



**Auditor of Public Accounts  
Mike Harmon**

**FOR IMMEDIATE RELEASE**

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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, 2020. 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.

Our responsibility is to express an opinion on this financial statement based on conducting the 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Audit evidence indicated that Leslie County Fiscal Court's financial statement was materially misstated, and the receipt and disbursement ledgers could not be relied upon to be accurate. The absence of effective internal controls, oversight, and review procedures created an environment in which funds could be misappropriated and financial records were inaccurate. 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 Leslie County Fiscal Court's Fourth Quarter Financial Statement and from expressing an opinion on the financial statement of the Leslie County Fiscal Court.

Because of the significance of the matters 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.

Findings 1, 2 and 3 of the audit report will be referred to the Department for Local Government (DLG) for further review. Additionally, Finding 3 of the audit report will be referred to U.S. Department of Homeland Security, Federal Emergency Management Administration (FEMA) for further review.

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 findings:

**The Leslie County Fiscal Court's fourth quarter financial statement was materially misstated:** The Leslie County Fiscal Court's fourth quarter financial statement was not an accurate representation of the financial activity of the fiscal court for fiscal year ending June 30, 2020. Multiple items were incorrectly classified, and multiple transactions were missing from the financial statement. The receipts and appropriations ledgers as well as the bank reconciliations provided by the county treasurer did not support the amounts on the financial statement due to multiple inaccuracies. As a result:

- The fourth quarter financial statement had \$4,503,454 more receipts and \$421,928 more disbursements than the ledgers for all funds.
- The fourth quarter financial statement had \$12,414 less ending cash balance than the bank reconciliations for all funds.
- The fourth quarter financial statement was submitted to the Department for Local Government (DLG) on August 24, 2020; however, it was not presented to DLG within 20 days after the quarter ended as required.
- The county treasurer did not present the fourth quarter financial statement to the fiscal court for review.
- Receipts for federal payment in lieu of taxes of \$121,148 were deposited to the wrong fund on June 30, 2020, but not corrected until November 2020. This amount was not included in the receipts or fund balance on the fourth quarter financial statement.
- Receipts for state grants of \$934,771 were deposited to the wrong fund. \$400,000 of this amount was not included in the receipts and \$434,771 was included in the wrong receipts line item on the fourth quarter financial statement.

Due to the material errors we identified and the potential unidentified material errors due to lack of strong internal controls over the financial reporting process, we cannot overcome the significant risks with additional audit procedures; therefore, we are unable to provide the fiscal court with an opinion on whether the financial statement is free from material misstatement. A disclaimer of opinion will be issued.

The county treasurer used a complex accounting system that was subsequently replaced by the fiscal court. The misstatements noted above were the result of this complex accounting system and a weak internal control system over the financial reporting system. The county treasurer failed to receive proper training on how to correctly use the software. Also, the county treasurer has not received the training needed to maintain accurate accounting records, prepare accurate quarterly financial statements, and prepare bank reconciliations that are complete and correct. The fiscal court failed to realize the importance of strong internal controls over reporting financial information, and instead relied on a single employee without sufficient oversight. The errors were not detected because the fourth quarter financial statement was not reviewed by another employee to ensure accuracy. As a result, the fiscal court's fourth quarter financial statement and supporting financial records were materially misstated. Because of the weak internal control system, the amounts reported on the fourth quarter financial statement were not in agreement with the actual transaction amounts. When the amounts reported on the quarterly financial statements do not agree with the actual transaction amounts, the risk of material misstatement due to errors and fraud increases substantially.

In addition, actual transaction amounts recorded inaccurately could result in overspending budgeted line items as reported in Finding 2020-014. The weak internal control system has also resulted in receipts and disbursements being posted to the wrong line items reducing the usefulness of the financial statements to the public as well as to the fiscal court. The fiscal court needs accurate financial information to oversee the financial condition of the government as well as to prepare future budgets. A materially inaccurate and untimely fourth quarter financial statement was submitted to DLG and relied upon by third parties. Furthermore, the fiscal court was not provided with a copy of the fourth quarter financial statement.

