



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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### **Harmon Releases Audit of Estill County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Estill County Fiscal Court for the fiscal year ended June 30, 2018. State law requires annual audits of county fiscal courts.

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement. Because of the issues described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Audit evidence indicated intentional override of internal controls by management and employees that had a potentially material effect on the financial statement. The Estill County Fiscal Court had serious weaknesses in the operation of its internal control procedures and failed to implement effective oversight and review procedures to prevent and detect errors, misstatements, and fraud in the county's financial activities. The absence of effective internal controls, oversight, and review procedures created an environment in which funds were misappropriated and financial records were manipulated. 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 significant of these issues, in the aggregate, prevents us from placing reliance on the financial activities contained in the Estill County Fiscal Court's Fourth Quarter Financial Statement and from expressing an opinion on the financial statement of the Estill County Fiscal Court.

Because of the significance of the issues 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.

This report will be referred to the Office of the Attorney General (OAG) and the Kentucky State Police (KSP).

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 comments:

**The Estill County Fiscal Court's internal control environment is ineffective:** This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The fiscal court and management failed to establish adequate internal controls, oversight, and review procedures for material financial processes, namely for information technology, receipts, disbursements, and payroll. Additionally, management intentionally circumvented existing controls. The fiscal court has numerous internal control and non-compliance issues that are discussed in detail in Findings 2018-002 through 2018-017 that result in significant errors, misstatements, violations of statutes, and violations of the Estill County Administrative Code. Furthermore, there is no assurance that transactions processed are allowable, adequately supported, and a proper use of taxpayer funds.

Management did not adequately assess and identify risks associated with inadequate segregation of duties over revenues, expenditures, and payroll. Management was aware of non-compliance issues reported in previous audit reports. Management failed to implement effective corrective action procedures to ensure these issues did not continue. The lack of corrective action resulted in repeat findings and numerous significant issues.

Failure to establish adequate controls, oversight and review procedures increases the risk that undetected fraud or other errors will occur. The combination of the findings reported results in a control environment that is ineffective to produce financial information that is complete, accurate, and free from material misstatement. Furthermore, management circumventing existing controls resulted in misappropriated taxpayers funds.

Due to the pervasiveness of inadequate controls, management's intentional override of existing controls, and lack of oversight/review of significant processes, we cannot issue an opinion on the financial statement. Auditors expanded testing in all areas to address the risks noted, but our procedures could not overcome the risk of undetected errors, fraud, and misstatements and we cannot place reliance on the financial data. A disclaimer of opinion will be issued.

It is the fiscal court and management's responsibility to ensure adequate internal controls and procedures are in place to ensure complete and accurate financial reporting and to ensure taxpayers resources are used efficiently, effectively, and for intended purposes. There are numerous statutes and requirements outlined in the Department for Local Government's (DLG) *County Budget*

*Preparation and State Local Finance Officer Policy Manual* that govern county operations and are detailed in the current year findings.

We recommend the fiscal court and management review all current year findings and determine adequate corrective action to ensure the issues will be corrected timely. Further, we recommend the fiscal court and management review all internal control processes to address any weaknesses noted and implement policies and procedures to ensure financial information is complete, accurate, and free of material misstatement.

*County Judge/Executive's Response:*

1. *Implemented better Purchase Order system.*
2. *Claims are reviewed by Finance Officer and Treasurer, presented to Judge and Fiscal Court for review and approval, before payments are made.*
3. *Reconciling payroll account (reports, deductions, CERS, time cards, vacation/holiday/sick time) to identify balance.*
4. *Receipts – Implemented more structured reporting from Animal Shelter and Senior Center.*
5. *Implementing more structured reporting of Occupational Tax receipts (working on current and past records). Changed Occupational Tax personnel and utilizing [vendor name redacted] software for more accurate reporting.*
6. *Added and identified line items better in new budget, educating personnel for better coding of items.*
7. *Changed passwords and access to financial software programs.*
8. *All financial statements and quarterly reports are presented to Fiscal Court for their review and approval.*
9. *All bids are advertised as required, reviewed and awarded or denied by Fiscal Court. (Recommendations are received from departments involved.)*

*NEW JUDGE, FISCAL COURT, TREASURER AND FINANCE OFFICER – We are working together to address issues as we become aware of them and to improve all day to day operations; and seek the advice of COUNTY ATTORNEY on a regular basis. Also seek guidance from DLG and auditors as questions arise.*

**The fiscal court does not have adequate controls over the financial accounting software program:** This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The fiscal court utilizes a financial accounting software program to post financial transactions. This system is shared among several employees on a computer network. The employees that have access to this system do not have unique user names and passwords. One username and password is shared among several employees.

Management failed to identify the risk associated with financial accounting data and failed to implement adequate policies and procedures to protect such data and ensure that it is complete, accurate, and free of material misstatement. Shared usernames and passwords increases the risk that undetected fraud, errors, and misstatements will occur. Without proper controls over financial data, it is harder to determine which employees are responsible for problems that may arise. Employees are also in violation of the county's administrative code as it pertains to passwords.

The Estill County Administrative Code page 49 under “Password Selection” states, “ 1. Select a Password, which will be a minimum of 6 characters in length. 2. Passwords are not to be posted or available in any way to staff other than the individual to whose account the password applies. 3. Passwords are to be unique. 4. Passwords are to be changed on frequent intervals. 5. Passwords must not be so common or obvious as to be easily guessed by another individual. 6. If you suspect your password has been infiltrated you must report it to the Information Systems Director immediately.”

Further, strong internal controls require each employee to have a unique user name and password that is changed at regular intervals. Computer programs should have a log that lists changes to data and the person performing such changes so that an appropriate level of management can periodically review to ensure all changes are necessary and approved. Furthermore, passwords should never be shared among employees and employees should be restricted to certain parts of the program they can access based on their job duties.

We recommend the fiscal court review the policies and procedures regarding computer information and implement adequate controls to ensure data is complete, accurate, and free of material misstatement.

*County Judge/Executive’s Response: We have four (4) software programs: [names redacted]. Each program has a different password (areas within each program are password protected). Treasurer has access to all programs. Finance Officer has access to areas she uses on a regular basis. Occupational Tax assistant has access to Fiscal Tax only.*

*We are talking with IT support for backup and more secure computer network – will implement soon.*

**The Estill County Fiscal Court failed to implement adequate internal controls and oversight for disbursements:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-003. Our tests of disbursements included an examination of 154 disbursements from the county’s operating funds. We noted numerous non-compliance issues:

- Eight disbursements totaling \$46,048, or about 5% of our test sample, did not have appropriate supporting documentation
- Nine disbursements totaling \$118,355, or about 6% of our test sample, did not have proper signatures on cancelled checks. These 9 disbursements were signed by the former county judge/executive and the former deputy county judge/executive. The former deputy county judge/executive was an authorized signatory on the county’s bank accounts, however, this signatory designation was to be enacted in absence of the former county judge/executive, not the former county treasurer.
- Nine disbursements totaling \$15,990, about 6% of our test sample, were not presented to the fiscal court before payment
- Forty-seven disbursements totaling \$1,148,658, about 31% of our test sample, were not paid timely (within 30 working days of receiving the invoice or bill), some of which were more than 12 months overdue.

