



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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### **Harmon Releases Audit of Rockcastle County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Rockcastle 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 Rockcastle 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 Rockcastle County Fiscal Court does not have adequate internal controls over the purchase order system:** This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The Rockcastle County Fiscal Court is not properly utilizing a purchase order system. The purchasing procedures in place do not comply with the required purchase order system required by the state local finance officer. In addition, the internal controls over the purchase order system allowed the system to be circumvented. As a result, the following occurred:

- Sixty-two disbursements were paid without a purchase order; and
- Twenty-five disbursements had a purchase order issued after the date of the invoice.

Internal controls over purchase orders were not operating as intended during Fiscal Year 2017. The executive secretary stated that each department has been given guidelines for making purchases; however, some still fail to follow guidelines and will make purchases without receiving a purchase order.

As a result of not monitoring controls, the deficiencies above occurred. These deficiencies could result in inaccurate financial reporting and misappropriation of assets.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG), “[p]urchases shall not be made without approval by the judge/executive (or designee) and/or a department head” and “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” In a memorandum dated August 4, 2016, DLG further stated, “[w]e highly recommend that counties accept the practice of issuing purchase orders for payroll and utility claims.”

We recommend the Rockcastle County Fiscal Court strengthen internal controls by ensuring that purchase orders are issued for all disbursements and sufficient funds are available prior to issuing a purchase order.

*Former County Judge/Executive’s Response: The Fiscal Court has taken steps to comply with this finding.*

**The Rockcastle County Fiscal Court did not budget for or post lease proceeds and debt payments resulting in a materially misstated fourth quarter report and exceeded line item budgets:** The Rockcastle County Fiscal Court refinanced three lease agreements: an agreement to purchase land from the general fund, a capital lease agreement for the purpose of resurfacing roads from the road fund, and a bond issuance to finance the jail renovations from the jail fund. When the debt was refinanced, the original lease agreements and bonds were paid off. The fiscal court did not budget for or post the lease proceeds and debt payments, totaling \$2,735,816, to their quarterly reports, requiring material adjustments to the financial statement and resulting in the fiscal court exceeding line item budgets as follows: general fund debt services by \$1,027,262; road fund debt services by \$1,072,354; and jail fund debt services by \$762,203. The county thought the payments should be treated as a refinanced lease rather than as debt payments.

Failure to submit an accurate quarterly financial report could result in misrepresentation of financial reporting and an increased risk of uncorrected errors, theft, loss, or misappropriated funds. Failure to properly budget or to amend line items as necessary resulted in noncompliance with KRS 68.300.

An accurate financial statement is necessary for Department for Local Government (DLG) reporting requirements. Strong internal controls over debt service ensures accurate financial reporting. KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in

excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend the fiscal court ensure accurate amounts are shown on all financial statements presented to the public and to the DLG. We further recommend the fiscal court ensure all line items are properly budgeted and, if necessary, amendments are submitted.

*Former County Judge/Executive’s Response: This finding was the result from refinancing that did not flow through the County’s bank records. The County Treasurer shall strive to correct this matter.*

**The Rockcastle County Fiscal Court did not obtain bids when required:** The Rockcastle County Fiscal Court did not bid all purchases for items over \$20,000 and proper supporting documentation was not always maintained:

- One item costing over \$31,500 was not bid.
- The fiscal court orders documented that multiple bids were accepted and approved for rock contracts instead of choosing one bid.
- The Fair Board advertised for bids for a metal building to be constructed at the fairgrounds; however, supporting documentation, such as minutes of opening and accepting the bids by the fair board could not be provided. It was noted that the fiscal court minutes approved a bid; however, the minutes stated, “[t]he original bid was for \$227,500 but will be lower due to changes made.” These changes were not documented.

County officials were unaware of the requirements to select one bid for each category, as well as bid all items over \$20,000, even if there is only a sole source.

By limiting competition or not receiving bids at all, the 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. In addition, if bids are not opened publicly and supporting document maintained, the fiscal court and public cannot be sure they are being properly billed and only paying for agreed upon items.

KRS 424.260(1) states, in part, “[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), “[a]ll bids for the construction or maintenance of county roads and bridges shall be received at the time and place 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.”