Proper accounting procedures and internal controls require that the financial statement is supported with accurate underlying accounting records such as receipt and disbursement ledgers with the financial statement being submitted to the fiscal court for review. Strong internal controls over financial reporting are vital in ensuring the fiscal court's financial statement accurately reflects the financial activity of the fiscal court. These controls should include an individual independent of the accounting function reviewing the financial statements for accuracy and compliance with DLG's reporting requirements. KRS 68.020(4) states the county treasurer, "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer." 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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to, "[p]repare a quarterly financial statement for the State Local Finance Officer." The manual provides the format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements and total available in each line item. In addition, the manual provides a chart of accounts and states, "[a]ll counties must use the account numbers from the chart of accounts." Furthermore, the manual states the quarterly financial statements are required to be submitted to DLG by the 20th of the month following the close of the quarter.

We recommend the county treasurer receive training to ensure she maintains accurate accounting records, prepares accurate quarterly financial statements, and completes bank reconciliations. Additionally, we recommend the county treasurer maintain accurate accounting records and prepare accurate quarterly financial statements. We also recommend the fiscal court implement stronger internal controls and management oversight over the financial reporting process. Internal controls such as a thorough review of the quarterly financial statements by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should also include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly financial statements and bank reconciliations, agreeing bank balances per the bank statements to the quarterly financial statements and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Ledgers should also be reviewed to verify transactions have been recorded in the correct account codes. Once the ledgers and reconciliations are deemed accurate, the reviewer should document their review and submit the quarterly financial statement to the fiscal court for review. By implementing these procedures, the fiscal court can strengthen its internal control system, and help ensure accurate financial reporting. We further recommend the fourth quarterly financial statement be submitted to DLG timely. This finding will be referred to the Department for Local Government (DLG).

*County Judge/Executive's Response: Additional training has been scheduled to implement stronger controls and accuracy of maintaining records.*

**The Leslie County Fiscal Court did not have adequate procedures for reporting county liabilities:** The Leslie County Fiscal Court's liabilities schedule presented with the fiscal court's fourth quarter financial statement, which serves as the fiscal court's year-end financial statement, was misstated. Principal and interest on lease agreements were misstated by \$591,994 and \$86,283, respectively. In addition, interest on general obligation leases was misstated by \$100,020. The liabilities schedule presented to the fiscal court and Department for Local Government (DLG) was understated by these amounts.

The fiscal court does not have internal controls in place to ensure debt balances were reported properly. This deficiency has resulted in inaccurate financial reporting to the fiscal court and DLG making it difficult for management and DLG to easily determine where the fiscal court's liability balances stand.

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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires officials to report all liabilities of the fiscal court, even when related to unbudgeted funds. The schedules should be reported with correct balances. Internal control procedures should be in place to ensure that all liabilities held at fiscal year-end are reported on the liabilities schedule and have accurate ending balances.

We recommend the fiscal court improve procedures to ensure proper reporting of all the fiscal court's liabilities on the financial statement. This finding will be referred to the Department for Local Government (DLG).

*County Judge/Executive's Response: The Leslie County Fiscal Court will improve procedures for proper reporting for all financial liabilities.*

**The Leslie County Treasurer did not prepare an accurate schedule of expenditures of federal awards:** The county treasurer prepared a schedule of expenditures of federal awards (SEFA) for Fiscal Year 2020 dated October 30, 2020. The original SEFA reported federal expenditures totaling \$415,575; however, the original SEFA was materially inaccurate. The county treasurer reported federal receipts as federal expenditures on this SEFA. Auditors reviewed invoices and cleared checks, and noted \$714,254 for federal expenditures; however, due to the issues noted in report Finding 2020-001, we cannot determine the accuracy of this amount. In addition, the following supporting information was inaccurate on the original SEFA:

- Grants listed were not accurate and two grants were not included.
- Pass-through grantor was not listed.
- Pass-through identifying numbers were not listed.
- Amounts were not calculated correctly.

