



**Auditor of Public Accounts
Mike Harmon**

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

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, 2021. 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 the 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, 3 and 4 will be referred to the Department for Local Government (DLG), Finding 2 will be referred to the Internal Revenue Service (IRS), and Finding 5 will be referred to the U.S. Department for Homeland Security, Kentucky Division of Emergency Management (KYEM) and DLG 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: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The Leslie County Fiscal Court's fourth quarter financial statement was not an accurate representation of the financial activity of the fiscal court for the fiscal year ending June 30, 2021. Multiple items were incorrectly classified, and several transactions were missing from the financial statement. The receipts and appropriations ledgers did not support the amounts on the financial statement due to multiple inaccuracies. Additionally, the county treasurer was unable to provide bank reconciliations for Fiscal Year 2021 as reported in Finding 2021-003. As a result:

- The reconciliation portion of the fourth quarter financial statement was materially inaccurate. The reported ending balance for all funds was understated by \$795,327 from the ending balance calculated from the fourth quarter financial statement information.
- The ending balance for all funds reported in the reconciliation portion of the fourth quarter financial statement was understated by \$953,533 from the ending bank balance.
- The amount reported as a "Prior Year Carryover" was understated by \$14,624 in total for all funds.
- Receipts were understated by \$405,243 and disbursements were understated by \$261,662 in total for all funds.
- Interfund transfers in do does not agree to interfund transfers out by a difference of \$100,000.
- \$141,177 was received by the fiscal court from FEMA in May 2021 but was not posted to the receipts ledger.
- Employer's contribution for FICA was not accurately posted to the appropriations ledger for the entire fiscal year. The only amount recorded for Fiscal Year 2021 for employer's contribution for FICA was \$22,263 to the jail fund.

Due to the material errors identified and the potential for unidentified material errors due to a lack of strong internal controls over the financial report 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 fiscal court implemented a new software system that was used during Fiscal Year 2021. The misstatements noted above were the result of the implementation of the software without receiving proper training on how to correctly use the software. Also, the county treasurer does not have the experience and 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 and no documentation was provided that the bank statements had been reconciled to the financial statement and supporting financial records. When the amounts reported on the quarterly financial statements do not agree with the actual transaction amounts and are not reconciled to the bank activity, 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 2021-014.

The weak internal control system also resulted in receipts and disbursements not being posted or being posted to the wrong line items, reducing the usefulness of the financial statements to the public as well as 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 fourth quarter financial statement was submitted to the Department for Local Government (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 the financial statement be supported with accurate underlying accounting records such as bank reconciliations and 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 requires the county treasurer to prepare monthly bank reconciliations.

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, prepare accurate quarterly financial statements, and document bank reconciliations. 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 the treasurer should 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. This finding will be referred to 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 properly remit payroll liabilities or health insurance premiums: During Fiscal Year 2021, the Leslie County Fiscal Court did not properly pay the Internal Revenue Service (IRS) for federal tax withholdings, Federal Insurance Contributions Act (FICA) withholdings, and FICA matching for three months. Also, the fiscal court did not properly pay the health insurance vendor for health insurance coverage for employees for four months. The amount owed for these liabilities could not be determined due to the fiscal court’s inaccurate records.

Per county treasurer, this control deficiency occurred due to an issue with the software system used by the fiscal court. The fiscal court failed to implement controls to monitor that payroll liabilities are reported correctly and properly remitted to appropriate parties. Instead, they relied on a single employee to report and remit the amounts due without sufficient oversight. In addition, as reported in Finding 2021-013, the payroll revolving account used to process payroll transactions was not properly reconciled to ensure all payroll liabilities were paid timely.

As a result, federal taxes, including Social Security and Medicare, were not remitted in accordance with the federal withholding deposit schedule as determined by employers’ tax guidance published by the IRS. In addition, health insurance premiums were not paid timely. The lack of payments to the IRS and the health insurance vendor resulted in the fiscal court being assessed penalty amounts from the IRS and employees having lapses in their health insurance coverage.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities and vendors. In addition, *Publication 15 Employer's Tax Guide (Circular E) (2022)* issued by the IRS requires employers who are semiweekly schedule depositors to deposit federal taxes accumulated for payroll paid on Wednesday, Thursday, or Friday by the following Wednesday and federal taxes accumulated for payroll paid on Monday or Tuesday by the following Friday.

We recommend the fiscal court implement internal controls over payroll liabilities. Internal controls such as a thorough review of payroll earnings records should be performed by an individual independent of the payroll process and comparison of amounts due to amounts paid. Once completed, the review should be signed by the individual performing the review and submitted to the county judge/executive and the fiscal court. This finding will be referred to the IRS.

County Judge/Executive's Response: Additional training has been implemented.