- One hundred one disbursements totaling \$1,263,912, about 66% of our test sample, did not have a purchase order. Of the transactions that did have a purchase order, many were vague, did not have an accurate description of what was being purchased, account codes listed were incorrect, and estimated amount of purchase was not included. Additionally, encumbrances (i.e. outstanding purchase orders) were not tracked, totaled, and included on the year-end financial report.
- Bidding requirements were not followed. The fiscal court did not follow competitive bidding requirements for four different types of goods (rock, asphalt, CAD dispatch viewer & hardware, and enviropatch liquid) that were purchased from three vendors.

The fiscal court did not implement adequate procedures and oversight regarding the documentation, preparation, and authorization of disbursements. The county's administrative code outlines proper procedures for disbursements. However, management overrode these procedures and the fiscal court did not exercise adequate oversight to ensure these procedures were being followed. The former finance officer received, processed, and maintained all supporting documentation for disbursements.

The former county judge/executive and former treasurer did not review supporting documentation, including purchase orders, before signing checks printed by the former finance officer. In addition, neither fiscal court members nor management reviewed invoices or bank statements to ensure proper procedures had been followed including: all disbursements included proper signatures, were properly recorded, were included on the claims list that had been presented to the fiscal court, were paid timely, were supported by a properly executed purchase order, and were in compliance with competitive bidding requirements. Management was aware that purchase orders were required for all purchases and that encumbrances must be reported on the year-end financial statement, but did not adhere to these requirements.

The absence significant review procedures or oversight also allowed numerous invoices to not be processed timely and this occurred without detection or knowledge of the fiscal court. Another contributing factor to untimely payments was the absence of an effective purchase order system, which allows management to track outstanding obligations to ensure commitments are not made in excess of available resources/fund balances. Some invoices were not paid timely simply because the funds were not available when the invoice was received.

The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance, violations of statutes, and violations of the county's administrative code as reflected above. The lack of proper accounting practices, internal controls, and oversight increases the risk that undetected misstatements and fraud will occur.

Failure to present a complete and accurate claims list to the fiscal court results in the fiscal court being unaware of all financial activity being processed, which can impact their decision making abilities and impairs the ability to effectively oversee financial activity.

Failure to pay obligations timely is indicative of poor financial management practices and can result in late fees and finance charges, which are a wasteful use of taxpayer resources. We noted \$6,609 of late fees and finance charges that were incurred. It is also a violation of statute for failure

to pay invoices within 30 working days of receipt of the invoice or bill. One contractor filed suit against the county for nonpayment of outstanding invoices. An agreement was reached between the county and the contractor to set up a payment schedule to satisfy the obligation without further legal proceedings.

The risk of overspending the budget or spending in excess of funds available increases significantly without an effective purchase order system in place. Failure to report encumbrances results in inaccurate cash balances reported on the year-end financial statement and can lead to improper financial decision making by the fiscal court. It is also a violation of Department for Local Government (DLG) regulations for disbursements to be processed without a purchase order and for failure to report encumbrances on the year-end financial statement.

Without proper procedures in place to mitigate the risks discussed above, the fiscal court is exposing public resources to potential misstatements and fraud. Due to the pervasiveness of the non-compliance issues noted above (among other issues outlined in other findings), a disclaimer of opinion was issued on the financial statement for the fiscal year ended June 30, 2018.

Effective internal controls provide for adequate segregation of duties and prevent the same person from having a significant role in incompatible functions. Segregation of duties and proper oversight helps prevent fraud or misappropriation of assets and protects employees in the normal course of performing their daily responsibilities. Effective internal controls and proper oversight also help ensure compliance with laws, regulations, grant agreements, etc.

The most basic requirement of strong internal controls is to maintain adequate supporting documentation to substantiate disbursements. Additionally, KRS 68.020 (1) states, “[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, and shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefor.”

Regarding proper signatures on checks, the Estill County Administration Code, page 12, states “[t]he depositor of Estill County funds shall not honor any warrant on the county unless it is signed by both the County Judge Executive and the County Treasurer. In the absence of the Judge Executive, the Deputy Judge Executive may sign.” Further, KRS 68.020(1) states, “[a]ll warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive.”

Guidance concerning presentation of disbursements (i.e. a claims list) to the fiscal court is outlined in statute and in the county’s administrative code. KRS 68.275(2) says, “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.” According to the Estill County Administration Code page 12, “(A) The Judge Executive shall account for all claims against the county. (B) All claims for payment from the county shall be filed in writing with the Judge Executive. (C) Each claim shall be recorded by date, receipt and purchases order number and

presented to the Fiscal Court at its next meeting. (D) Each order of Fiscal Court approving a claim shall designate the budget fund and classification from which the claim will be paid and each warrant shall, specify the budget fund and classification.”

KRS 65.140 stipulates timely payments to vendors by stating, “[u]nless the purchaser and vendor otherwise contract, all bills for goods and 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.”

Purchase order requirements are outlined by DLG. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual*, page 57, requires purchasing procedures include the following:

1. Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
3. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
4. Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

Furthermore, KRS 68.360(2) states “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund....”