The county treasurer was not aware that the SEFA should be prepared using federal expenditures not federal receipts. Furthermore, the fiscal court did not have adequate internal controls and procedures in place to ensure that the SEFA was accurately prepared and accounted for all federal expenditures properly.

The fiscal court's failure to prepare an accurate SEFA misrepresented the fiscal court's federal expenditure activity for the fiscal year and understated federal expenditures by approximately \$298,679.

2 C.F.R. § 200.510(b) states, "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended...." At a minimum, the schedule must include the following if applicable:

- (1) List individual Federal programs by Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- (3) Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the ALN information is not available.
- (4) The total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Notes that describe the significant accounting policies used in preparing the schedule.

Good internal controls dictate the fiscal court have procedures in place to review the SEFA prepared by the county treasurer for accuracy and to ensure all federal expenditures for the fiscal year are included on the SEFA.

We recommend the fiscal court implement internal controls to ensure that the SEFA is properly prepared and federal expenditures are reported accurately. This finding will be referred to the Department for Local Government (DLG), and the U.S. Department of Homeland Security, Federal Emergency Management Administration (FEMA).

*County Judge/Executive's Response: Since these Audit process began; the Treasurer now understands the proper method of preparing a SEFA and will report an accurate SEFA.*

**The Leslie County Fiscal Court did not have strong internal controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2019-006. Proper procedures for disbursements were not followed. The following exceptions were noted:

- Sixty-nine of 84 purchase orders were not signed and/or approved.
- Seven of 84 disbursements lacked supporting documentation.
- Four of 84 disbursements were not paid within 30 working days of receipt.
- Two of 84 disbursements were not presented to fiscal court.
- Two of 84 disbursements included late fees/charges totaling \$252.

As a result of not monitoring internal controls in place, the fiscal court allowed for the exceptions to occur. These exceptions could result in inaccurate financial reporting and misappropriation of assets.

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 Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, which states in part, "[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." Good internal controls require original supporting documentation be maintained for all disbursements and that purchase orders be created and approved only when sufficient funds are available.

KRS 65.140 states that local governments are required to pay for purchases within 30 working days of receipt of a vendor's invoice. Additionally, late fees/charges are not a good use of taxpayer dollars.

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."

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively. The fiscal court should also ensure that purchase orders are issued for all disbursements and sufficient funds are available prior to issuing a purchase order.

*County Judge/Executive's Response: The Leslie County Fiscal Court will work to strengthen internal controls to ensure accuracy.*

**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 2019-004. 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.

According to the county judge/executive, 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. The lack of adequate segregation of duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

The following deficiencies occurred due to the lack of segregation of duties:

- The fiscal court did not accurately report or record financial information on the fourth quarter financial statement as reported in Finding 2020-001.
- The fiscal court did not prepare an accurate schedule of expenditures of federal awards as reported in Finding 2020-003.
- The fiscal court did not have strong internal controls over disbursements as reported in Finding 2020-004.
- The fiscal court did not properly reconcile the payroll revolving account as reported in Finding 2020-012.
- The fiscal court did not have adequate controls over the budget as reported in Finding 2020-013.

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 receipts, disbursements, and reconciliations which includes the opening of mail, collecting and depositing of receipts, posting receipts and disbursements, and preparation of reports and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas should 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 Leslie County Fiscal Court will work to strengthen internal controls to ensure accuracy.*

**The Leslie County Jailer did not submit a financial statement to the county treasurer for commissary activity:** The Leslie County Jailer did not present a financial statement to the county treasurer for Fiscal Year 2020 concerning commissary activity. The jailer did not have sufficient internal controls over the financial reporting process that would ensure that the financial statement was presented to the county treasurer. As a result, the county treasurer was not made aware of the financial activity of the jail's commissary fund.