KRS 178.140(2) states, “[t]he 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.”

The Department for Local Government (DLG)’s *County Budget Preparation and State Local Finance Officer Policy Manual* states, “[a]ll contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records.”

We recommend the Rockcastle County Fiscal Court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260 and KRS 178.140. In addition, we recommend all changes be documented and supporting documentation maintained.

*Former County Judge/Executive’s Response: The Fiscal Court will comply in the future.*

**The Rockcastle County Detention Center lacks segregation of duties over receipts, disbursements, and the bank reconciliation process:** This is a repeat finding and was included in the prior year audit report as Finding 2016-006. The Rockcastle County Detention Center lacks internal controls and adequate segregation of duties over cash, receipts, disbursements, record keeping, report preparation, and bank reconciliations.

The Rockcastle County Detention Center’s bookkeeper’s duties include posting receipts, preparing and posting disbursements, signing checks and completing the bank reconciliation for the commissary account. The bookkeeper also counts and deposits the funds from the kiosk machine, post receipts, prepares and post disbursements, issues debit cards, and signs checks for the inmate account.

The jailer stated that funding has limited the number of staff in the office and that he has implemented some controls to help offset the lack of segregation of duties. However, during fieldwork, no compensating controls were noted and documented.

When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Rockcastle County Jailer segregate duties over receipts, disbursements, and the bank reconciliation process. If segregation of duties is not possible, the Rockcastle County Jailer could implement compensating controls over these functions by reviewing deposits, reviewing invoices, requiring two signatures on all checks, reviewing bank reconciliations, and documenting the review by initials or signature.

*Former County Judge/Executive's Response: No Response from Jailer, but this matter will be brought to the court's attention.*

*Former Jailer's Response: No response provided.*

**The Rockcastle County Detention Center failed to properly reconcile the commissary and inmate bank accounts:** This is a repeat finding and was included in the prior year audit report as Finding 2016-007. The Rockcastle County Jailer maintains a commissary account and an inmate bank account. The reconciliations for these accounts did not properly reconcile the accounts. There was no supporting documentation that the accounts were being reconciled timely.

- The jailer maintains commissary records both electronically and manually. The bank balance as of June 30, 2017, was \$130,282. The bank reconciliation for July 2017 noted \$14,000 of outstanding checks and \$15,634 of deposits in transit; however, these transactions cleared the bank prior to June 30, 2017.
- The inmate account bank balance as of June 30, 2017, was \$32,091; however, the June 30 reconciliation included a manual adjustment reducing disbursements by \$1,021. This adjustment has been made on every reconciliation since March 2016. In addition, deposits dating as far back as April 2016 were still listed as outstanding.

There were no review procedures in place to eliminate or reduce errors. The jailer did not ensure staff were properly trained on the accounting software.

Failure to reconcile all accounts timely could result in misstatements. A misstatement could result in an increased risk of uncorrected errors, theft, loss, or misappropriated assets.

Proper internal controls over reconciliations are important to ensure accurate records and sufficient funds for disbursements. In addition, KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* under minimum requirements for handling of public funds, requires monthly reconciliation of bank statements.

We recommend the jailer implement controls over all bank reconciliations to ensure ending reconciled bank balances are accurate. All bank reconciliations should be reviewed by the county jailer or a person independent of the reconciliation process to verify accuracy and completeness. This could be documented by initialing the reconciliation.

*Former County Judge/Executive's Response: No Response from Jailer, this will be brought to the attention of the Jailer & Fiscal Court.*

*Former Jailer's Response: No response provided.*

**The Rockcastle County Jailer did not pay booking fees over to the fiscal court:** During Fiscal Year 2017, the detention center charged inmates booking fees totaling \$62,320; of this amount, \$17,804 was actually collected but not forwarded to the fiscal court as is required by KRS 441.265.

The bookkeeper is new and was unaware of the requirement to pay booking fees collected from the inmates to the fiscal court. In addition, weak internal controls have allowed this to go unnoticed. As a result, the county did not receive funds to help offset the cost of housing inmates for Fiscal Year 2017.

