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Harmon Releases Audit of Breckinridge County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Breckinridge County Fiscal Court for the fiscal year ended June 30, 2015. 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 Breckinridge County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Breckinridge County Jail lacks adequate segregation of duties over the accounting functions. A lack of segregation of duties existed over the following accounting functions: receipts and processing, record-keeping, report preparation, and reconciliations for the Breckinridge County Jail. However, starting in January 2015 when the new jailer took office, duties over some of the above accounting functions were segregated. Prior to January 2015, the jailer's bookkeeper prepared and deposited the receipts, prepared and signed checks, posted to the ledger, prepared reports, and performed the bank reconciliations. Subsequent to January 2015, duties such as the preparation of receipts, preparation of checks, and signing of checks were completed by other employees of the jail. A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting.

Segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial report. Additionally, proper segregation of duties can protect employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting, we recommend the jail continue working to separate the duties in preparing and depositing receipts, preparing and signing checks, recording transactions, preparing reports, and reconciling bank accounts. If, due to staffing limitations any of these duties cannot be segregated, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this oversight.

Judge/Executive Maurice Lucas' response: Duties of the accounting functions are being segregated and completed by other employees of the Jail.

Jailer Tara Shrewsberry's response: As stated by auditors, the Breckinridge County Detention Center has performed segregation of duties since January 2015. The Jailer does reconciliations and prepares and deposits receipts, and the Jailer and Major of Operations both sign checks in order to demonstrate segregation of duties. The Breckinridge County Detention Center understands the importance of segregated duties, and is making every effort to see that it is maintained.

Prisoner reimbursements (jail fees) were not submitted to treasurer on a monthly basis. The Breckinridge County Jail did not turn over prisoner reimbursements (jail fees) to the county treasurer on a monthly basis. For the fiscal year ending June 30, 2015, the county received payment for prisoner reimbursements (jail fees) four times. Auditors did note however, that this was corrected in the fiscal year ending June 30, 2016. According to the jail bookkeeper and county treasurer, the delay of payments was due to issues the jail bookkeeper had with the jail's accounting software. The jail bookkeeper stated that these issues have since been corrected. When prisoner reimbursements are not being submitted to the treasurer along with appropriate supporting documents on a monthly basis, the treasurer is unable to ensure that the correct amount is being collected and paid to the fiscal court. Good internal controls dictate that prisoner reimbursements (jail fees) be submitted with supporting documentation to the county treasurer on at least a monthly basis to ensure that correct amounts are being collected and paid to the fiscal court. We recommend the Breckinridge County Jail submit prisoner reimbursements (jail fees) to the county treasurer on a monthly basis.

Judge/Executive Maurice Lucas' response: The prisoner reimbursements (Jail Fees) along with the appropriate supporting documentation are being turned over in a timely manner.

Jailer Tara Shrewsberry's response: As the auditors stated, the Breckinridge County Detention Center's Bookkeeper began taking prisoner reimbursements to the County Treasurer during the fiscal year ending June, 2016.

The fiscal court does not have adequate internal controls over credit card transactions.

The Breckinridge County Fiscal Court does not have adequate internal controls over credit card transactions. The following credit card transaction deficiencies were noted:

- Thirteen credit card transactions did not have adequate supporting documentations (itemized invoices)
- Four hotel bills paid via credit card transactions included state tax payments even though the county should not be paying these taxes.

All credit card transactions that did not have itemized invoices were for meals purchased by various fiscal court employees. These employees failed to obtain itemized invoices for these purchases. By failing to maintain adequate documentation, the fiscal court is increasing their risk of paying invoices for goods or services that are unallowable or that were not provided to the county.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports. We recommend the county develop internal procedures to ensure that credit card transactions are properly supported.

Judge/Executive Maurice Lucas' response: Employees, who request authorization to use the credit card, are required to submit all supporting documentation to the account payable clerk in order to process the disbursements in a timely manner. Also, the County will develop internal procedures to ensure that employees understand the importance of maintaining and turning in all supporting invoices and receipts.

The fiscal court did not have adequate policies and procedures over leave balances. The Breckinridge County Fiscal Court did not have a set written policy for how leave balances were to be maintained. According to the county treasurer, dispatch, jail, and clerk and sheriff offices should be maintaining their own leave balances, while other departments of the fiscal court have leave balances maintained by the payroll clerk. However, dispatch did not maintain any balances until 2016 because dispatch employees had the understanding that leave balances were maintained by the payroll clerk. There was also a specific situation in which an employee retired in 2013. Upon retirement, that employee told the two dispatchers who worked with her that she would donate her remaining time to them. The two dispatch employees have included this donation in their leave balances; however, there is no record of the donation of the leave time actually occurring. Starting in 2016, the TAC coordinator maintains leave balances for dispatch employees.