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, page 52 of the Estill County Administrative Code under “Bid and Award Procedures” states A. Requests for goods and/or services which cost less than twenty thousand dollars (\$20,000.00) or are on an annual bid, or for which there exists a State pricing contract, are not required to be purchases through the competitive bidding procedure. However, the competitive bidding procedure may be used at any time to obtain competitive pricing. When the competitive bidding procedure is desired, the Department Head must have the Judge Executive’s approval prior

advertising for bids. B. The Judge Executive advertises for bids in the newspaper of jurisdiction in the County at least once, not less than seven days, nor more than twenty-one days before bid opening. The advertisement shall include the time and place the bids will be delivered and opened, and will also include the place where the specifications may be obtained. C. The Judge Executive shall open all bids publicly at the time and place stated in the advertisement. Opening of bids need to occur at a fiscal Court meeting. D. The Judge Executive checks against the specifications to insure that all bids are considered on an equal basis and to insure that all bids meet the minimum specifications. After analyzing each bid with the assistance of the particular Department Head or other expert, the Judge Executive creates a written recommendation as to the best bid by a responsible bidder. The Fiscal Court then decides whether or not to award the bid. If the lowest bid is not selected, the reasons are to be stated in writing. The Fiscal Court may choose to reject all bids if none are satisfactory. E. At the time of bid, the bid must be delivered to Fiscal Court with Proof of Insurance, and at least two references. F. All bidders are notified in writing of the Fiscal Court's action by the Judge Executive. G. The Judge Executive, with the assistance of Department Heads, shall annually prepare a list of supplies and materials that the County expects to purchase where the value of which is \$20,000 or more. This list shall be made available to vendors who will be requested to submit their bids for such items for the forthcoming fiscal year. Vendors need not bid on all items. Items on which the County may expend less than \$20,000.00 during a fiscal year, but for which it may nevertheless be desirable to solicit competitive bids, may also be a part of the annual bid process. The County will purchase annual bid items from the winning vendors during the course of the fiscal year, provided however that a lower or better price is not discovered at some point in time after annual bids have been awarded. Winning vendors may adjust their prices down from that offered in a winning bid, but they may not increase their prices above their bid. H. The County may at its discretion require a bid bond, certified check, or other guarantee from vendors as insurance to the County that the material or service will be provided as specified in the bid advertisement. Bid bonds, certified checks, or other guarantees from unsuccessful bidders will be returned promptly. Successful bidders will have their bid bond, certified check, or other guarantee returned upon successful completion of the project or delivery of goods."

We recommend the fiscal court implement adequate, effective internal control procedures for disbursements, including segregation of duties, to address each of the areas previously discussed. Additionally, strong management oversight and review procedures should be implemented to prevent and detect errors or fraud.

Effective review procedures could be achieved if performed by an employee independent of the person or department initially performing those functions. All oversight and review procedures must be properly documented by initialing source documents, ledgers, reports, or other supporting documentation.

*County Judge/Executive's Response: Purchase Orders are required for all purchases. All invoices must be signed by person receiving merchandise or a signed delivery ticket documenting receipt attached to invoice. Invoices are checked for P.O.s, signed receipt of and correct amounts before they are entered in claims. Claims are then presented to Fiscal Court for review and approval. No claims are paid without Fiscal Court approval. Any preapproved claims with questions are presented to Judge and/or Fiscal Court (example higher than normal/duplications).*



*Only authorized county employees can make purchases for the county and then only with PO.*

*Purchase order process is not a choice, it is mandatory – PO must be specific with account codes and estimated amount of purchase.*

*We are utilizing [vendor name redacted] to issue PO's; all encumbrances are tracked and on financial statement. We know immediately upon issuance if line item is over budget.*

*Claims must be accompanied by an invoice and verified before being presented to Fiscal Court for approval for payment. We try to pay everything in a timely manner.*

*Bidding – Competitive bidding process is being followed. Fiscal Court approves all bids before awarding bid.*

*All checks are co-signed by the Judge and Treasurer. NO BLANK CHECKS ARE SIGNED*

**The fiscal court did not have adequate controls and oversight for credit card purchases:** This is a repeat finding and was included in the prior year audit report as Finding 2017-007. The county utilized two credit cards for various purchases. One was a general credit card and one was a store specific credit card. None of the transactions for the general credit card were presented to the fiscal court on a claims list and none had properly executed purchase orders. Most, but not all, of the transactions on the store specific card were presented to the fiscal court on a claims list. We noted numerous questionable items purchased on these cards – purchases that are potentially personal in nature and multiple purchases of like type items (tools, drill kits, etc.) for which the inventory could not be located. For all questionable purchases (totaling \$3,739), the receipt was signed by the former county judge/executive. Below is list of questionable purchases noted on credit cards:

| Quantity | Description  | Price              |
|----------|--|--------------------|
| 1        | Kobalt 24 Volt Max 1/2-in Drive Cordless Impact Wrench   | 236.55             |
| 1        | Werner D1200 Aluminum 24-ft Type 2 - 225 lbs. Extension Ladde  | 141.55             |
| 2        | Screen Tight White Decorative Screen Door  | 188.10             |
| 3        | 3 Project Source 10001 Left-Operable Vinyl New Construction White Exterior Sliding Window              | 108.30             |
| 15       | Severe Weather (Common: 2-in x 8-in x 10-ft; Actual: 1.5-in x 7.25-in x 10-ft) #2 Prime Treated Lumber | 163.35             |
| 3        | Valspar Duramax Semi-gloss Exterior Paint (Actual Net Contents: 126-fl oz)                             | 94.41              |
| 1        | Kobalt 15-Piece Standard (SAE) 1/2-in Drive Shallow 6-point Impact Socket Set                          | 47.49              |
| 5        | Severe Weather (Common: 2-in x 8-in x 12-ft; Actual: 1.5-in x 7.25-in x 12-ft) #2 Prime Treated Lumber | 64.40              |
| 1        | Blue Hawk 12-ft Welded Powder Coated Steel Chain   | 28.49              |
| 1        | SHEETROCK Brand 3.5-Gallon Premixed Lightweight Drywall Joint Compound                                 | 13.24              |
| 1        | Paper Joint Tape   | 1.88               |
| 2        | Amerimax Aluminum K Style Gutter Seamer  | 9.84               |
| 1        | Hillman #7 x 1/2-in Socket Hex-Drive Sheet Metal Screws (100-Count)                                    | 5.30               |
| 1        | I/O FM 25-Ft Tape  | 18.98              |
| 1        | Kobalt 36-Teeth 1/2-in Drive Quick-Release Flexible Head Ratchet                                       | 66.47              |
| 1        | Kobalt 3-Piece 1/2-in Drive Socket Extension Set   | 19.93              |
| 1        | Grip-Rite Primeguard Ten #8 x 2-1/2-in Polymer Deck Screws (1-lb)                                      | 7.58               |
| 1        | Grip-Rite Primeguard Ten #8 x 3-in Polymer Deck Screws (5-lbs)   | 23.44              |
| 2        | QUIKRETE 60-lb Gray Type - N Mortar Mix  | 8.36               |
| 1        | pressure washer  | 379.06             |
| 1        | hose   | 379.05             |
| 1        | nozzle   | 33.23              |
| 1        | DEWALT 20-Volt Max 2-Amp-Hours Lithium Power Tool Battery  | 84.56              |
| 1        | Kobalt 5-in 24-volt max Brushless Cordless Angle Grinder   | 94.06              |
| 1        | DEWALT 4.5-in 20-volt Cordless Angle Grinder   | 94.06              |
| 1        | DEWALT 4-Pack Zirconia 4.5-in Grinding Wheel   | 9.48               |
| 5        | DEWALT Performance Aluminum Oxide 4-in 60-Grit Grinding Wheel  | 9.40               |
| 2        | Energizer Vision Hd 315-Lumen LED Headlamp (Battery Included)  | 47.44              |
| 2        | 40w decorative light bulb  | 12.32              |
| 1        | 100w led lightbulb   | 11.38              |
| 2        | 60w led lightbulbt   | 15.16              |
| 1        | Kobalt 24-Volt Max 4-Amp-Hours Power Tool Battery  | 47.50              |
| 1        | Kobalt 4-Tool 24-Volt Max Brushless Power Tool Combo Kit with Soft Case                                | 303.05             |
| 1        | Kobalt 2-Tool 24-Volt Max Brushless Power Tool Combo Kit with Soft Case                                | 189.05             |
| 1        | Kobalt 5-in 24-volt max Brushless Cordless Angle Grinder   | 94.05              |
| 1        | Kobalt 7-1/4-in 15-Amp Corded Circular Saw with Brake Magnesium Shoe                                   | 75.05              |
| 1        | Kobalt 21-Piece Set Titanium Twist Drill Bit Set   | 20.88              |
| 1        | Kobalt 54-Piece Steel Hex Shank Screwdriver Bit Set  | 14.23              |
| 1        | Kobalt 2pc Self Adjusting Auto Locking 10-in Tongue and Groove Pliers                                  | 18.98              |
| 1        | LENOX Power Blast 12-Pack Set Demolition Reciprocating Saw Blade Set                                   | 28.49              |
| 1        | Graco LTS 15 Electric Stationary Airless Paint Sprayer   | 283.11             |
| 1        | Kobalt 3-Gallon Portable Electric Hot Dog Air Compressor   | 94.05              |
| 1        | Kobalt 11-Amp Reciprocating Saw  | 75.05              |
| 1        | Graco 30 -in paint sprayer tip   | 36.09              |
| 1        | 12in x 180ft brown masking tape  | 2.83               |
| 1        | Scotch tan 36mm masking tape   | 5.68               |
| 1        | Kobalt 20 pc screwdriver   | 28.48              |
|          | LATE CHARGE  | 5.64               |
|          | <b>TOTAL</b>   | <b>\$ 3,739.07</b> |