KRS 441.265(2)(a) states,

[t]he jailer may adopt, with the approval of the county's governing body, a prisoner fee and expense reimbursement policy, which may include, but not be limited to, the following:

1. An administrative processing or booking fee;
2. A per diem for room and board of not more than fifty dollars (\$50) per day or the actual per diem cost, whichever is less, for the entire period of time the prisoner is confined to the jail;
3. Actual charges for medical and dental treatment; and
4. Reimbursement for county property damaged or any injury caused by the prisoner while confined to the jail.

KRS 441.265(4) states, “[a]ny fees or reimbursement received under this section shall be forwarded to the county treasurer for placement in the jail's budget.”

We recommend the jailer pay the county \$17,803 for Fiscal Year 2017 booking fees collected. Any future booking fees should be paid to the fiscal court on a monthly basis in accordance with KRS 441.265.

*Former County Judge/Executive's Response: As of today the Jailer has paid the Booking Fees in his possession.*

*Former Jailer's Response: No response provided.*

**The fiscal court did not ensure all timesheets were prepared and approved prior to payment:** This is a repeat finding and was included in the prior year audit report as Finding 2016-001. We noted the following discrepancies with timesheets during payroll testing:

- One employee did not have a timesheet for the pay period tested.
- Two employees did not have a timesheet that corresponded to the pay period tested.
- Three detention center employees did not have employee or supervisor signatures on timecards.

The fiscal court was unaware of the necessity of each employee having a timesheet that corresponded to each pay period and having the proper approvals from employees and supervisors. Improper maintenance and approval of timesheets could lead to inappropriate compensation to employees.

KRS 337.320(1) states “[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and

(c) [s]uch other information as the commissioner requires.” KRS 337.320(2) states, “[s]uch records shall be kept on file for at least one (1) year after entry. They shall be open to the inspection. . .at any reasonable time, and every employer shall furnish to the commissioner or the commissioner’s authorized representative on demand a sworn statement of them.”

We recommend all employees, other than elected officials, complete a timesheet. Additionally, the fiscal court should review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

*Former County Judge/Executive’s Response: The Fiscal Court will take steps to correct this in the future.*

**The fiscal court and the detention center have conflicting personnel policies:** This is a repeat finding and was included in the prior year audit report as Finding 2016-004. The detention center states in their policies and procedures that employees are covered under the county’s administrative code. The county’s administrative code states that the detention center has established their own policies and procedures for the accrual and usage of leave time. Detention center employees accrue leave time annually, which is inconsistent with the rest of the county.

The county and the jailer assumed that each of their policies were sufficient to cover the detention center employees. The county and detention center personnel policies do not agree as to which policy is governing the detention center employees. The detention center employees were not covered under either policy and are accruing leave time differently than all other county employees.

According to the county’s administrative policy “[f]or all full-time employees during their first twenty four (24) months of service, three (3.0) hours per pay period [of leave time], accruable from the date of hire. For all full-time employees with two (2) years of service: Four and one-half (4.5) hours per pay period shall be accrued.” The policy further states, “[n]o employee may be compensated at a rate greater than his/her accrued personal time.”

We recommend that the jailer adhere to the county’s administrative policy with regards to leave time accrual. If the jailer wishes to establish a separate administrative policy, this policy needs to be documented. The county’s policy will always supersede any other policy unless the county states that the detention center employees are covered under a separate policy.

*Former County Judge/Executive’s Response: Agree, this will be brought to the Court’s attention.*

*Former Jailer’s Response: No response provided.*

**The Rockcastle County Jailer lacks adequate internal controls over the overall environment of the detention center:** The jailer was not involved in the daily activities of his office. Numerous weaknesses in the control environment of the Rockcastle County Detention Center significantly increase the risk of fraud and misappropriation of funds, and decrease the accuracy of records provided.

