



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Elliott County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Elliott 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 Elliott 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:

Fiscal court minutes were not recorded timely by the fiscal court clerk. Fiscal court meeting minutes were not recorded timely. As of May 2016, minutes had not been recorded in the county clerk’s office for over two years. The county clerk has chosen not to serve as clerk of the fiscal court. The former county treasurers each served in that capacity during their periods of employment; the current county treasurer also serves as fiscal court clerk. The county treasurer’s office is not in the courthouse where the county clerk’s office is located, and where minutes are to be recorded. Without the minutes being recorded in the county clerk’s office, there is no permanent record of the actions taken by the fiscal court. The minutes are also not available in the proper location for the public’s use, which creates an inconvenience to the public. KRS 67.100 addresses records of the fiscal court. Section (1) states, in part, “[t]he fiscal court is a

court of record.” Section (2) states “[e]very official action of the fiscal court shall be made a part of the permanent records of the county.” Section (5) states “[a] copy of all records required by this section shall be kept in the office of the county clerk.” We recommend the fiscal court ensure the meeting minutes and county ordinances be recorded and filed as permanent records of the county clerk’s office as required by KRS 67.100. We note that, after bring this issue to the attention of the county, all minutes were recorded in the county clerk’s office as of July 2016.

County Judge/Executive’s response: The prior fiscal court clerk resigned and the current fiscal court clerk records minutes timely.

The fourth quarterly financial report was not submitted timely. The fourth quarterly financial report was not submitted timely. The county treasurer for the fiscal year ending June 30, 2015, resigned in August 2015 and a new county treasurer was appointed. The new county treasurer appointed did not follow up on an error in the submission process. The Department for Local Government (DLG) continued to send delinquent notices to the Elliott County Judge/Executive’s office during FY 2015-2016. All four quarterly reports for FY 2015-2016 were delinquent also. The county’s financial condition is not known to DLG, the regulatory agency for fiscal court reporting. DLG requires quarterly reports to be submitted by the 20th day following the close of the quarter in order to satisfy several requirements by federal and state government agencies. We recommend quarterly financial reports be submitted by the 20th day following the close of the quarter and that delinquent notices received from DLG not be ignored.

County Judge/Executive’s response: There was a change in administration and we believe it was an oversight between the two previous treasurers. Fourth Quarter Reports will be submitted timely in the future.

Budget amounts were not properly reported on the quarterly financial reports. County administrative personnel neglected to use approved budget amounts on the quarterly reports. Original budget amounts reported on the June 30, 2015 quarterly financial report were overstated from the original budget approved by the Elliott County Fiscal Court and the Kentucky State Local Finance Officer as follows:

	Original Approved Budget	Fourth Quarterly Report Budget	Amount Budget Overstated On Fourth Quarterly Report
Receipts	\$ 2,991,092	\$ 3,085,597	\$ 94,505
Disbursements	5,807,184	5,996,193	189,009

Overstating budgeted disbursements resulted in disbursements being approved and disbursed from line items which have a negative balance. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, the original budget reported on the

quarterly reports should agree to the approved original budget. We recommend the approved original budget amounts be included on the quarterly reports so that the fiscal court and regulatory agencies can accurately monitor spending.

County Judge/Executive's response: The current treasurer will ensure the approved budget amounts are reflected on the quarterly reports.

The forest fire fund was not amended into the fiscal court's operating budget and included on the third and fourth quarterly financial reports. The forest fire fund was not amended into the fiscal court's operating budget and included on the third and fourth quarterly financial reports. The forest fire fund bank account was opened in February 2015, but was not amended as a fund into the fiscal court's operating budget, and it was not included on the third and fourth quarterly financial reports. It was maintained only as a bank account. The county judge/executive, former county treasurer, and fiscal court did not realize the fund should have been budgeted and amended into the quarterly report at the time the bank account was opened. The fourth quarterly financial report is understated by receipts of \$1,844, disbursements of \$60, and an ending cash balance of \$1,784. Also, transfers of \$1,599 from the general fund to the forest fire fund to open the account were not shown. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Policy Manual* requires a separate fund known as the forest fire protection fund be maintained pursuant to KRS 149.590 for counties that participate in this program. Although there were no disbursements from the forest fire fund during FY 2014-2015, DLG still requires the fund to be budgeted so that when a disbursement does occur, it is allowable. We recommend the forest fire fund be included in the quarterly reports. The county has included the forest fire fund as a budgeted fund for FY 2015-2016, so this non-compliance has been corrected. For FY 2014-2015, the forest fire fund has been adjusted onto the financial statement as an unbudgeted fund.