KRS 441.135(2) states, in part, "[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." Good internal controls dictate that procedures are put in place to ensure the annual report is turned over timely to the county treasurer.

We recommend the jailer submit an accurate annual commissary report to the county treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts and disbursements ledgers.

*County Judge/Executive's Response: The official did not provide a response.*

*Jailer's Response: The official did not provide a response.*

**The Leslie County Fiscal Court and Leslie County Jailer did not comply with bidding requirements set forth in KRS 424.260:** This is a repeat finding and was included in the prior year audit report as Findings 2019-002 and 2019-005. The fiscal court and the jailer did not comply with bidding requirements. The following noncompliances were noted:

- The fiscal court purchased a vehicle for \$51,803 without bidding or purchasing via state price contract.
- The fiscal court purchased food service (prepared meals) and commissary service for the detention center totaling \$473,696 without obtaining bids.
- The jailer purchased electronic cigarettes for use as commissary inventory from three vendors totaling \$155,209 in fiscal year ending June 30, 2020, without obtaining bids.

The fiscal court was unaware of the requirement to bid food service, commissary service, and the purchase of a vehicle. Furthermore, the jailer was unaware of the requirement to obtain bids for electronic cigarettes that were purchased from three separate vendors. The fiscal court and jailer cannot be sure that the items mentioned above were procured at the best price available due to their failure to obtain bids or to purchase via the state price contract.

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: (a) Materials; (b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids." Strong internal controls require that all contracts, leases, or



other agreements be properly bid to ensure that the county is paying the best and lowest price for goods or services.

We recommend the fiscal court and the jailer comply with KRS 424.260 by obtaining bids for contracts, leases, or other agreements as required. The fiscal court and the jailer should also review proposed contracts to ensure whether any state price contracts may be used.

*County Judge/Executive's Response: The County Judge and the Leslie County Fiscal Court will consult with the County Attorney to ensure all bidding requirements are met.*

*Jailer's Response: The official did not provide a response.*

**The Leslie County Jail Commissary did not transfer profits from the inmate account to the commissary account:** The Leslie County Jailer failed to account for profits from commissary sales in the correct account. The jailer operates two bank accounts for commissary activity. One account is for lawful receipts and disbursements of commissary proceeds, and the other account is used as a trust fund for inmate funds. As of June 30, 2020, the jailer had \$63,850 in the inmate account that should have been transferred to the commissary account. According to the jail, they had not transferred profits because they were unsure of the correct amount to be transferred and did not want to inappropriately transfer funds that belonged to inmates. As a result, a large balance was in the inmate account that could have been used for lawful commissary purchases. This deficiency also allows an opportunity for cash to be diverted or misappropriated.

Strong internal controls require that the jail commissary use its two accounts properly and transfer proceeds from commissary sales to the appropriate account on a timely basis. The inmate account should be used for all inmate moneys received, disbursed as refunds, transferred to the commissary account for commissary purchases by the inmates, and jail fees collected from the inmates for payment to the county treasurer. No other receipts should be deposited into this account and no other disbursements should be made from it. Deposits to the commissary account should only consist of transfers from inmate accounts for commissary purchases and any other monies relating to commissary activity.

We recommend the jailer ensure that the correct amount of proceeds from commissary sales be transferred monthly. In addition, we recommend the jailer transfer \$63,850 from commissary sales from the inmate account to the commissary account.

*County Judge/Executive's Response: The official did not provide a response.*

*Jailer's Response: The official did not provide a response.*

**The Leslie County Jail Commissary lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations:** This is a repeat finding and was included in the prior year audit report as Finding 2019-003. The Leslie County Jail Commissary bookkeeper's duties include posting receipts, preparing and posting disbursements, and completing the bank reconciliations. Per the jailer, due to a limited number of staff in the jail commissary, segregation of duties is not feasible. As a result, undetected misappropriation of assets or incorrect financial

reporting could occur. When one employee is responsible for the receipt, disbursement, and reconciliation of funds, 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 Leslie County Jailer segregate duties over receipts, disbursements, and the reconciliation process. If segregation of duties is not possible, then the Leslie County Jailer should implement compensating controls by monitoring the financial activities of the jail commissary and documenting his review.