The following issues were noted:

- The detention center lacks segregation of duties over receipts, disbursements, and the bank reconciliation process.
- The detention center lacks adequate internal controls over the inmate accounts:
  - April 14, 2017 through August 28, 2017 information on inmates' accounts was not forwarded to the company providing collection services for the jailer.
  - Funds deposited into the kiosk machine were not properly applied to the inmates' accounts.
  - Inmates are not signing for commissary items received.
  - Inmates beginning/ending balance on commissary receipts did not always agree to the inmates detail reports.
  - Inmates' bank accounts were allowed to go into the negative.
  - Deposits are made weekly.
  - The inmate bank account is not being properly reconciled.
- Booking fees were not paid over to the fiscal court.
- The jailer has entered into contracts with vendors that were not approved by the fiscal court.
- Sales tax returns are not being properly calculated.
- The detention center did not have sufficient internal controls over disbursements.
  - Three disbursement had no invoices;
  - Six invoices were copies or faxes;
  - Seven invoices did not document items had actually been received;
  - Sales tax of \$8 was paid; and
  - One invoice was past due.
- The financial statement did not agree to the Inmate Cash Balance Report or to the bank balances as of June 30, 2017.
- The jailer is not in compliance with his policy on medical billing of inmates.
- The jailer did not comply with bidding requirements set forth in KRS 424.260.
- The commissary and inmate bank accounts were not properly reconciled.
- A complete annual commissary financial report was not submitted to the county treasurer.
- Receipts were not deposited daily.

This condition is a result of poorly designed policies and procedures; inconsistent, incomplete, and inaccurate implementation of controls; and lack of management oversight and involvement.

The noted weaknesses, such as inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, could affect the jailer's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. This impacts the jailer's ability to ensure that assets were sufficiently safeguarded. The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. Internal controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained,



maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems.

The following recommendations are supplemented by additional recommendations presented throughout this report:

- The jailer should be more diligent in the day-to-day operations of his office by providing direct oversight of financial reporting for all receipts and disbursements.
- The jailer should implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight; provides reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations; and transactions are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial data.
- The jailer should segregate duties so that no one person can both create and conceal fraudulent activity or commit an undetected material error.
- The jailer should train employees to ensure that each employee understands both the activities and the accounting principles needed for their positions.
- The jailer should implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing.

*Former County Judge/Executive's Response: No Response from the Jailer. This matter will be brought to the attention of the Jailer and before the Fiscal Court.*

*Former Jailer's Response: No response provided.*

**The Rockcastle County Jailer did not have sufficient internal controls over disbursements:** Internal controls over disbursements were not operating as intended during Fiscal Year 2017. Proper procedures were not followed over disbursement and supporting documentation was not maintained and appropriate. Of the 12 disbursements tested, the following exceptions were noted:

- Three disbursement had no invoices;
- Six invoices were copies or faxes;
- Seven invoices did not document items had actually been received;
- Sales tax of \$8 was paid;
- One invoice was past due; and
- One regular medical bill was paid to the fiscal court.

Review procedures in place were not adequate to eliminate or reduce errors or to ensure sufficient supporting documentation was maintained. The jailer disbursed funds without documentation that the disbursements are valid expenditures and proper use of the jail funds.

Good internal controls require proper supporting documentation to be maintained to support 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 441.135(2) states, “[a]ll profits from the canteen shall be used: (a) [f]or the benefit and to enhance the well-being of the prisoners[.]”

We recommend the Rockcastle County Jailer strengthen internal controls over disbursements to ensure all purchases are supported by original receipts, all items are actually received, no sales tax is paid, invoices are paid timely, and only allowable disbursements are paid.

*Former County Judge/Executive’s Response: No Response from Jailer. This matter will be brought to the Fiscal Court’s attention.*

*Former Jailer’s Response: No response provided.*

**The jail financial statement did not agree to the inmate cash balance report, or to the bank balances as of June 30, 2017:** The jailer uses a computer program to maintain the inmate’s financial information. As of June 30, 2017, the confirmed bank account balance was \$32,091, while the computer program reported the audited balance was \$26,283. The balance per the computer program consisted of \$3,625, which was listed as inmate funds, and \$22,658, which was listed as outstanding liabilities. However, when the inmate balance of \$3,625 from the financial statement was compared to the inmate cash balance report, a variance of \$100 was noted. With further research, it was determined that inmate funds had not been properly applied to their account. Some of the \$22,658 has been listed as a liability since 2015, when the jailer started using the computer program.

The jailer has had three bookkeepers since the computer program was installed to maintain the inmates’ financial records. However, since the program’s audited financial statement has items outstanding since 2015, it appears the bookkeepers were not sufficiently trained on the program.

