



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Trimble 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 Trimble 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 Trimble County Fiscal Court did not properly issue purchase orders and lacked invoice support documentation:** During disbursement testing the following exceptions were noted:

- Of 57 disbursements tested, 56 did not have a purchase order issued prior to purchase. The 56 disbursements totaled \$972,282.
- No support documentation for one invoice.

The purchase order exceptions occurred due to the county judge/executive's office not issuing purchase orders for all purchases as required by the county's own administrative code or issuing purchase orders after the invoice comes into the office. There was no vendor file maintained in the county judge/executive's office for the missing invoice. As a result of not issuing purchase orders or issuing prior to purchases, the county's appropriation line items may be depleted or in a negative balance due to not ensuring funds are available at the time of purchase. This is not in compliance with the Department for Local Government (DLG) requirements. Failure to maintain all supporting documentation for invoices can result in amounts not being recorded timely on the disbursements ledger and can result in payment of finance charges and late fees.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by DLG, "purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head." The state local finance officer requires that all counties have a purchase order system and follow the guidelines prescribed on page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*. KRS 65.140(3) states, "[a]n 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." We recommend an approved purchase order be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriations are available for the purchase. We also recommend all supporting documentation be maintained in a vendor file.

*County Judge/Executive's Response: A plan of action has been discussed and will be implemented as soon as possible.*

**The Trimble County Fiscal Court did not follow correct bidding procedures:** The fiscal court received and accepted two bids for asphalt, not the lowest and best bidder, for road materials. According to the judge/executive, he wasn't aware this action was prohibited. By not following proper bidding procedures, the fiscal court was not in compliance with KRS 178.140 and could have paid a larger amount than necessary. KRS 178.140(1) states, "[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[.]" The county administrative code states, "[t]he county judge/executive shall open all bids publicly at the time and place stated in the advertisement, and the fiscal court shall select the lowest or best bid by a qualified bidder." We recommend the fiscal court follow bidding procedures as required by KRS 178.140 and the county administrative code.

*County Judge/Executive's Response: A plan of action has been discussed and will be followed going forward.*

**An encumbrance list is not maintained and reported to the Department for Local Government:** The fiscal court did not report encumbrances on the fourth quarter financial report. The county is not maintaining a list of encumbrances. The county is not preparing purchase orders for all purchases, see Finding 2018-001. By not reporting encumbrances, the county is not in

compliance with reporting requirements of the Department for Local Government's (DLG). In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarter financial report. The manual states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal." 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 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."

We recommend the county report outstanding purchase orders as encumbrances on the fourth quarter financial report. We also recommend the county maintain a listing of the outstanding purchase orders that support the encumbrance total.

*County Judge/Executive's Response: Encumbrance list will be maintained and reported to DLG.*

**Timesheets and other payroll supporting documentation were not provided:** Timesheets and supporting documentation regarding retirement and state withholdings were not provided during the course of the audit. Of 18 employee timesheets selected for testing, 13 were not available. Only six timesheets were found for the entire Fiscal Year 2018. Timesheets should be kept for payroll verification, 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. Due to a change in officials in 2019, Fiscal Year 2018 records could have been misplaced. The new administration was unable to locate timesheets and payroll tax/retirement supporting documentation for the audit period. Federal and state laws require employers to keep an accurate record of time worked in order to calculate employee pay and benefits.

KRS 337.320(1) states, in part, "[e]very employer shall keep a record of...[t]he hours worked each day and each week by each employee[.]" KRS 337.320(2) further requires, "[s]uch records shall be kept on file for at least one (1) year after entry." In addition, good accounting and recordkeeping practices dictate that timesheets should be kept for payroll verification, as a record of leave time used and overtime paid, 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, these documents are necessary to support accurate reporting to the Kentucky Retirement Systems and state and federal taxing authorities. We recommend the county strengthen its internal control system over payroll and reduce the risks of non-compliance, as well as protect itself against disputes regarding payroll amounts and employee benefits.

*County Judge/Executive's Response: Timesheets and other Payroll documentation will be better handled in the future by preserving all the necessary information.*

**The Trimble County Fiscal Court does not conduct an annual inventory count or maintain an accurate capital asset schedule:** There is no annual inventory count or reconciliation of the inventories to the capital asset schedule to ensure accuracy. In addition, the county did not have an updated capital asset schedule. The county has not implemented internal controls to ensure that an annual inventory count and reconciliation are conducted and that the county’s capital asset schedule is updated.

Not implementing an annual inventory count could result in new assets not being added and retired assets not being removed from the capital asset listing or insurance policy, inaccurate descriptions on the capital asset listing, or material misstatement of the historical values of assets on the capital asset schedule in the financial statement. In addition as of June 30, 2018, the following purchases were not recorded on the county’s capital asset schedule: \$58,849 for a jail vehicle, \$135,012 in courthouse renovations and \$116,170 for voting machines.

According to the Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, “[a]n annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained, and documented.” The manual “requires the counties to maintain a schedule of additions and retirements or disposals of capital assets in accordance with that county’s capitalization policy.”

We recommend the fiscal court implement a policy to conduct an annual inventory count and require departments to submit completed inventory sheets to the county judge/executive’s office. The submitted inventory should then be reconciled to the capital asset listing and the listing updated as needed. We also recommend the county maintain complete and accurate capital asset schedules to comply with DLG requirements.

*County Judge/Executive’s Response: We are currently working on an inventory to repeat every year as close to July 1 as possible.*

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

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