already corrected this issue.

The Leslie County Fiscal Court did not have strong internal controls over disbursements: Internal controls over disbursements were not operating as intended during Fiscal Year 2018. Proper procedures were not followed over disbursements, supporting documentation was not maintained and appropriate, haul tickets were not maintained for asphalt, and the fiscal court was not properly approving invoices. The following exceptions were noted:

- One invoice tested did not have a receipt or invoice. Two credit card charges did not have an itemized receipt or invoice.
- The asphalt invoice tested was missing haul tickets. Vendor would supply invoice with the total amount of blacktop per road, no one reviewed to make sure all loads charged goes to the county job site.
- Five invoices tested were not paid within 30 business days. One credit card invoice included interest of \$7 that the county paid.
- One invoice was not approved on the fiscal court claim list. Nine invoices and six credit card invoices were paid and then listed on the Nunc Pro Tunc list for approval by fiscal court.
- Jailer spent more than the administrative code allows for travel. On several occasions he spent over \$45 per night for hotel stays and for one meal he spent over the \$30 per day for meals and used a debit card.

As a result of not monitoring controls in place, it allowed for the deficiencies to occur. These deficiencies could result in inaccurate reporting and misappropriation of assets. The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements should be made by check only. In addition, good internal controls require original supporting documentation be maintained for all disbursements.

KRS 65.140(2) states, “[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.”

KRS 68.275 states, in part, “(2) The 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. (3) The fiscal court may adopt an order, called a standing order, to preapprove the payment

of recurrent monthly payroll and utility expenses. No other expenses shall be preapproved pursuant to this subsection without the written consent of the state local finance officer...”

According to the fiscal court’s administrative code chapter 360.1, “Subject to budgetary limitations, any officer or employee of the county incurring expenses for approved travel on behalf of the county shall be reimbursed for allowable out-of-county travel expenses as follows: (a) Room costs: Reimbursement for actual amount on receipt (conference rate). Non-conference rate shall not exceed \$45.00 per day, unless Judge/Executive or Fiscal Court approves reimbursement at a higher rate. (b) Meal Costs: Not to exceed \$30.00 per day (upon presentation of receipt).”

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

County Judge/Executive’s Response: The new administration has discussed with each department the necessity of keeping all receipts for expenditures. The financial officer will attach all receipts to invoices prior to payment.

The jailer did not comply with bidding requirements set forth in KRS 424.260 and did not maintain supporting documentation for some purchases: The jailer purchased electronic cigarettes for use as commissary inventory from three vendors totaling \$114,944 in the fiscal year ending June 30, 2018, without obtaining bids. Additionally, the jailer purchased four vehicles totaling \$94,940 from the vendor who held the state price contract for Fiscal Year 2018. The jailer did not maintain the master agreement supporting the price of the trucks and auditors were unable to determine if the correct price was paid. Because electronic cigarettes were purchased from three separate vendors, the jailer was unaware of the requirement to obtain bids for this item. Additionally, the jailer was unaware that documentation would need to be maintained for any state price contract purchase. The jailer cannot be sure that electronic cigarettes were procured at the best price available without obtaining bids. Additionally, the jailer does not have adequate documentation that the amount of the agreed upon state price contract was received.

KRS 424.260(1) 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 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.”

Strong internal controls require that all invoices and contracts be maintained and reviewed to ensure that the county is paying the best and lowest price for goods/services. We recommend the jailer comply with KRS 424.260 by obtaining bids for all purchases involving expenditures of more than \$20,000 except for those items exempted in the statute and the jailer ensure that any future state price contract purchases are reviewed thoroughly and adequate documentation is maintained.

County Judge/Executive’s Response: This issue has been discussed with the Jailer. He will comply with KRS 424.260 to correct this issue.

Jailer's Response: This issue concerns the purchase of e-cigs by the Leslie County Detention Center Commissary. Leslie County Detention Center purchases this product from state-wide vendors, who service jails. Toward the end of FYE June 30, 2018, the purchase of e-cigs (total monetary amount) triggered a bidding requirement, which the jailer was unaware. In order to meet this requirement, whether satisfied or not, the Jailer will now run an advertisement in the local newspaper at the beginning of each fiscal year.

The Leslie County Fiscal Court lacks adequate segregation of duties over payroll: The Leslie County Fiscal Court does not have adequate segregation of duties over payroll. The county treasurer receives the timesheet, enters the hours into the payroll system, prints and signs checks, prepares and submits all payroll related reports such as retirement and payroll withholdings. In addition, the treasurer maintains records for leave and sick time earned and used by employees. These payroll process are completed with little to no documented reviews. The fiscal court and county judge executive failed to develop adequate segregate of duties over the payroll process and reporting functions and did not implement adequate oversight regarding the payroll process. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

Segregation of duties over various payroll functions, such as entering employees' time into the payroll system, processing payroll, printing checks, and preparing and submitting all payroll and payroll related reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the fiscal court separate the payroll process, printing and signing checks, and preparing and submitting all payroll and payroll related reports. If segregation of duties is not possible, due to the limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

County Judge/Executive's Response: The County has transitioned the majority of the departments to fingerprint time clocks. Only approved supervisors are able to make any changes to this time keeping system. The supervisors are responsible for reviewing, executing prior to submittal all time sheets for payroll to the county judge-executive's office. Once the timesheets are received the information is entered into the database. Once this task is completed a verification form will be executed and scanned in with the time sheets.

A new payroll system has been purchased and is being used now.

We have started preparation for the networking for new financial software designed for county government to resolve any other weaknesses that currently presents itself. This system is expected to be up and running within the next two months. The treasurer and administrative staff will have access to this system to help protect against any inaccurate reporting.

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

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