Inmate accounts, as well as the jailer’s commissary account, may not have full use of all the funds they are entitled to since the account is not being properly maintained and liabilities are not being paid timely. Good internal controls dictate all bank accounts be reconciled accurately and timely.

We recommend the jailer establish a policy requiring monthly reconciliations of ledger and bank balances to minimize financial reporting errors and ensure proper disbursement of funds. We further recommend the inmates’ funds, which had not been properly applied to their account, be applied to their account, if still in custody, or be paid to the inmate if they have left the facility.

*Former County Judge/Executive’s Response: No Response from Jailer. This will be brought to the Fiscal Court’s attention.*

*Former Jailer’s Response: No response provided.*

**The Rockcastle County Detention Center lacks adequate internal controls over the inmate accounts:** During a review of the inmates' accounts, the following issues were noted:

- From April 14, 2017 through August 28, 2017 information on inmates' accounts was not forwarded to the company providing collection services for the jailer;
- Funds deposited into the kiosk machine were not properly applied to the inmates accounts;
- Inmates are not signing for commissary items received;
- Inmates beginning/ending balance on commissary receipts did not always agree to the inmates detail report;
- Inmates accounts were allowed to go into the negative;
- Deposits are done weekly; and
- The inmate account is not being properly reconciled.

In 2015, the jailer started using a new computer program to maintain the inmate accounts and all financial information related to them. Since 2015, the jailer has had three bookkeepers. The present bookkeeper does not have sufficient understanding of the program and a clear understanding of the products the program can produce. The bookkeeper has not been properly trained on the program and its capabilities which has allowed some of the issues noted above to go unnoticed and uncorrected.

Failure to properly maintain inmate records has led to inaccurate records being used to determine if funds are available for inmates to expend either on the commissary, medical billing, or housing. In addition, lack of good internal controls can lead to inaccurate financial reporting to outside agencies, allow errors to go undetected, and leaves the jail susceptible to fraud.

Good internal control dictate that employees be knowledgeable about the requirements of their jobs. In addition, good internal controls also dictate the employees be trained for any computer system used to assist in the performance of their jobs. Furthermore, all personnel reviewing the accounting work should have a working knowledge of accounting and the program being used for this function prior to reviewing financial information.

We recommend the jailer ensure all employees have been properly trained to use the computer programs provided for the accounting function. In addition, the jailer should ensure supervisors who review the financial information have a working knowledge of accounting and understand the expected results of each report they are required to review. Lastly, the jailer should ensure all inmate accounts are properly maintained, reconciled, agree to detail ledgers, and not with negative balances.

*Former County Judge/Executive's Response: No Response from Jailer but will be brought before the Fiscal Court.*

*Former Jailer's Response: No response provided.*

**The jailer did not comply with bidding requirements set forth in KRS 424.260:** The jail commissary paid a total of \$21,450 to a single vendor for electronic cigarettes, and paid another

vendor \$35,864 for soda products purchased for resale through the jail commissary fund without obtaining bids.

Jail commissary purchases of electronic cigarettes consisted of nine separate purchases from the same vendor, all of which were less than \$20,000 each. The jailer further purchased \$35,864 of soda products from the same vendor over the fiscal year of 2017. The jailer was unaware of the requirement to obtain bids for these items.

The jailer cannot be sure that the items were procured at the best price available without obtaining bids.

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.”

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.

*Former County Judge/Executive’s Response: No Response from Jailer. This matter will be brought to the attention of the Jailer and Fiscal Court.*

*Former Jailer’s Response: No response provided.*

**The Rockcastle County Jailer does not deposit receipts daily:** Deposits into the inmate account are from monies put into a kiosk machine. Funds are retrieved by the bookkeeper from the kiosk randomly and deposited. The report from the kiosk machine is produced the day of the deposit; however, deposits are made approximately once a week, with overages and shortages noted.

In addition, the bookkeeper issues a check out of the inmate account once a week to transfer funds from the inmate account to the commissary account for sales of commissary items. The transfer does not reconcile to any report, no receipt is issued, and no daily checkout sheet is used for the commissary account.