*County Judge/Executive's Response: The official did not provide a response.*

*Jailer's Response: The official did not provide a response.*

**The Leslie County Jail Commissary operated accounts with funds that belong to the fiscal court:** The Leslie County Jail operated two accounts with funds that belonged to the fiscal court. The jail operated an account with funds received from the Kentucky State Treasurer for jail employees transporting inmates. These funds were deposited into a separate account maintained by the jailer and used for costs incurred while transporting inmates. The jailer also operated an account with funds received from vending sales to jail employees on-site. These accounts were closed at the end of fiscal year 2020 but were not closed properly. The remaining funds in these accounts were to be paid to the county treasurer to be deposited to the jail fund. Instead, the jailer transferred the remaining balance of these accounts to his jail commissary operating account. The transport account balance was \$6,679 and the vending account balance was \$26, resulting in \$6,705 that is due to the county treasurer from the jail commissary operating account.

The jailer was unaware that these funds belonged to the fiscal court. As a result, the fiscal court did not have any internal controls over the receipt or disbursement of these funds. Since these funds were not remitted to the fiscal court when received, the receipt and disbursement of these funds were not handled by the county treasurer and recorded by the jail fund. Therefore, this financial activity was not included with the jail fund in reports to the state local finance officer.

KRS 64.070 allows the jailer to receive reimbursement from the state when he or his employees convey prisoners to the penitentiary. Strong internal controls require the jail to deliver any receipts for operations to the county treasurer. Additionally, KRS 441.235(1) states, "[t]he county treasurer shall keep books of accounts of all receipts and disbursements from the jail budget and make such reports as are required by the state local finance officer." 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..."

We recommend the jailer remit \$6,705 from the jail commissary operating account to the county treasurer for deposit to the jail fund.

*County Judge/Executive's Response: The official did not provide a response.*

*Jailer's Response: The official did not provide a response.*

**The Leslie County Jailer has entered into contracts that were not approved by the fiscal court:** The Leslie County Jailer entered into contracts for food services (prepared meals) and health care services which were not approved by the Leslie County Fiscal Court. The jailer was unaware that all contracts had to be approved by the fiscal court. By entering into contracts without fiscal court approval, the jailer has obligated county funds without the knowledge of the fiscal court. The fiscal court documented \$474,155 for food services and \$362,091 for health services disbursed from the jail fund for fiscal year ended June 30, 2020.

KRS 441.225(1) states, in part, "the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line-item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county." Food services and health services are both budgeted within the jail fund. KRS 67.710(1) and the fiscal court's administrative code both state the county judge/executive shall "[p]rovide for the execution of all ordinances and resolutions of the fiscal court, execute all contracts entered into by the fiscal court, and provide for the execution of all laws by the state subject to enforcement by him or by officers who are under his direction and supervision."

We recommend that the jailer acquire fiscal court approval of all jail contracts.

*County Judge/Executive's Response: The official did not provide a response.*

*Jailer's Response: The official did not provide a response.*

**The Leslie County Fiscal Court did not reconcile the payroll revolving account to zero:** The fiscal court uses a clearing bank account for payroll processing, but it did not reconcile to a zero balance as of June 30, 2020. Deposits are made into the bank account from the fiscal court's general, road, jail, Local Government Economic Assistance (LGEA) Fund, and E911 funds to pay for salaries, taxes, fiscal court matching portion of taxes, retirement, health insurance, and other payments to benefit vendors. The payroll account is a revolving account; therefore, the account should reconcile to zero every month. As of June 30, 2020, the county treasurer's reconciliation shows a balance of \$189,970 existed in the account. However, the fiscal court's records show the reconciled balance in the account on June 30, 2020 was \$26,819. In addition, there is no documented review of the reconciliations. According to the county treasurer, the account has been adjusted based on audit recommendations; however, these adjustments have never corrected the account so that it would reconcile to a zero amount. As a result of not reconciling the account, the fiscal court could be tying up funds that are not required to be in the payroll account or overdraw the payroll account in error. In addition, if the account is not properly reconciled errors can go unnoticed and uncorrected.