County Judge/Executive's response: The Forest Fire Fund is now included in the quarterly reports.

Disbursements exceeded approved budget appropriations for the general, road, and local government economic assistance (LGEA) funds. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. The Elliott County Fiscal Court did not monitor the budget or quarterly reports to prevent disbursements from exceeding the approved budget appropriations. Disbursements exceeded budget appropriations on the fourth quarterly financial report. However, as discussed in Finding 2015-003, the budgeted amounts on the fourth quarterly financial report were not accurate. When the budget amounts on the fourth quarterly financial report were corrected to reflect the approved budget appropriations, disbursements still exceeded budget appropriations on the fourth quarter financial report as shown below:

	Disbursements Exceeded Budget
<u>General Fund</u>	
General Government	\$ 39,792
Protection to Persons and Property	289,378
General Health and Sanitation	343
Debt Service	69,662
Administration	102,100
 <u>Road Fund</u>	
Protection to Persons and Property	3,053
Roads	405,028
 <u>LGEA Fund</u>	
General Government	83
Protection to Persons and Property	9,985
Recreation and Culture	2,000
Roads	25,240

KRS 68.300 states that “[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.” KRS 68.300 further states that “[n]o member of the fiscal court shall vote for any such illegal appropriation or claim.” We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county’s budget or transfer necessary appropriations in order to prevent the county from exceeding the budget. We also recommend the county treasurer and the county judge/executive not approve purchase orders for claims that exceed the budget appropriations. We further recommend the fiscal court not vote to approve payment of claims that would cause a line item to exceed the budget.

County Judge/Executive’s response: The current treasurer will monitor, amend, and/or transfer funds as deemed necessary by the fiscal court in the future to prevent the county from exceeding the budgeted line item expenditures.

Proper records were not maintained for Elliott County Properties, Incorporated. The county treasurer during the fiscal year ending June 30, 2015 did not maintain proper records for Elliott County Properties, Incorporated, a component unit of the Elliott County Fiscal Court. There were no ledgers for receipts and disbursements, no bank reconciliations, and no financial statement for the fiscal year ending June 30, 2015. This appears to be caused by an oversight during the transition from the FY 2014-2015 county treasurer to the FY 2015-2016 treasurer. Information regarding the financial activities of Elliott County Properties, Incorporated was not compiled and reviewed for accuracy. Information is also not readily available for inclusion in the county’s financial statements and audit. KRS 68.210 gives the State Local Finance Officer the authority to require certain accounting records to be maintained by local governments. These include receipts and disbursements ledgers and a financial statement. We recommend the treasurer prepare and maintain ledgers for receipts and disbursements of Elliott County

Properties, Incorporated. We further recommend the treasurer prepare monthly bank reconciliations and a year-end financial statement.

County Judge/Executive's response: The current treasurer will prepare and maintain appropriate ledgers for [Elliott County Properties, Incorporated].

Fund transfers were made in excess of the amounts approved by the fiscal court. The county treasurer during the fiscal year ending June 30, 2015 did not obtain prior approval from the fiscal court for all fund transfers made. There were unapproved transfers of \$15,000, \$15,000, and \$10,000 from the general fund to the jail fund, and an unapproved transfer of \$3,000 from the general fund to the 911 fund. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states that "[a]ll transfers require a court order." This is to ensure the fiscal court is aware of all financial activity that occurs. We recommend all fund transfers be approved by the fiscal court.

County Judge/Executive's response: The current treasurer will ensure all transfers are approved by the fiscal court.

The fiscal court failed to make the June 2015 library lease interest payment of \$13,368. The Elliott County Fiscal Court financed construction of a library in 2010 through a lease with the Kentucky Public Agency Development Lease Program. The library lease interest payments are due on June 1 and December 1 of each year. Principal payments are due on December 1 of each year. The December 1, 2014 lease interest and principal payments were made, but the June 1, 2015 lease interest payment of \$13,368 has not been made and is now past due. Auditors were not given a reason as to why the payment was not made. The fiscal court is now delinquent on the lease payment, which could affect the fiscal court's ability to borrow funds in the future. Per the lease agreement, Elliott County Fiscal Court is required to make timely lease interest and principal payments as listed on the lease amortization schedule. A past due notice dated May 10, 2016 requesting the June 1, 2015 interest payment of \$13,368 was found by auditors during fieldwork. We recommend the fiscal court make the June 1, 2015 lease interest payment as soon as possible. We further recommend the fiscal court review all debt agreement and amortization schedules to become familiar with due dates and ensure payments are made timely.

