



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Estill County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the single audit of the Estill County Fiscal Court for the fiscal year ended June 30, 2016. 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 Estill 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.

In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have issued an unmodified opinion on the compliance requirements that are applicable to Estill County Fiscal Court's major federal program.

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 fiscal court did not follow proper procedures for disbursements. Procedures regarding the documentation, preparation, and authorization of disbursements were not adequate for items tested and resulted in the following findings:

- Ten invoices totaling \$677,110 were not paid timely within 30 days; including an invoice for \$409,000 that was not paid within 90 days.
- Two trucks, purchased for \$39,800, with two checks to the same vendor on the same day were not bid.

- Eighteen checks were not signed by the treasurer, but by another individual that had been given signature authority at the bank, during an extended absence of the treasurer and after her return.
- Six checks totaling \$81,400 were not approved by the fiscal court.
- One invoice for \$12,500 was not supported by a purchase order approved by the fiscal court.

Basic internal controls require that adequate original supporting documentation should be maintained for all disbursements and that approval be obtained before payment. All purchase orders should be approved and issued before the work or service is performed. Original invoices should be maintained with supporting documentation, agreed to the corresponding purchase orders, cancelled upon payment, and paid within thirty days. Duties should be adequately segregated to ensure that no one person has complete control over the fiscal court financial activity.

Without purchase orders and invoices with adequate information, there is not proper justification for the disbursement. All purchase orders should have the approval of the department head and/or county judge/executive (or their designee). Adequate, original documentation should be provided and reviewed to ensure all expenditures are valid obligations of the county.

The State Local Finance Officer, given the authority by KRS 68.210, requires all disbursements to be accompanied by a purchase order, within budgeted amounts, and sufficiently documented.

Guidance regarding fiscal court approval is outlined in KRS 68.275(2) which states “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment. . .” Failure to adhere to the guidelines increases the risk that disbursements will be materially misstated or funds will be misappropriated.

KRS 68.010 allows the fiscal court to appoint an acting treasurer during the extended absence of the treasurer. “If, at any time, the county treasurer is unable to perform the duties of this office because of illness, physical or mental incapacity, or other cause beyond her control for more than thirty (30) days. . .then the fiscal court shall appoint, at either a regular term or a special term called by the county judge/executive, an acting county treasurer to serve until the current county treasurer is able to resume the performance of his duties. . . As soon as the treasurer is reinstated, the acting county treasurer shall cease to act as county treasurer and shall turn over to the county judge/executive all records and accounts and shall make a final settlement with the fiscal court within thirty (30) days.”

KRS 65.140(2) states that “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.” If payment of invoices exceeds 30 days, a one percent interest penalty should be added.

Competitive bidding ensures that the fiscal court procures materials and services at the best price available. KRS 424.260 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 materials, supplies except for perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” In addition, the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* states, “[a]ll contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records.”

We recommend the fiscal court implement proper accounting procedures and internal controls over disbursements. The fiscal court should maintain purchase orders, original invoices and supporting documentation, and ensure that all disbursements are approved by the fiscal court and that all checks are signed by the county treasurer.

We also recommend the fiscal court ensure that all invoices are paid within 30 days as required by KRS 65.140. All department heads should be instructed to date stamp invoices when received to help ensure that payment is made timely.

We further recommend the fiscal court follow the requirements of KRS 424.260 and properly advertise and award bids for all purchases over \$20,000 or purchase items from state contract vendors. Every purchase should have adequate supporting documentation, which includes bid documentation.

County Judge/Executive’s Response: That was 2 different purchases that the court agreed to.

County Treasurer’s Response: After reviewing my timecards, I have found that I was absent on the dates of the checks.

Auditor’s Reply: No corrective action plan was provided.

The fiscal court did not report encumbrances on the fourth quarter financial report. The fiscal court did not report encumbrances on the fourth quarter financial report as required by the Department for Local Government (DLG). KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarter financial report. Not reporting encumbrances will reflect inaccurate cash balances and fail to alert management to any possible cash flow issues. We recommend the fiscal court maintain a listing of the outstanding purchase orders that support the encumbrance total and report encumbrances on the fourth quarter financial report.

County Judge/Executive’s Response: Working on improving.

County Treasurer's Response: This finding has been repeated in prior audit. Fiscal court does have a manual purchase order system in place, head of departments must call in to receive number for each purchase. Fiscal court finances are maintained via [vendor] software which has purchase order with tracking system, however purchase orders are issued manually at this time.

Auditor's Reply: No corrective action plan was provided.

The jail did not maintain adequate accounting controls over the jail commissary fund. We found that the inmate account receipts collected at the jail were not deposited on a daily basis. Daily deposits are required by the minimum accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210. Deposits were made at the jailer's discretion, at the middle and end of each month, during the fiscal year. The jail receives a significant amount of cash receipts. Due to the high risk associated with cash, it is crucial that the jailer make daily deposits. KRS 68.210 requires the State Local Finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires that daily deposits be made intact to a federally insured financial institution.

Also, the jailer did not prepare and present a financial statement for the commissary account to the county treasurer for fiscal year 2016. And during the fiscal year, the jail did not reconcile monthly bank statements.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual*, under "Jail Commissary Fund" instructions provides minimum accounting and reporting standards. It requires a jail commissary year to date summary compiled with information obtained from receipts and disbursements journals. The ending balance reported on the summary is reconciled to the bank balance. This summary is sufficient to use as the required year-end report that is to be submitted to the county treasurer. Also, an independent person should reconcile the bank account monthly to the receipts and disbursements ledgers.

We recommend the jailer make it a practice to deposit inmate account receipts on a daily basis and reconcile bank statements each month. At fiscal year-end, a detailed and accurate financial statement should be compiled using financial information from receipts and disbursement journals. The ending balance should be reconciled to the bank balance. It is further recommended that this report be submitted to the county treasurer as the year-end report.

County Jailer's Response: Commissary money shall be deposited in a more timely manner. Shall give end of year report to treasurer.

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

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