According to the county treasurer, it has always been her understanding that dispatch, jail, and the clerk and sheriff offices maintained their own employees' leave balances since this was the practice since she took the position. Due to the fact that dispatch employees' leave balances were not being maintained, the true leave balances of the dispatch employees are unknown at the time of audit. Good internal controls dictate that the fiscal court have sufficient written policies and procedures and that all policies and procedures set forth in the administrative code are followed

by all employees. We recommend the Breckinridge County Fiscal Court update policies and procedures to set a written policy which addresses how leave balances should be maintained and ensure that all county employees are made aware of this policy.

Judge/Executive Maurice Lucas' response: The Breckinridge County Fiscal Court will update policies and procedures and include a set written policy for how leave balances are to be maintained. Donated leave is addressed in the current policy and approved by the Judge/Executive.

The Breckinridge County Jail did not maintain signed commissary receipts or make daily deposits. The Breckinridge County Jail did not maintain any signed commissary receipts or make daily deposits to the commissary and inmate accounts. Auditors tested receipts collected October 5, 2014 through October 11, 2014. For the week tested, auditors noted that commissary receipts were not deposited into the commissary account and that there were only four deposits made into the inmate account out of the seven days tested. Receipts for the inmate account were not batched over the weekend, and the receipts collected on Wednesday were batched and deposited with the receipts collected on Thursday. Commissary receipts were deposited into the commissary account from the inmate account at the end of the month.

The jail bookkeeper explained that when an inmate purchases commissary items, the money is credited to their inmate account in Jail Tracker instantly. Since the jail is operating on a cash free system, the money is already in the bank in the inmate account; therefore, the bookkeeper felt that it did not need to be transferred daily since there was no cash on hand. All inmate account receipts collected over the weekend go into a safe and are batched as one deposit since the office staff is not in the office over the weekend. The bookkeeper also stated that signed commissary receipts were not maintained due to time constraints that occur on the days commissary is sold.

By not making daily deposits, the jail is creating the opportunity for the undetected misappropriation of assets and inaccurate financial reporting. Not maintaining signed commissary receipts can also create the opportunity for the inmate account balances to be misappropriated. Pursuant to KRS 68.210, the State Local Finance Officer shall prescribe minimum accounting standards. Those standards include performing daily check-out procedures and making daily deposits intact to a federally insured banking institution. Good internal controls also dictate that the jail maintain signed copies of the commissary receipts in order to reduce the opportunity for inmate account balances to be misappropriated. We recommend the Breckinridge County Jail maintain signed commissary receipts and make daily deposits for all receipts collected.

Jailer Tara Shrewsberry's response: The Breckinridge County Detention Center will maintain signed commissary receipts, beginning July 1, 2016. The commissary clerk will print duplicate receipts, one for prisoner, and the other signed copy will be for the Detention Center's records.

Weak internal controls over pool receipts could result in missing receipts. The pool sign-in sheet for July 6, 2014 included an additional \$81 of receipts than what was turned into the judge's secretary for that day, and there were not any receipts issued for this \$81. The judge's secretary did not know why this discrepancy occurred. Also, receipts are not being properly

marked as to whether “cash” or “check” was received, nor is there anyone accounting for the sequential order of receipts to ensure they have been properly accounted for or voided. The pool gate employees have to make change from daily receipts; therefore, checks received may not be batched on the actual day they were collected. Deposits are not made daily: receipts for July 6, 2014 to July 21, 2014 were not deposited until July 22, 2014; receipts for June 7, 2015 to June 17, 2015 were not deposited until June 17, 2015; and receipts for June 17, 2015 to June 18, 2015 were not deposited until July 10, 2015.

These deficiencies over pool receipts occurred because of the fiscal court’s lack of internal controls and oversight. By failing to maintain sufficient internal controls over pool receipts or making daily deposits, the opportunity for theft of funds or fraudulent recording is increased. Strong internal controls over pool receipts are necessary to ensure accurate financial reporting and to protect assets from misappropriation. Additionally, KRS 68.210 gives the State Local Finance Officer the authority to prescribe minimum accounting standards. Those standards include performing daily check-out procedures and making daily deposits intact to a federally insured banking institution.

We recommend the fiscal court develop internal procedures to ensure that pool receipts are being properly accounted for and deposits are made intact daily. Also, the fiscal court should establish a change fund at the pool.

Judge/Executive Maurice Lucas’ response: The Fiscal Court will develop internal procedures to ensure that pool receipts are being properly accounted for and deposits are made intact daily. The Fiscal Court will establish a change fund at the pool.