County Judge/Executive's response: The current treasurer has paid the library lease and interest payments and they are currently up to date.

The fiscal court did not properly budget for and record all debt transactions. The Elliott County Fiscal Court entered into the following debt agreements during the fiscal year ending June 30, 2015: the Kentucky Association of Counties (KACo) lease for the ambulance service workers compensation claim in the amount of \$74,368; the Kentucky Bank promissory note for the purchase of a dump truck and bridge repair parts in the amount of \$27,250; and the Kentucky Bank lease for the ambulance service payment of outstanding bills in the amount of \$200,000. These debt transactions were not processed through the fiscal court's bank accounts, were not posted as receipts or disbursements on the quarterly report, and were not reflected on the fiscal court's fourth quarterly financial statement liabilities section. The fiscal court does not appear to be aware of the reporting requirements regarding debt transactions. The fiscal court failed to

properly budget and record \$301,618 in debt receipts and disbursements for the fiscal year. The quarterly financial statement is misstated due to these omissions and errors, which provides a misleading financial position to taxpayers and users of the county's financial information.

KRS 68.280 states, in part, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of unanticipated receipts and specifying the budget funds that are to be increased thereby." KRS 68.300 states, in part, "[a]ny appropriation 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." All debt transactions, whether processed through the fiscal court's bank accounts or not, should be included in the fiscal court's budget process and, if still outstanding at year end, reflected on the fiscal court's fourth quarterly financial report. We recommend the fiscal court comply with KRS 68.280 and KRS 68.300 by budgeting all debt transactions, and amending the budget as necessary to reflect unanticipated receipts and disbursements, including those handled by third-party lenders.

County Judge/Executive's response: The current treasurer will ensure all debt transactions are recorded properly in the financial statements.

The fiscal court paid credit card statements without proper supporting documentation.

Credit card statements without proper supporting documentation are being submitted to the fiscal court for payment without including the original invoices that support each transaction. The fiscal court is approving payment of the credit card bills without proper supporting documentation. Without the original invoices, there is no way for the fiscal court to know for certain what was charged on the county's credit card. There was not sufficient oversight by those involved in preparing and approving the claims. Credit card statement claims tested for the months of October 2014, November 2014, and April 2015 lacked the original invoices, but were still approved for payment by the fiscal court. The October 2014 charges appear to have been for postal/shipping services (\$2,024), a hotel stay (\$359), restaurants (\$31), and a gas station transaction (\$66); November 2014 charges appear to have been to mailing/shipping services (\$44) and a home improvement store transaction (\$181); and March 2015 charges appear to be for a hotel stay (\$287). Without original invoices detailing the transactions and who incurred the charges, there is not sufficient documentation to determine if the charges were valid and in compliance with the county's administrative code. In addition, without proper documentation, fraudulent charges could occur and not be detected.

Good internal controls dictate that adequate supporting documentation be maintained for all credit card transactions. Adequate supporting documentation for credit card transactions is the original invoice, and not the credit card statement. We recommend credit card statements presented for payment include the original invoices that support each transaction shown on the credit card statement. We further recommend the fiscal court not approve payment of any claims that lack sufficient supporting documentation, including original invoices. We remind the fiscal court that use of credit cards is a convenience only, and without adequate oversight, creates greater opportunity for fraud to occur.

County Judge/Executive's response: Proper documentation is now being kept on credit card expenditures.

The fiscal court expended more than 65 percent of both the road fund budget and local government economic assistance (LGEA) fund budget during the first half of the fourth fiscal year, which is an election year. The fiscal court expended more than 65 percent of both the road fund budget and local government economic assistance (LGEA) fund budget during the first half of the fourth fiscal year, which is an election year. The fiscal court and other county administrative personnel, including the FY 2014-2015 treasurer and county judge/executive, did not monitor the budget and spending to ensure compliance. Auditors compared the approved budget, less budgeted debt service, to the disbursements, less any debt service payments or grant disbursements. The road fund expended 85 percent of the approved budget prior to December 31, 2014. The county expended 71 percent of the approved budget of the LGEA fund prior to December 31, 2014. The road fund overspending was not offset with a sufficient general fund balance. Since the fourth fiscal year is an election year, exceeding the 65 percent limit could impact the incoming officials' ability to operate county government, due to limited resources, for the remainder of the fiscal year.