The fiscal court did not have adequate internal controls and oversight procedures in place for credit card usage. No one independent of the former judge/executive's office reviewed the detailed credit card receipts to ensure proper use of public funds.

Credit card transactions are inherently risky but can be acceptable if adequate, effective controls are in place. In instances where controls are inadequate and there is little to no oversight, the risk

of misappropriation increases significantly. Due to lack of review and oversight in this situation, potentially improper purchases occurred and were not addressed by the fiscal court. These transactions and the lack of proper internal controls create a high risk of waste, fraud, and abuse and public funds were potentially misspent.

The fiscal court must apply best practices when exercising its fiduciary responsibility to act as agents of the public trust. Strong internal controls over credit card purchases require the county to develop procedures and protocols for credit card use, including authorized users and the types of purchases that can be made with credit cards. Before credit cards are utilized, the authorized purchaser should request a purchase order to include the items to be purchased, an estimated amount, and the account code and fund from which the disbursement will be paid. Basic internal controls over credit cards include requiring a detailed receipt or invoice for each transaction, a review of credit card statements to match receipts/invoices to the statement, and a review of each item purchased. Preferably, these controls should be executed by someone independent of the authorized credit card users. Even if the account code for credit card purchases is included on the pre-approved expenditure list, we recommend all credit card transactions be detailed and submitted to the fiscal court for review.

We recommend the fiscal court implement effective internal controls over credit card purchases and institute rigid oversight and review procedures for all credit card purchases to ensure the purchases are adequately documented and are an appropriate use of taxpayer resources. We will refer this matter to the Kentucky Office of the Attorney General (OAG).

*County Judge/Executive's Response: The only credit cards used by the county at this time are fleet cards for fuel purchases. All cards are assigned to departments, charges are reconciled with statement monthly.*

*Gas cards are only used by Senior Citizens vans, Sheriff Patrol cars, Jail Transport vans, Fire Department vehicles, Coroner van, Rescue vehicles and CSEPP/911 vehicles. Monthly Statements are reconciled with initialed gas tickets turned in from each department on a monthly basis.*

*Currently we are working on establishing a better solution for gas purchases. It is hard to issue POs on an individual basis due to after hour purchases in an emergency situation. (Jail transport, Fire vehicles, Sheriff vehicles are all 24 hour services.)*

**Internal controls over occupational tax collections are not adequate:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-008. Occupational tax collections comprise about 45% of the county's general fund operating revenue – by far the single biggest source of revenue for this fund. Internal controls over occupational taxes are not adequate to ensure amounts reported are complete, accurate, and free of material misstatement due to the following issues:

- Occupational taxes are sometimes batched and posted to the ledgers in a lump sum rather than listing each individual taxpayer.
- Occupational taxes are not reconciled to the ledgers by someone independent of receiving and posting occupational tax receipts.

- Delinquent occupational tax notices are not sent out with any regularity or consistency.
- Records could not be located to support occupational tax payments handled in person (i.e. three part receipt books).
- There are no effective review or oversight procedures for occupational tax collections

The fiscal court failed to adequately assess risk associated with occupational tax collections and has not implemented effective internal controls, review procedures, or oversight for occupational tax collections.

Failure to implement adequate controls over occupational tax collections increases the risk that material misstatements and fraud will occur and go undetected, especially considering occupational taxes comprise such a large portion of general fund revenues.

Strong internal controls over occupational taxes require each transaction be recorded separately so that finding errors, discrepancies, etc. is possible. Additionally, a log or receipt books should be maintained that list each transaction so that a comparison can be made to deposit slips and to the ledgers by someone independent of the receiving and posting functions. Delinquent notices should be sent out regularly and consistently in order to collect amounts owed to the county and to detect any misstatements, errors, or misappropriation of funds. The delinquent notices should direct any questions or concerns to someone independent of occupational tax collections so that discrepancies can be investigated and resolved without risk of alteration of records by staff involved in the collection process.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of deposit tickets, tax returns, and occupational tax ledger by someone independent of occupational tax collections. This could be documented by initialing all supporting documentation after the review is complete.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for occupational tax collections and document the procedures performed that ensure recorded amounts are complete, accurate, and free of material misstatement.