The Leslie County Fiscal Court did not perform bank reconciliations: The Leslie County Fiscal Court did not prepare bank reconciliations for the fiscal court's bank accounts for July 2020 to June 2021. Since bank reconciliations were not provided, the accuracy of the cash balances as of June 30, 2021 on the fourth quarter financial statement could not be verified. Also, the fiscal court did not establish relevant review procedures to determine if the county treasurer was preparing an accurate reconciliation monthly.

The fiscal court's failure to establish a review of the county treasurer's bank reconciliations resulted in an inaccurate fourth quarter statement for Fiscal Year 2021. As reported in Finding 2021-001, this deficiency resulted in the ending balances as of June 30, 2021 on the fourth quarter financial statement being materially inaccurate and reported incorrectly to Department for Local Government (DLG).

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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires officials handling public funds to prepare monthly bank reconciliations. The example of the financial cover sheet of the quarterly financial report included in the manual indicates that the bank reconciliation should include the bank balance and a listing of all outstanding reconciling items (deposits in transit, outstanding checks, investments, etc.). Strong internal controls over the bank reconciliations should be implemented to ensure that proper amounts are reported to the fiscal court monthly and on the financial cover sheet of the financial reports quarterly.

We recommend the fiscal court establish procedures to prepare bank reconciliations and oversight procedures to review the bank reconciliations and financial reports prepared by the county treasurer. The review should be conducted by an independent employee to verify accuracy and completeness. This finding will be referred to DLG.

County Judge/Executive's Response: Additional training is being scheduled to have individual reports for each account that is reconciled each month. Each month is reconciled on the software

for reporting purposes, however, the treasurer did not print and attach each month's reconciliation to the bank statement. From this finding forward the Treasurer will attach a printed reconciliation to the bank statement scanned in for this purpose.

The Leslie County Fiscal Court did not have adequate procedures for reporting county liabilities: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. 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 \$518,972 and \$62,020, respectively. The debt 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 debt 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 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: This is a repeat finding and was included in the prior year audit report as Finding 2020-003. The county treasurer prepared a schedule of expenditures of federal awards (SEFA) for Fiscal Year 2021 dated August 2, 2022. The SEFA reported federal expenditures totaling \$982,437. The SEFA was materially misstated because the county treasurer failed to include expenditures for Coronavirus Relief Funds (CRF) in the amount of \$317,258, special programs for aging funds in the amount of \$10,072, and Federal Emergency Management Administration (FEMA) DR4540 funds in the amount of \$5,798. If the SEFA was adjusted for these errors, total federal expenditures would be \$1,315,565. However, due to issues noted in report Finding 2021-001, we cannot determine the accuracy of this amount.

In addition, the following supporting information was inaccurate on the SEFA:

- Grants listed were not accurate and one grant was not included.
- Pass-through grantor was not listed.
- Pass-through identifying numbers were not listed.

The fiscal court did not have adequate internal controls and procedures in place to ensure the SEFA was accurately prepared and accounted for all federal expenditures properly. The failure to prepare the SEFA accurately, misrepresented the fiscal court's federal expenditure activity for the fiscal year and understated federal expenditures by \$333,128.

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 (ALN) 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 that 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 U.S. Department of Homeland Security, Kentucky Division of Emergency Management (KYEM).

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 2020-004. Proper procedures for disbursements were not followed. The following exceptions were noted:

- All 24 purchase orders tested were either not signed, approved, and/or issued after invoice date.
- Thirteen of 24 disbursements were not paid within 30 working days of receipt. Three of these disbursements were paid four months late and the other ten were paid nine months late.

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.

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 2020-005. 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 restriction 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 2021-001.
- The fiscal court did not properly remit payroll liabilities or health insurance premiums as reported in Finding 2021-002.

- The fiscal court did not perform bank reconciliations for Fiscal Year 2021 as reported in Finding 2021-003.
- The fiscal court did not prepare an accurate schedule of expenditures of federal awards (SEFA) as reported in Finding 2021-005.
- The fiscal court did not have strong internal controls over disbursements as reported in Finding 2021-006.
- The fiscal court did not properly reconcile the payroll revolving account as reported in Finding 2021-013.
- The fiscal court did not have adequate controls over the budget as reported in Finding 2021-014.

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 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 Leslie County Fiscal Court will work to strengthen internal controls to ensure accuracy.

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 Finding 2020-007. The fiscal court and the jailer did not comply with bidding requirements. The following noncompliances were noted:

- The fiscal court paid a contractor \$34,600 for labor for road cleanup without obtaining bids.
- The fiscal court purchased food service (prepared meals) and commissary service for the detention center totaling \$359,575 without obtaining bids.
- The jailer purchased electronic cigarettes as commissary inventory from three vendors totaling \$188,191 in the fiscal year ending June 30, 2021 without obtaining bids.