KRS 68.310 limits expenditures of funds other than the road fund for the first half of any fourth year, except in the case of an emergency approved in writing by the Department for Local Government. If road fund disbursements exceed 65 percent of the amount budgeted, "the fiscal court shall assure that there are sufficient funds remaining in the general fund to provide for the excess encumbrance or expenditure from the road fund on a dollar for dollar basis." We recommend the fiscal court ensure that disbursements remain under 65 percent of the budget during any fourth year to remain in compliance with KRS 68.310.

County Judge/Executive's response: No response.

The general fund owes the road fund \$146,905 from prior years' misuse of restricted funds. From fiscal years 2011 through 2014, restricted road funds were used for purposes other than permitted by law. The county judge/executive, former treasurer, and fiscal court did not monitor road fund spending for permitted disbursements. The general fund has a cumulative liability to the road fund of \$146,905. The road fund, in turn, has a receivable from the general fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, but the liability is still owed. Road funds can only be spent on roads, except for the amount approved by Department for Local Government (DLG) on the Road Cost Allocation Worksheet. Each year from fiscal year 2011 through fiscal year 2014, restricted road funds were spent on items in excess of the amount approved by DLG. We recommend the general fund liability be repaid to the road fund as soon as money becomes available in order to ensure restricted road funds continue to be made available to the county.

County Judge/Executive's response: The fiscal court will repay the Road Fund liability as soon as possible.

The jail fund owes the local government economic assistance (LGEA) fund \$21,795 from prior years' misuse of restricted funds. The jail fund owes the local government economic

assistance (LGEA) fund \$21,795 from prior years' misuse of restricted funds. In Fiscal Year 2010, restricted LGEA funds were transferred to the jail fund in excess of the approved amount. The jail fund has a cumulative liability to the LGEA fund of \$21,795. The LGEA fund, in turn, has a receivable from the jail fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, but the liability is still owed. KRS 42.455(2) specifically prohibits the expenditure of LGEA funds for the administration of county government. LGEA funds can only be spent on specific categories listed in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. Some LGEA funds can be used for categories in the jail fund, however in this case LGEA funds that were restricted to roads were transferred to the jail fund and spent. We recommend the jail fund liability be repaid to the LGEA fund as soon as money becomes available in order to ensure restricted LGEA funds continue to be made available to the county.

County Judge/Executive's response: The fiscal court will repay the LGEA Fund liability as soon as possible.

The fiscal court did not follow the procurement policy for bid purchases as written in the county's administrative code. The fiscal court accepted multiple bids for fuel, pipe, gravel, and asphalt, rather than accepting only one bid for each type of material as required by the county's administrative code. It is not clear why the fiscal court did not follow the procurement policy as written in the county's administrative code. Accepting multiple bids is a way to circumvent the bid process and usually results in greater monetary costs to the county, because the lowest or best bid accepted is not always being used. When vendors do not have to compete for business, there is little or no incentive to provide the best price to customers.

The county's administrative code procurement policy states "...the County Judge shall open all bids publicly at the time and place stated in the advertisements and shall select the lowest and or best bid by qualified bidder. If the lowest bid is not selected the reasons for the selection shall be stated in writing. The County Judge shall submit the bid selected to fiscal court for the approval." We recommend fiscal court members familiarize themselves with the procurement policy as written in the county's administrative code and follow the requirements of the policy when bidding for purchases.

County Judge/Executive's response: The Fiscal Court will only accept one bid in the future as required by the County Administrative Code.

Timesheets were not always prepared, signed, and approved prior to payment. During our test of payroll, we noted the road supervisor is not regularly submitting a timesheet. When a timesheet was submitted, it was unsigned. Occasionally timesheets for other employees were not signed by the employee or by an approving authority. The road supervisor has stated he is not required to maintain a timesheet. County administrative personnel who process payroll are not requiring timesheets from the road supervisor, and also are not requiring timesheets to be signed by the employee and reviewed by a supervisor. Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. Actual hours worked cannot be verified without timesheets. If timesheets are maintained and not signed by the employee and a supervisor, the validity of the time could also be in question should an issue

arise. KRS 337.320 requires every employer to maintain a record of: “(a) [t]he amount paid each pay period to each employee [and] (b) [t]he hours worked each day and each week by each employee[.]” All county employees, with the exception of elected officials, should submit timesheets to document their time worked and leave time used. To ensure compliance with KRS 337.320, we recommend all employees, other than elected officials, complete a timesheet. We further recommend the fiscal court designate an employee or employees to review timesheets prior to payment for hours worked, accuracy of calculations, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

County Judge/Executive’s response: No response.