*County Judge/Executive's Response: We have changed Occupational Tax personnel. Returns and receipts are now entered daily. The [vendor name redacted] software is being utilized for better accounting practices. Once we get the past entries current, we will be able to track delinquent and non-compliance returns; allowing us to notify tax payers in a timely and consistent manner. Currently we are working on forms and notifications.*

**Cash collected offsite was missing from deposits:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-009. The animal shelter collects receipts for adoption fees. The animal shelter director issues receipts for these transactions and periodically batches amounts collected to take to the county judge/executive's office for deposit. The animal shelter director lists the total checks and total cash he has collected and gets the county judge's office to

issue a receipt for the funds he remits. Receipts issued to the animal shelter director were signed by either the former deputy judge/executive or the former county treasurer. The checks documented by the animal shelter director were deposited and recorded in the ledgers. Comparison of the animal shelter director's available records and the deposits of animal shelter funds revealed \$4,306 of cash that was accounted for by the animal shelter director but was never deposited into the county's bank accounts after it was turned over to the county judge/executive's office.

Additionally, cash and checks are sometimes collected for rental of the senior citizens center. The senior citizens center supervisor did not keep complete records of rental fee collections. When reviewing the limited number of receipts that were maintained by the senior citizens supervisor, we noted two different cash transactions and one check transaction (totaling \$300) could not be traced to the receipt ledgers or a bank deposit.

Also, when searching for the former county treasurer and former deputy county judge's missing receipt books, one cash receipt for \$220 was found for the sale of culverts. The actual deposit of the cash cannot be traced to the county's receipt ledgers or a deposit. The original receipt books could not be located, therefore, there is the potential there are more in person transactions or culvert sales that were not deposited.

The fiscal court and management failed to implement effective internal controls, review procedures, and oversight for offsite collections, especially as it relates to cash receipts. At least \$4,306 of fees generated from the animal shelter, \$300 generated by the senior citizens center and \$220 from culvert sales may have been stolen or misappropriated and this was undetected by management. Due to lack of records and inconsistent recordkeeping, we could not determine if additional amounts were unaccounted for.

Strong internal controls require three part receipts be maintained for all revenues. All receipt numbers should be accounted for and compared to the total listing of receipts to ensure completeness. Deposits should agree to the batched receipts for cash and check totals. The amounts collected should be accurately reflected in the receipts ledger. Cash collected should be recounted by at least two people, with each signing and agreeing to the amount collected.

Further guidance on issuance of receipts can be found in KRS 64.840, which states, "(1)...all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid: (a) In cash; (b) By a party appearing in person to pay; or (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt. (2) One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit."

We recommend the fiscal court establish effective internal control procedures to ensure all revenues are adequately documented, recorded, and deposited. We recommend the fiscal court comply with KRS 64.480 regarding receipts and ensure that these records are maintained for an

appropriate time period. This matter will be referred to the Kentucky Office of the Attorney General (OAG) and the Kentucky State Police (KSP).

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Employee was dismissed immediately upon discovery of missing funds.*

*Animal Shelter collects fees and donations on site. Receipts are issued, copy given to individual, one copy kept at Animal Shelter and one returned with funds to Judge's office. Funds are counted, reconciled, receipt given to Animal Shelter for total and funds deposited to general fund.*

*Senior Center collects rental fees and donations on site. A deposit is received when center is rented and returned to renter when key is returned; this transaction is recorded with receipt when received and when returned to renter by Senior Center. Receipts for rent and donations are given at time funds received, one kept at Senior Center and one returned with funds to Judge's office. Funds are counted, reconciled, receipt given to Senior Center and deposited to general fund. Calendar showing rentals is also turned in.*

**The Estill County Fiscal Court lacks internal controls over disposition of county property and auction proceeds of approximately \$16,000 were unaccounted for:** On November 4, 2017, the county had a surplus auction sale. The proceeds from this sale could not be traced to the county's receipts ledger. Based on inquiry of county personnel, the proceeds of this sale were approximately \$16,000 and was placed in a lockable filing cabinet in the former judge/executive's office. On November 21, 2017, this money was reported missing by the former deputy judge/executive. The county did not maintain a list of bidders, a description of items sold, and documentation of whether the winning bidder paid with cash or a check. The county did not have internal controls in place to ensure that proper documentation was maintained for the surplus auction and to ensure that the proceeds from the sale were deposited timely. As a result, funds did not get deposited and were reported missing.

Good internal controls require that documentation be maintained to support the method used for disposition of county property. 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 states "daily deposits intact into a federally insured banking institution."

We recommend the county implement internal controls to ensure that proceeds from the sale of county property be deposited timely and are properly accounted for.

*County Judge/Executive's Response: We are currently reviewing assets to determine what needs to be declared surplus property by the Fiscal Court. Once this has been done we will decide the best way to dispose of said property either by sealed bid or public auction. All funds received will be accounted for at the time of sale and deposited to the appropriate funds immediately.*

*The Fiscal Court will first determine that property is surplus, before any property is disposed of. Any property disposed of will be advertised and approved by the Fiscal Court.*

*Any funds collected are deposited daily. NO FUNDS are left in an insecure area where security could be compromised. Funds are properly receipted leaving no room for misappropriation.*

**A waste tire grant was handled inappropriately:** The fiscal court was given approval to receive \$4,000 from the Division of Waste Management Recycling and Local Assistance Branch (RLA) for a Waste Tire Grant. Inspection of documentation related to this grant revealed inconsistencies. Information submitted with the grant report indicated expenditures would not exceed the threshold of \$4,000. However, disbursements for the project totaled \$7,349 so management used local funds to cover expenses in excess of project estimates. One invoice for the project showed a total of \$1,600, which was changed to reduce the total to \$1,200 when it was submitted to the Division of Waste Management to support project expenditures. The cancelled check and the invoice filed with county records clearly show \$1,600 was paid. It is unclear why this manipulation of documentation submitted to support grant expenditures occurred.

Also, when reviewing copies of the cancelled checks it was noted that the former treasurer did not sign the checks for the project but instead the former deputy judge/executive and the former judge executive signed the checks. It was also noted that one check for the project had been returned by the bank due to lack of dual signatures and had to be reprocessed by the bank. The fiscal court failed to implement effective internal controls and adequate oversight for grant expenditures. Management was aware that the former treasurer was required to sign all disbursement checks and that issuing checks with only one signature was a violation of internal control procedures, but management proceeded anyway.

