



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 Rowan County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Rowan County Fiscal Court for the fiscal year ended June 30, 2022. 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 Rowan 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 116 of 120 fiscal court audits in Kentucky.

Finding 1 of the audit report will be referred to the Office of the Attorney General, and Finding 2 of the audit report will be referred to the Kentucky Department of Revenue 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 Rowan County Fiscal Court did not have adequate controls over revolving accounts: The fiscal court did not have adequate controls over revolving accounts. Revolving accounts were reconciled on a monthly basis; however, they were not balanced to zero. Furthermore, an employee of the county was able to write checks to herself totaling \$13,827 during the fiscal year ended June 30, 2022.

The fiscal court had implemented procedures and oversight regarding revolving accounts; however, a former employee was able to write checks to herself and go undetected for an extended period of time. Furthermore, monthly bank reconciliations for the insurance revolving account were prepared by the same person that was writing checks to herself.

From July 1, 2021 through February 28, 2022, checks in the amount of \$13,827 were written out of the insurance revolving account to an employee of the county. In March 2022, this was detected when another employee of the county received and opened the monthly bank statement. While performing the review, it was discovered that checks had been written to the employee responsible for maintaining the insurance revolving account. Upon noticing these fraudulent checks, the concern was reported to management who in turn contacted the appropriate authorities to investigate. Once confronted, the employee admitted to what she had done and she was subsequently terminated from her employment. On June 3, 2022, the Rowan County grand jury returned an indictment against the former employee and she has been formally arraigned on these charges as of February 17, 2023.

Strong internal controls over revolving accounts requires all items that affect the account to be properly summarized and included on the reconciliation whether or not those transactions have occurred or are due to occur in the future. Reconciliations should then be reviewed by another person to ensure accuracy and completeness.

We recommend the fiscal court review and update internal control and oversight procedures to ensure that revolving accounts are properly reconciled and reviewed on a monthly basis. This matter will be referred to the Office of the Attorney General.

County Judge/Executive's Response: The discrepancy was discovered internally and had been ongoing for numerous years, across different administrations. Once discovered the employee was terminated and charged and amended adequate controls were implemented within a week after the revolving account discrepancy was found. The amended controls included the Payroll Clerk reconciling the payroll bank statements and County Treasurer reviewing and signing once completed. The County Treasurer reconciles all other bank statements with secondary review and signature from the County Finance Officer.

To correct the insurance clearing account, we have replaced the previous third party HRA administrator with a new third party HRA administrator who provides on demand, detailed monthly or weekly reports. The account will have a zero balance once excess funds have been expended with the new administrator. A new, separate account has been created for the new HRA Administrator.

The Rowan County Jailer paid additional compensation to jail employees for conducting classes at the jail: The Rowan County Jailer paid two jail employees additional compensation in the amount of \$29,400 for conducting moral reconnection therapy (MRT) classes at the jail. The employees taught the MRT classes while on the clock as jail employees. This additional compensation was not processed through payroll and was not included on the employees' W-2s. The jailer was unaware that the additional compensation needed to be processed through payroll. As a result, the amounts listed as wages earned on the employees' W-2s are incorrect.

Controls should be put in place to ensure employees compensation is properly documented. If a different arrangement is agreed upon, a written job description and/or contract should be on file for the employee.

We recommend all compensation for employees be processed through payroll to ensure compensation earned on the W-2s are correct. This matter will be referred to the Department of Revenue.

Jailer's Response: We have set up a line item jail budget effectively July 1, 2023 for MRT training reimbursement. It will be ran through the clerks office and payroll deductions will be taken out. I spoke with Division of Labor this morning (name redacted) and he stated he did not see a problem with the jail employees teaching the class during the day and being paid two different wages at the same period.

The Rowan County Jailer did not comply with bidding requirements for the purchase of electronic cigarettes and nicotine pouches: The Rowan County Jailer paid a total of \$53,318 to a single vendor for nicotine pouches purchased for resale through the jail commissary fund without obtaining bids. Also, the Rowan County Jailer advertised for bids for electronic cigarettes, but the bid price did not agree to price paid. The accepted bid price for e-cigarettes was \$3.75, however the price paid to the vendor was \$4.00.

The jailer was unaware that the nicotine pouches exceeded \$30,000, therefore requiring bidding, and the bid price did not agree to the amount paid for the electronic cigarettes. By not bidding all items required, the jailer cannot ensure that he purchases these items at the best price available without obtaining bids.

According to Section 620.1 of the county's administrative code, "Materials and equipment costing over the dollar amount specified in KRS Chapter 424.260 must be advertised for bid in accordance with KRS Chapter 424." 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." Also, good internal controls include a process to review invoices to verify amount billed agrees to bid price.

We recommend the fiscal court and jailer monitor disbursements to ensure procurement procedures are followed properly for all purchases and contracts in the future.

Jailer's Response: E-cigarettes were bid in January 2023. The nicotine pouches are to be bid this month.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