The fiscal court was unaware of the requirement to bid food services, commissary service, and the contracted labor. 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.

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.

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: This is a repeat finding and was included in the prior year audit report as Finding 2020-008. The Leslie County Jailer failed to account for profits from commissary sales in the correct account. The jailer operated 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, 2021, the jailer had \$63,850 for Fiscal Year 2020, and \$137,031 for Fiscal Year 2021 for a total of \$200,881 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 \$200,881 profits 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 2020-009. 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 document 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: This is a repeat finding and was included in the prior year audit report as Finding 2020-010. 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 on-site jail employees. 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 control 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 to 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.” Further, 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 entered into contracts that were not approved by the fiscal court:

This is a repeat finding and was included in the prior year audit report as Finding 2020-011. 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 \$360,170 for food services and \$345,002 for health services disbursed from the jail fund for fiscal year ended June 30, 2021.

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 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: This is a repeat finding and was included in the prior year audit report as Finding 2020-012.

The fiscal court uses a clearing bank account for payroll processing, but it did not reconcile to a zero balance as of June 30, 2021. Deposits are made into the bank account from the fiscal court's general, road, jail, Local Government Economic Assistance (LGEA), and E-911 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. The county treasurer was unable to provide reconciliations of the account for Fiscal Year 2021 as reported in Finding 2021-003. However, the fiscal court's records show the reconciled balance in the account on June 30, 2021 was \$61,351. The accuracy of this reconciled balance could not be verified since liabilities on June 30, 2021, could not be determined since the fiscal court has not properly remitted payroll liabilities to the appropriate parties as reported in Finding 2021-002. The amount of payroll liabilities owed as of June 30, 2021 is unknown.

According to the fiscal court, the payroll revolving account had a running balance from the previous administration, and it is unclear where the balance originated. As a result of not reconciling the account, the fiscal court could tie 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. We also recommend internal controls over the payroll revolving account include that any

accumulated balance in the 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: This is a repeat finding and was included in the prior year audit report as Finding 2020-013. Controls over disbursements were not operating as intended during fiscal year ending June 30, 2021. The fiscal court overspent the budget in the road fund. 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. As a result, the disbursements for the road fund exceeded the approved budgeted amounts by \$864,117.

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*. 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 internal 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 Leslie County Fiscal Court failed to monitor prevailing wage compliance as required by the Federal Emergency Management Administration (FEMA)-State Agreement:

Federal Program: ALN 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Award Number and Year: FEMA-4428DRKYP00000001 2019; FEMA-4540DRKYP00000001 2020; FEMA-4358DRKYP000000012.

Name of Federal Agency: U.S. Department of Homeland Security, Federal Emergency Management Administration (FEMA)

Pass-Thru Agency: Commonwealth of Kentucky Department of Military Affairs, Kentucky Division of Emergency Management

Compliance Requirements: Special Tests and Provisions

Type of Finding: Significant Deficiency; Noncompliance of Major Program

Amount of Questioned Costs: None

Opinion Modification (if applicable): Disclaimer

COVID Related: No

The Leslie County Fiscal Court failed to implement adequate monitoring controls over the DR 4428, DR 4540, and DR 4358 FEMA projects. The fiscal court has assigned a grant administrator to oversee the planning, design, inspection services, environmental services, and administration for the FEMA projects. The fiscal court failed to monitor whether the contractors paid laborers at prevailing wages determined by the U.S. Secretary of Labor. When work was performed on the contracts, the fiscal court did not ensure that the contractors submitted weekly a copy of the payroll and a statement of compliance to the fiscal court.

The grant administrator stated the reason the fiscal court was not monitoring the payroll for the Davis Bacon Act requirement was the state grant agreements did not require the payroll documentation within the reimbursement requests. When grantees do not implement internal controls to properly oversee administration of federal programs, they cannot ensure they are adhering to federal grant compliance requirements. This deficiency could result in noncompliance with the federal grant agreements and affect the fiscal court's ability to receive federal funds in the future.

The FEMA grant agreements with the Commonwealth of Kentucky require compliance with Davis Bacon Act.

Per the grant agreement, "[t]he Davis-Bacon Act requires contractors pay laborers and mechanics at prevailing wages determined by the Secretary of Labor, and to make payment at least once per week. The non-federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination. The non-federal entity must report all suspected or reported violations to the federal awarding agency."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

No questioned costs were noted.

This is not a repeat finding.

We recommend the fiscal court implement adequate monitoring controls and obtain certified payroll records to ensure compliance with the Davis Bacon Act compliance requirement.

County Judge/Executive's Response: The Leslie County Fiscal Court has taken action on this matter, this was a criteria that we were not aware of. Now, after reading all requirements set forth in terms and conditions of the federal award, this matter has been resolved for the future.

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

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