An employee was not paid the salary approved by the fiscal court. On May 21, 2015, the Elliott County Fiscal Court approved hiring a temporary clerical worker at a pay rate of \$9 per hour to complete the necessary FEMA paperwork. However, this employee was paid \$10 per hour. The employee stated she was told the rate of pay would be \$10 per hour when she was offered and accepted the job. The county judge/executive’s office also stated the employee was promised \$10 per hour, even though that was not the approved rate of pay. The fiscal court incurred costs that exceeded the approved amount. Doing so created the opportunity to overspend the budget and was also a violation of the fiscal court’s authority per KRS 64.530 to set employees’ salaries. KRS 64.530(1) and KRS 64.535 give the fiscal court the authority to fix the reasonable compensation of every county employee, with some exceptions. Those exceptions are the county judge/executive, county clerk, jailer who operates a full service jail, sheriff and the employees of county clerk’s and sheriff’s offices. We recommend all employees hired be paid in accordance with the salary set by the fiscal court. Normally, salaries are set at the beginning of a fiscal year. When employees are hired during a fiscal year, the salary is normally set by the fiscal court at the time of hire. We recommend the fiscal court and county administrative personnel establish procedures to ensure salaries being paid to employees are in accordance with the salaries set by the court.

County Judge/Executive’s response: Employees hired in the future will be paid in the amount approved by the fiscal court.

The road supervisor’s employer-provided vehicle was not included as a taxable fringe benefit. The road supervisor drives an employer-provided vehicle for personal purposes that has not been included as a taxable fringe benefit on his W-2 form. The fiscal court and those preparing the W-2 forms were not aware of the Internal Revenue Service (IRS) requirement to report the road supervisor’s employer-provided vehicle use as a taxable fringe benefit. The road supervisor has been receiving an employer-provided taxable benefit without paying the required taxes on the benefit. According to IRS Publication 15-B, an employer-provided vehicle should be included as a taxable fringe benefit for most employees. The exception would be any vehicle the employee isn’t likely to use more than minimally for personal purposes because of its design. The county’s unmarked pickup truck used by the road supervisor does not meet the IRS criteria for exception because it has not been specifically modified in a way that would restrict personal use. We recommend the fiscal court review the IRS regulations and take appropriate action to ensure the taxable fringe benefit is included on the road supervisor’s W-2 form, as long as he is provided a county vehicle to use for personal purposes.

County Judge/Executive's response: The current treasurer will include a taxable fringe benefit on the Road Supervisor's W2.

Employer's quarterly federal tax return 941 forms were not filed with the Internal Revenue Service. Employer's Quarterly Federal Tax Return (941 forms) are required to be filed with the Internal Revenue Service (IRS) quarterly. The 941 forms report the federal income tax withheld from employees, the social security and Medicare taxes withheld from employees, and the social security and Medicare employer matching taxes due to the IRS. The forms also recalculate the withholdings and matching to determine the correct amount that should have been submitted by the employer. That total is compared to the payments received by the IRS after each pay period during that same quarter. Only the September 30, 2014 quarterly 941 form was filed. December 31, 2014; March 31, 2015; and June 30, 2015 quarterly 941 forms were not filed with the IRS. We have been unable to determine a cause as to why the 941 forms were not filed. Payments were made to the IRS after each payroll, as required. However, without the 941 forms being filed, the IRS cannot determine if the payments received during the quarter were the correct amount of taxes owed for that quarter. On June 8, 2016, the IRS sent a letter to the county requesting filing of the three quarterly reports from FY 2014-2015, along with the December 31, 2013; June 30, 2014; September 30, 2015; and March 31, 2016 quarterly 941 forms. The IRS also included 941 forms they had prepared; all of these indicated balances due from the fiscal court. Whether or not the fiscal court actually owes additional funds to the IRS is undetermined at this time, as no action has been taken on this issue. Employer's Quarterly Federal Tax Return filings are required by the IRS to ensure accountability for all federal taxes. As of October 20, 2016, this issue has not been corrected with the IRS. We recommend the fiscal court take necessary steps to correct the ongoing problem of 941 forms not being filed with the IRS. The fiscal court should also ensure 941 forms are correct when they are filed. Failure to file correct and timely 941 Forms will likely result in significant penalties being charged to the fiscal court by the IRS.