Grant documentation submitted to the state with the reimbursement request was inaccurate. The most basic requirement of strong internal controls is to maintain adequate supporting documentation to substantiate disbursements. Regarding proper signatures on checks, the Estill County Administration Code, page 12, states “[t]he depositor of Estill County funds shall not honor any warrant on the county unless it is signed by both the County Judge Executive and the County Treasurer. In the absence of the Judge Executive, the Deputy Judge Executive may sign.” Further, KRS 68.020 (1) states, “[a]ll warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive.”

We recommend the fiscal court implement effective internal controls and exercise adequate oversight for all grants.

*County Judge/Executive’s Response: Grants are applied for and when received, used according to the guidelines set by that grant to the best of our knowledge and understanding. We are continuing to train and establish better accounting practices to better comply with all regulations.*

*Any and all grants received during my tenure in office will only be spent according to the guidelines set forth by the grantor.*

**Interfund transfers were not approved by the fiscal court:** This is a repeat finding and was included in the prior year audit report as Finding 2017-016. The fiscal court utilized interfund transfers to move money between funds as the necessity arose. Of the 32 transfers tested, seven totaling \$205,400 were not approved by the fiscal court. Also, 15 transfers totaling \$883,564 were approved by the fiscal court after the transfer had already been made.

The fiscal court does not properly utilize a purchase order system, which limits the ability to properly plan and anticipate expected expenses. Without proper procedures in place to track upcoming expenses, the fiscal court is never entirely sure how much money is available in each fund, which is indicative of poor financial management practices and can result in cash flow issues. This sometimes requires unanticipated transfers between funds to cover expenses. Management has not established proper controls, review procedures, and oversight to ensure all cash transfers are approved by the fiscal court in amounts that agree to actual transfers made.

The fiscal court is not fully informed of the financial activity of the county and cannot exercise adequate oversight with incomplete information. In addition, cash flow issues that contribute to the cash transfers have a significant impact on the county's ability to provide services to citizens and to meet financial obligations timely. Finally, improper oversight and inadequate controls over interfund transfers increases the risk of undetected improper transfers, such as transfers from restricted funds that are not returned by fiscal year end or transfers in excess of allowable amounts.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states "All transfers require a court order." In addition, a strong and properly implemented internal control system requires approval and oversight of all financial activity, especially moving money between funds.

We recommend the fiscal court implement proper controls, review procedures, and oversight for interfund transfers to ensure all are approved properly and are in compliance with applicable restrictions.

*County Judge/Executive's Response: Interfund Transfers are approved by Fiscal Court before being made, amounts only vary if funds are not available to make full transfer at once.*

*The Fiscal Court has authorized pre-approval for an Interfund Transfer from the general fund to the jail fund to cover jail payroll and expenses of payroll, as well as recurring expenses. Payroll is pre-approved and recurring expenses (example utilities) are pre-approved; but jail does not have funds to cover this, so a transfer is needed with each payroll and most recurring expenses.*

*Interfund Transfers are being identified better and for specific amounts and claims – not just to move money. (911 Payroll Reimbursements/CSEPP Reimbursements/Jail Claims with dates)*

**Internal controls, review procedures, and oversight for payroll processing are not adequate:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-010. The following issues were noted for payroll processing:



- Amounts paid to County Employees Retirement System (CERS) were not accurate (see Finding 2018-011 for additional detail)
- One part time employee is working more than 100 hours per month but is not receiving retirement benefits (see Finding 2018-012 for additional detail)
- One employee holds a part time position and a full time position within the entity and is receiving retirement benefits for the full time position but not the part time position (see Finding 2018-012 for additional detail)
- Overtime calculations and compensatory calculations are not accurate (see Finding 2018-017 for additional detail)
- Timecards do not agree to amounts paid (see Finding 2018-013 for additional detail)
- Pay rates were not properly documented and jailer's salary wasn't properly set (see Finding 2018-014 for additional detail)

The fiscal court failed to adequately assess the risk associated with payroll processing and failed to implement adequate internal controls regarding the documentation, preparation, and authorization of payroll. Segregation of duties is not adequate since the former finance officer performed all payroll calculations, prepared all payroll reports, remitted all payroll withholding and matching payments, and maintained all documentation for payroll. There were no significant review procedures in place nor adequate oversight for payroll to ensure the completeness and accuracy of payroll information. Failure to implement adequate controls over payroll increases the risk that material misstatements and fraud will occur and go undetected, especially considering payroll accounts for a large portion of the county's budget. Numerous undetected errors were noted for payroll processing and the fiscal court is in violation of various statutes.

In order for internal controls to be effective in preventing and detecting errors, misstatements, and fraud, the functions of any significant area should be separated. If segregation is not possible or practical, the fiscal court could implement and document compensating controls to reduce the risk associated with inadequate segregation of duties. A strong compensating control could include review of payroll reports, review of payroll payments, comparison of payroll documentation to amounts recorded, and reconciliation of withholding and matching reports to supporting documentation. Further, review procedures and oversight should be exercised consistently to detect errors and to reconcile payroll to supporting documentation.

We recommend the fiscal court implement effective internal controls, review procedures, and oversight for payroll processing to ensure the completeness and accuracy of all payroll information.

*County Judge/Executive's Response: Time cards are approved by department heads before turned in to Finance Officer. Upon receipt Finance Officer and Treasurer review/proof for accuracy and compliance. Any questions are resolved before running payroll. Pay period ends on Wednesday. Time cards are due on Thursday morning. Checks are now dispensed on Friday afternoon. This allows sufficient time to double check time cards and try to eliminate any possible mistakes.*

*Clerk's payroll is now being processed by us. Clerk is paying his personnel and reimbursing Fiscal Court for all deductions and employer match for his payroll. This is helping in reconciliation of reports and payments of same.*

*Retirement is reconciled monthly against reported amounts to CERS.*

*All payments and reports from the payroll account are being reconciled monthly.*

**Amounts paid to the County Employees Retirement System (CERS) for retirement deductions and match are not accurate:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-011. Several small discrepancies were noted during testing in the amounts reported as retirement wages on payroll summaries (amounts on employee paychecks) compared to retirement wages reported to the County Employees Retirement System (CERS). Upon further investigation, we noted one employee had switched from part time to full time employment in 2013. Retirement contributions were being deducted from the employee's paychecks and matching contributions were transferred to the revolving payroll account, but these wages were not reported nor paid to CERS. We also noted this employee had retirement wages withheld before his transition to full time became effective.

Due to inadequate controls over payroll, as discussed in Finding 2018-010, the payroll clerk made an error and did not change the status of the employee from part time employee to full time in CERS. This error, and other smaller errors, went undetected due to the lack of reconciliations between the payroll summaries and retirement reports. Management has not established a policy for adequate supervisory review of the data entered into the retirement reporting system to be compared to data from the payroll system for accuracy and completeness.