The Breckinridge County Fiscal Court’s capital asset schedule was inaccurate. The Breckinridge County Fiscal Court had various transactions that were not included on the county’s capital asset schedule and various items that were added that should not have been included on the asset schedule. Auditors adjusted the county’s capital asset schedule by a net amount of \$1,892,423. Adjustments were made to land and land improvements for \$84,311, construction in progress for \$366,231, building and building improvements for \$62,140, machinery and equipment for \$48,005, vehicles for \$(4,895), and infrastructure for \$1,336,631. Auditors had to make adjustments by adding items that had not been included either to the beginning balance or additions, as well as remove items that were added that did not meet the capital asset threshold or did not belong to the county.

The county employee who prepares the county’s capital asset schedule does not have sufficient experience in this area, resulting in the inaccurate reporting of the county’s capital asset schedule. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. According to the Department for Local Government (DLG) *County Budget Preparation And State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property placement. We recommend the fiscal court maintain up-to-date capital asset records and ensure that these records are accurate.

Judge/Executive Maurice Lucas' response: The County employee who prepares the County's capital asset schedule will maintain up to date capital asset records regularly.

The Breckinridge County Fiscal Court did not make daily deposits for the jail fund. Jail fund deposits were not prepared and made on a daily basis. There was only one deposit made for May 2015; two deposits for the following months: September 2014, November 2014, December 2014, and March 2015; and three deposits for January 2015. Six of these deposits exceeded \$120,769. The county treasurer explained that the jail does not always turn over their fees to her timely and then she sometimes will hold deposits. Not properly depositing monies received by the office in a timely manner could result in a loss of receipts or misplaced monies. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset the most susceptible to possible theft. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation And State Local Finance Officer Policy Manual* requires that deposits be made daily and intact. We recommend the fiscal court deposit receipts daily and intact as required by the *County Budget Preparation And State Local Finance Officer Policy Manual*.

Judge/Executive Maurice Lucas' response: Deposits received by the office will be made in a timely manner.

The fiscal court did not approve an accurate salary schedule. The Breckinridge County Fiscal Court approved a salary schedule for the fiscal year ending June 30, 2015; however, the salary schedule approved by the fiscal court did not include accurate pay rates for employees. The fiscal court approved the salary schedule as well as a percentage increase for various employees during the same fiscal court meeting. The salary schedule approved by the fiscal court did not show the pay raises given to the employees and auditors could not determine from the minutes which employees should receive the pay raise. An updated schedule was not presented to the fiscal court. The fiscal court thought that by approving the schedule and pay raise they were in compliance with KRS 64.530 and were not aware that an updated and accurate schedule needed to be approved. Since accurate pay rates were not properly approved by the fiscal court, employees could inadvertently be paid incorrectly.

KRS 64.530(1) states, in part, that “[e]xcept as provided in subsections (5) and (6) of this section, the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer.” We recommend the fiscal court comply with KRS 64.530 by approving an accurate salary schedule and documenting the approved salary schedule in the fiscal court order book.

Judge/Executive Maurice Lucas' response: The Fiscal Court will approve a list of each employee, by job position, along with his/her pay at the beginning of each year and document the list in the Fiscal Court Order Book along with the budget.

Employees were not compensated for actual hours worked. The county treasurer, finance officer, EMA director, road supervisor, SAP director, jail bookkeeper and jail maintenance supervisor were being treated as exempt employees prior to September 2015. As of September

2015, this issue was corrected for all employees mentioned above except for the SAP director and jail bookkeeper. It was the county judge/executive's understanding that these individuals met the requirements by the U.S. Department of Labor Wage and Hour Division to be considered salaried employees. By treating these individuals as exempt they were not being compensated at time and a half for hours worked over 40 hours per work week. KRS 337.285(1) states: "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." The Fair Labor Standards Act (FLSA) also requires that all covered, non-exempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in one work week. We recommend the fiscal court compensate all employees in accordance with KRS 337.285(1).

Judge/Executive Maurice Lucas' response: The Fiscal Court does compensate all employees in accordance with KRS 337.285(1).

The Breckinridge County Jail collected \$10,243 of unidentified receipts. In the fiscal year ending June 30, 2015, the Breckinridge County Jail collected and paid \$10,243 unidentified receipts over to the fiscal court when turning over jail fees. When trying to balance the inmate account, the jail bookkeeper would have additional receipts that were not included on her "Fees Collected Report" or "Inmates Payable Report." Since the bookkeeper was unsure what the receipts included, she turned them over to the county treasurer along with the jail fees. If the jail bookkeeper turns over receipts that are unidentified, she could pay money to the fiscal court that actually belonged to an inmate. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government *County Budget Preparation And State Local Finance Officer Policy Manual* requires that officials maintain complete and accurate records. We recommend the Breckinridge County Jail determine what these receipts are for and maintain complete and accurate records of all receipts collected.

Jailer Tara Shrewsberry's response: The Breckinridge County Detention Center will provide a breakdown of fees collected and paid each month to ensure that they provide an accurate reflection of each report.

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

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