County Judge/Executive's response: The current treasurer is working on getting previous 941's filed and they will be filed timely in the future.

The fiscal court lacks adequate segregation of duties and internal controls over receipts, disbursements, payroll, and record-keeping functions and lacks a designated finance officer. The fiscal court lacks adequate segregation of duties and internal controls over receipts, disbursements, payroll, and record-keeping functions. In addition, the fiscal court does not have a designated finance officer. The treasurer posts receipts and disbursements, issues purchase orders, processes payroll, prepares bank reconciliations, and prepares monthly reports for the fiscal court and for the Department for Local Government (DLG). In the absence of a designated finance officer, the county judge/executive could perform the finance officer's duties. The county judge/executive and the fiscal court are not providing compensating controls by documenting their review of the county treasurer's work. A lack of adequate segregation of duties and internal controls can result in undetected misstatement and inaccurate financial reporting. To adequately protect assets, effective internal controls require segregation of duties involving deposit preparation, recording of receipts, reconciling the bank account, and preparation of payroll. Additionally, proper segregation of duties protects employees in the

normal course of performing their daily responsibilities. Good internal controls dictate that duties should be adequately segregated or compensating controls implemented to ensure accurate financial reporting. We recommend the county segregate incompatible duties or implement strong compensating controls to mitigate risks. If duties cannot be adequately segregated due to a limited number of staff, compensating controls are necessary. The fiscal court could implement the following compensating controls:

- An independent employee could prepare a list of daily receipts and compare to the treasurer's deposits and receipts ledgers. The comparison should be documented.
- An independent employee could review the treasurer's bank reconciliations for accuracy and compare to the ending fund balances. The review should be documented on the bank reconciliation.
- An independent employee could review payroll reports prior to distribution of payroll checks. The comparison should verify amounts such as gross wages, withholding amounts, amounts transferred to the payroll revolving accounts and should be documented on the applicable payroll reports.

The county judge/executive or a designated employee could match purchase orders to checks and invoices before presenting to fiscal court for payment. This should be documented by canceling purchase orders and invoices so that they are not paid twice. Also, check numbers should be compared to the check register to verify they are posted to the correct account code.

County Judge/Executive's response: The fiscal court will segregate duties or implement compensating controls over receipts, disbursements, payroll, and record keeping functions in the future.

The fiscal court lacks internal controls over the payroll revolving accounts. Testing of the payroll revolving account and tax deposit account indicated the following:

- Monthly bank reconciliations are not prepared for either account.
- June 30, 2015 payroll checks began clearing the bank on June 30, 2015, however, the deposit to cover this payroll was not made until July 10, 2015.
- An employer's quarterly federal tax deposit for a February 2015 pay period was not made until August 25, 2015.

Procedures are not in place to ensure that monthly payroll bank reconciliations are prepared. There are also no procedures to ensure payroll is not distributed prior to deposit of funds and that tax deposits are made timely. The lack of internal controls increases the risks of undetected errors, such as those already described. There is an unexplained balance in the payroll revolving account of \$2,451. The county needs to determine if these funds are owed to any obligation, or if they should be returned to the county, and if so, to which fund or funds. Without internal controls in place over the payroll revolving accounts, the county runs the risk of overdrawing the account and potentially causing employees to not be paid timely. When late payments occur, such as to the IRS, the county runs the risk of incurring penalties, which is an additional cost to the county. Also, the county risks employees having benefits cancelled due to late payment. Revolving accounts should reconcile to zero each month, since the deposits to the account are all

for payroll obligations; e.g. salaries/wages, withholdings, or other benefits. Ledgers are not usually maintained for revolving accounts, therefore the monthly bank reconciliation is vital to determining if any errors have occurred. We recommend county administrative personnel improve internal controls over the payroll revolving accounts by implementing the following procedures:

- Monthly reconciliations of the payroll revolving account and the tax deposit account and resolution of any unexplained balances in the accounts.
- Monthly bank reconciliations should be reviewed by someone other than the preparer.
- Payroll checks should not be released before the payroll deposit has been made.
- Payments for all obligations of the payroll revolving account and tax deposit account should be made timely.

County Judge/Executive's response: The current treasurer is reconciling the payroll revolving account and the tax deposit account and ensuring the payroll checks are not being released prior to the deposit being made into the payroll account.

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

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