The Estill County Fiscal Court owes more than \$35,000 to CERS for an employee whose employment status was incorrectly reported. This employee is also owed \$1,794 for retirement withholding amounts made erroneously. In addition, several other employees' wages were inaccurately reported. Most importantly, the amount of wages reported to CERS determines the employees' retirement benefits. It is imperative that the reported wages are complete, accurate, and supported by payroll documentation. Finally, failure to pay accurate amounts to CERS timely can result in penalties and interest charges, which are not an efficient use of taxpayer resources.

KRS 78.625 states, "(1) The agency reporting official of the county shall file the following at the retirement office on or before the tenth day of the month following the period being reported: (a) The employee and employer contributions required under KRS 78.610, 61.565, and 61.702; (b) The employer contributions and reimbursements for retiree health insurance premiums required under KRS 61.637; and (c) A record of all contributions to the system on the forms prescribed by the systems. (2) (a) If the agency reporting official fails to file at the retirement office all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars (\$1,000), shall be added to the amount due the system. (b) Delinquent contributions, with interest at the rate adopted by the board compounded annually, or penalties may be recovered by action in the Franklin Circuit Court against the county liable or may, at the request of the board, be deducted from any other moneys payable to the county by any department or agency of the state. (3) If an agency is delinquent in the payment of contributions due in accordance with any of the provisions of KRS 78.510 to 78.852, refunds and retirement allowance payments to members of this agency may be suspended

until the delinquent contributions, with interest at the rate adopted by the board compounded annually, or penalties have been paid to the system.”

We recommend the fiscal court immediately contact CERS to correct the error regarding the improperly reported employee and pay amounts owed as determined by CERS. We also recommend the fiscal court reimburse the employee for retirement withholding amounts made in error. Further, we recommend the fiscal court implement an independent review/reconciliation process for comparison of CERS retirement reports to supporting payroll documentation to ensure accuracy and completeness.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Retirement has been reviewed, adjustments made by CERS. Most invoices due CERS have been paid. (Outstanding Invoices are for penalties and one spiking invoice. Reviewing these with CERS.) We are trying to stay current as new invoices are received.*

*Hope to have all adjustments and refunds to employees by end FY2021.*

**Payroll calculations for some part time employees are not correct:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-012. We noted several instances in which payroll calculations were not correct for part time employees. One employee is considered part time and does not participate in the County Employees Retirement System (CERS). This employee consistently works more than the 100 hours per month threshold for which employees must participate in CERS. For five out of ten months tested, this employee exceeded 100 working hours per month as documented on the gross wages and hours report provided.

We also noted an employee that has one full time position and one part time position within the county government. This employee participates in CERS for the full time position, but wages earned for the part time position are not subject to retirement withholding or matching provisions. Finally, we noted one employee who consistently works less than 100 hours per month but is participating in the retirement system as if he were a full time employee.

Internal controls and review procedures over payroll processing are not adequate as further discussed in Finding 2018-010. There are errors in payroll calculations for part time employees that have gone undetected. Hours documented on timesheets do not agree to hours compensated, retirement benefits are not extended to all qualifying employees, wages subject to retirement benefits are understated on retirement reports, and participation in CERS is not applied consistently.

KRS 337.020 states, “[e]very employer doing business in this state shall, as often as semimonthly, pay to each of its employees all wages or salary earned to a day not more than eighteen (18) days prior to the date of that payment.” In addition, a strong internal control system requires supporting documentation for all hours worked and paid be reconciled to payroll summary reports in order to catch any errors, misstatement, or discrepancies. Ideally, this comparison or reconciliation should be performed by someone independent of the payroll process.

KRS 78.615 (1)(a) established participation requirements for members of CERS and states, “[f]or employees who are not employed by a school board, service credit shall be allowed for each month contributions are deducted or picked up during a fiscal or calendar year, if the employee receives creditable compensation for an average of one hundred (100) hours or more of work per month based on the actual hours worked in a calendar or fiscal year. If the average number of hours of work is less than one hundred (100) hours per month, the employee shall be allowed credit only for those months he receives creditable compensation for one hundred (100) hours of work.” Furthermore, the fiscal court’s administrative code Chapter 5 states, “All employees working 100 or more hours per month (except seasonal employees who work a maximum of six (6) months per calendar year) must participate in the County Employment Retirement System.”

KRS 78.510 (13)(a) defines compensation for retirement contribution purposes and states, “[e]xcept as provided by paragraph (b) or (c) of this subsection, means all salary, wages, and fees, including payments for compensatory time, paid to the employee as a result of services performed for the employer or for time during which the member is on paid leave, which are includable on the member’s federal form W-2 wage and tax statement under the heading "wages, tips, other compensation", including employee contributions picked up after August 1, 1982, pursuant to KRS 78.610(4)[.]” According to this statute, all wages paid for all positions within a local governmental entity would be considered creditable compensation for employees who meet the participation threshold and would have to be reported as such to CERS.

We recommend the county implement procedures to ensure payroll calculations are reviewed for accuracy and compliance with laws and regulations. Likewise, we recommend the payroll clerk ensure all hours worked by employees are compensated in accordance with state and local regulations and that retirement participation is applied consistently among all classes of employees and follows applicable statutes regarding member participation.

*County Judge/Executive’s Response: We are working with CERS to correct this. Currently some part-time employees have gone over the 100 hours per month threshold, we are discussing this with CERS.*

*Retirement reports are reconciled monthly. Working closely with CERS to keep better reporting accuracy.*

**Overtime calculations and compensatory time calculations are not accurate and time record do not agree to amounts paid to employees:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-013. The Kentucky Labor Cabinet investigated overtime and compensatory time in 2016. As a result of this investigation, the Estill County Fiscal Court had to pay \$8,863 to six employees for overtime hours worked but not properly compensated. Our payroll testing revealed that the fiscal court still has not implemented an overtime and compensatory time policy and continues to allow employees keep track of their own compensatory time instead of paying overtime. The former finance officer did not keep track of any compensatory time through the payroll system.

Additionally, it was noted that one employee is paid two different salaries for two different positions from two different funds. During testing it was noted that the employee’s timecard split

the hours between the two positions, but the payroll summary indicated a full 80 hours per pay period for one position and the salary amount with no hours listed for the other position.

The fiscal court lacks adequate segregation of duties for payroll processing as discussed in Finding 2018-010. The former finance officer performed all calculations, prepares all reports, and maintains all documentation for payroll. There are no significant review or oversight procedures in place to ensure the completeness and accuracy of payroll information. The Estill County Fiscal Court had to back pay 6 employees for overtime not paid. Failure to implement a policy for compensatory leave time and failure to track compensatory time through the payroll system creates an opportunity for employees to take advantage of compensatory leave time and increases the risk that overtime violations will occur and go undetected.