Good internal controls require timely, accurate reconciliations for bank accounts and all other reports concerning payroll to ensure all funds are properly accounted for and to prevent misappropriation of funds and inaccurate financial reporting. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to prepare monthly bank reconciliations. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies are transferred from other funds.

Therefore, the reconciled balance each month of the payroll revolving account should be \$0, or possibly a small reserve balance if the fiscal court so chooses. Strong internal controls over the account should be implemented to ensure that proper amounts are transferred timely. Should a balance accrue in the payroll revolving account, the fiscal court should allocate this balance to the appropriate fund(s) or transfer amounts to an escrow account for uncleared payroll checks. KRS 393A.040(12) says payroll checks are presumed to be abandoned if they have not been cashed one year after the amount becomes payable. After a payroll check has been outstanding for a year, the unclaimed payroll checks should be submitted to the Kentucky State Treasurer's Unclaimed Property Division as unclaimed property.

We recommend the fiscal court reconcile the payroll revolving account balance to zero each month and an individual independent of the payroll function verify proper payroll amounts are transferred to the payroll revolving account from the corresponding operating funds prior to each pay period. This reconciliation should also include that any accumulated balance in payroll revolving account is properly allocated and reflected on the fiscal court's financial statement. The county treasurer should submit any payroll checks that have been unclaimed for over a year to the Kentucky State Treasurer's Unclaimed Property Division as unclaimed property.

*County Judge/Executive's Response: The Treasurer will work to correct this issue in the future.*

**The Leslie County Fiscal Court did not have adequate controls over the budget:** Controls over disbursements were not operating as intended during Fiscal Year 2020. The following control deficiencies were noted:

- One fund was included on the original budget; however, the fund was not included on the fiscal court's fourth quarter financial statement. The fund did not have any activity during the fiscal year.
- One receipt fund was not added and totaled correctly.
- Four disbursement funds (road, jail, FEMA, and Local Government Economic Development (LGED)) and the overall budget were overspent.

Per the county treasurer, the county treasurer and county judge/executive failed to monitor budget to actual amounts during the process of paying claims. The appropriation ledgers and reports showing the comparison of actual expenditures to amounts budgeted were not reviewed before presenting claims to the fiscal court or signing checks. The deficiencies listed above were able to occur due to lack of monitoring controls. These deficiencies could result in the misappropriation

of assets. In addition, for fiscal year ended June 30, 2020, these deficiencies resulted in overall budgeted appropriations being understated by \$1,440,963 on the fourth quarter financial statement; the overall budget being overspent by \$41,600; road fund disbursements exceeding budgeted appropriations by \$177,502; jail fund disbursements exceeding budget appropriations by \$153,077; FEMA fund disbursements exceeding budgeted appropriations by \$329,226; and LGED fund disbursements exceeding budgeted appropriations by \$42,763.

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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual states the county treasurer should "[c]ountersign checks only if the following conditions exist:

- "Claim reviewed by the fiscal court
- Sufficient fund balance and adequate cash in the bank to cover the check
- Adequate free balance in a **properly budgeted** appropriation account to cover the check."

In addition, KRS 68.275(1) states, "[c]laims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the county judge/executive by a warrant drawn on the county and co-signed by the county treasurer." Furthermore, 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."

We recommend the fiscal court improve controls over the budget to ensure they are operating effectively.

*County Judge/Executive's Response: The Leslie County Fiscal Court will work to improve internal controls to ensure proper budgeting and appropriate budget amendments will be made accordingly.*

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

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