According to the jailer, this condition is a result of a limited staff. Failure to deposit timely resulted in variances in amounts reported by the kiosk machine and amounts deposited and increased the risk of misappropriation of funds.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds in *County Budget Preparation and State Local Finance Officer Policy Manual* states, “daily deposits intact into a federally insured banking institution.” Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft.

Timely deposits would increase the likelihood of correcting and detecting an error and ensure the accounts are properly maintained.

We recommend the jailer make daily deposits for the jail commissary fund and inmate fund to ensure compliance with DLG requirements.

*Former County Judge/Executive Response: No Response from Jailer. This matter will be brought to the attention of the Jailer and the Fiscal Court.*

*Former Jailer's Response: No response provided.*

**The Rockcastle County Fiscal Court did not maintain proper records for debt service:** The Rockcastle Fiscal Court did not have proper records for debt services. The Rockcastle County Industrial Development Authority paid a total of \$227,998 on behalf of the fiscal court; however, the debt was not included in the fiscal court ledgers. The fiscal court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for the fiscal year ended June 30, 2017. The fiscal court failed to include the receipts and disbursements of the debt on the county's quarterly report.

The treasurer was unaware of the requirement to report the funds for the Industrial Development Building as receipts and disbursements of the county. As a result, the fiscal court is unable to keep track of the receipts and disbursements of all debt services. The fiscal court is also unable to accurately assess the level of debt for which it is responsible.

The fiscal court is legally obligated and financially accountable for the debt of the Industrial Development Building Loan; therefore, these funds should be handled in accordance with the requirements for county funds.

KRS 68.210 gives the state local finance officer authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual*, includes, but is not limited to: maintaining receipts and disbursement journals, performing monthly bank reconciliations, and preparing an annual financial statement. The annual financial statement should appropriately include a schedule that reflects outstanding debt for which the county can be held liable for.

We recommend the fiscal court prepare and maintain ledgers for the receipts and disbursements of all debt services. We also recommend the fiscal court prepare monthly bank reconciliations and an end-of-the-year financial statement for the Industrial Development Building Loan. We further recommend the fiscal court include the debt for the justice center corporation on its quarterly financial reports.

*Former County Judge/Executive's Response: This audit finding is confusing. The Rockcastle County Industrial Authority has been receiving monthly rental income payments and has applied it to the County's debt since 2009. This is the first audit comment pertaining to this debt service arrangement. I disagree that the Fiscal Court is unable to accurately assess the level of debt for*

which it is responsible. The quarterly financial report reflects all of the County's debt and is updated quarterly.

Auditor's Reply: The fiscal court is financially accountable and legally obligated for this debt and should maintain appropriate records for all activities.

**The Fiscal Court had overdrawn bank balances in numerous bank accounts during Fiscal Year 2017:** The fiscal court had negative bank balances in numerous county bank accounts due to checks being written on accounts which had insufficient funds to cover the disbursements. This practice resulted in the following negative cash balances on various dates within bank accounts for the following funds:

General Fund		Jail Fund		CSEPP Fund	
03/14/17	(\$4,794)	03/10/2017	(\$3,777)	01/23/2017	(\$2,344)
		03/13/2017	(\$1,337)		
		05/22/2017	(\$14,055)		

  

Anchor Building Account		911 Fund	
07/01/2016	(\$15,871)	10/07/2016	(\$4,605)
07/05/2016	(\$15,591)	01/07/2017	(\$2,958)
03/01/2017	(\$21)		
03/02/2017	(\$58)		
03/08/2017	(\$122)		
03/09/2017	(\$130)		

According to the treasurer, the overdrafts were due to a timing error and all fees charged by the bank were reimbursed. The fiscal court is not in compliance with the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requirements.

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 the county treasurer to countersign checks only if the following conditions exist: Claim reviewed by the fiscal court, sufficient fund balance in the bank to cover check, and adequate free balance in the appropriation account to cover the check.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of the county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

We recommend the fiscal court refrain from issuing payment for disbursements when there is no available cash in bank accounts to cover those disbursements. We also recommend the county

treasurer comply with all applicable requirements outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*.

*Former County Judge/Executive's Response: Agreed.*

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

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