Additionally, the risk of improper payments to employees increases when wages paid do not agree exactly to timecards and when time worked is not properly allocated to each position within the entity.

KRS 337.320 states “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” Strong internal controls over payroll processing require amounts paid to each employee agree exactly to the time records on file and require review and oversight over this process to ensure proper payments are made and all amounts recorded for payroll are complete and accurate.”

Further, KRS 337.285 states, “(1) No 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 of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed...(4) Notwithstanding the provisions of subsection (1) of this section or any other chapter of the KRS to the contrary, upon written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is authorized to work one (1) or more hours in excess of the prescribed hours per week may be granted compensatory leave on an hour-for-hour basis. Upon the written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is not exempt from the provisions of the Federal Fair Labor Standards Act of 1938, as amended, 29 U.S.C. secs. 201 et seq., may be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1-1/2) hours for each hour the county or city employee is authorized to work in excess of forty (40) hours in a work week.

We recommend the fiscal court implement effective review and oversight for payroll processing to ensure hours recorded on time cards agree exactly to amounts paid. We also recommend the fiscal court develop a policy regarding compensatory time and abide by the policy. If compensatory time is earned or used, it should be recorded in the payroll system.

*County Judge/Executive's Response: Time cards are approved by department heads, then reviewed by Finance Officer and Treasurer for correctness and compliance, corrections are made when needed.*

*Over forty (40) hours worked in work week are paid at time and half (OT).*

*CSEPP employees are salaried and receive comp time. Need to work on this in [vendor name redacted] to better track comp time.*

**Wage rates and increases were not documented in personnel files and fiscal court failed to set jailer's salary as required:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-014. The personnel files for employees did not contain supporting documentation for approved salaries/wage rates and pay increases. The fiscal court did not set the jailer's salary by May 1 each year as required. Also, during payroll testing it was found that two deputy jailers were changed to transport officers and their pay was decreased, however, there was no documentation in their personnel files documenting this change.

The fiscal court lacks adequate segregation of duties for payroll processing. The former finance officer performs all calculations, prepares all reports, and maintains all documentation for payroll. There are no significant review or oversight procedures in place to ensure the completeness and accuracy of payroll information.

The risk of improper compensation increases when adequate documentation of personnel actions is not maintained. Supporting documentation, as well as fiscal court approval, is necessary for pay increases to help protect against employees being unfairly overcompensated. The fiscal court is also in violation of KRS 441.245 for failure to set the jailer's salary.

According to KRS 64.530(1), with certain exceptions, "the fiscal court of each county shall fix the reasonable compensation of every county officer and employee...." Good internal controls require all personnel actions be documented in personnel files.

Additionally, KRS 441.245 states, "(1) The jailer who operates a full-service jail shall receive a monthly salary pursuant to any salary schedule in KRS Chapter 64 applicable to jailers operating a full-service jail from the county jail operating budget. (2) No jailer holding office in the Commonwealth on or after January 6, 1999, shall receive an annual salary of less than twenty thousand dollars (\$20,000). (3) (a) The salaries of jailers who are not subject to any salary schedule in KRS Chapter 64 may be set at a higher level if the salary does not exceed the constitutional salary limit applicable to jailers. These jailers' salaries shall at least equal the prior year's level and may be adjusted by the fiscal court for the change in the prior year's consumer price index according to the provisions of KRS 64.527. (b) For jailers governed by this subsection: 1. By May 1 of each year, the fiscal court shall pass a resolution detailing: a. [t]he duties to be performed by the jailer in the upcoming fiscal year; and b. The compensation for the jailer for the upcoming fiscal year, including any cost-of-living adjustments according to the provisions of KRS 64.527."

We recommend the fiscal court implement effective controls and exercise adequate oversight over payroll processing to ensure all salaries and wage rates are approved by the fiscal court and this

action is reflected in personnel files. We also recommend the fiscal court set the jailer's salary and job duties by May 1 each year in compliance with KRS 441.245.

*County Judge/Executive's Response: Currently we are making notes in payroll system when pay rates are changed or employment status is changed. We are also keeping court minutes with payroll to document changes made. This is a work in progress.*

*Jailer/Transport Officer salary was included in Jail Budget for FY20 and FY21.*

**The revolving payroll account reconciliation was not complete and accurate:** This is a repeat finding and was reported in the prior year audit report as Finding 2017-015. The former treasurer prepared monthly bank reconciliations for the revolving payroll bank account. These reconciliations did not include receivables and liabilities that resulted from errors in payroll processing as noted in Finding 2018-011. There are receivables in the revolving payroll account due for the general fund for retirement and federal matching amounts the fiscal court pays on behalf of the county clerk. These transfers from the general fund to the revolving payroll account have not occurred since March 2016. Additionally, the fiscal court pays health insurance premiums for other governmental agencies and is supposed to be reimbursed for those amounts. The former finance officer did not maintain records to determine if reimbursements were made timely and could not determine the balance due at year-end. Some agencies reimburse periodically and had not made the required reimbursements for a significant period of time. These issues affect the true balance in the revolving payroll account.

The fiscal court did not implement adequate procedures and oversight regarding the payroll process. The former finance officer received, processed, and maintained all supporting documentation for payroll. No effective review or oversight procedures were in place, resulting in undetected errors and misstatements. These errors and misstatements affect the revolving payroll account balance.

Failure to account for all items affecting the revolving payroll account balance, including receivables and liabilities not yet processed in the accounting system, increases the risk that these items are never properly resolved, especially if only one person has any knowledge of their existence.

Strong internal controls over the revolving payroll account require all items that affect the account to be properly summarized and included on the reconciliations whether or not those transactions have occurred or are due to occur in the future.

We recommend the fiscal court implement effective internal controls and oversight procedures regarding the revolving payroll account reconciliations to ensure completeness and accuracy.

*County Judge/Executive's Response: Beginning January 2020 all matches are calculated with each payroll and transfers made before payroll is released. All payroll expenses (health/retirement/tax) are reconciled. Clerk's payroll is processed through Fiscal Court payroll system and reported with payroll. (Clerk still issues checks to his employees; then he makes check*

*to Fiscal Court payroll account for all deductions and matches. This has helped tremendously in reconciliation for reports and tax deposits.)*

*We are continuing to work on this, to better reconcile the Clerk and Sheriff payrolls; as well as some outside insurance reimbursements. Few issues left to improve on.*

**The Estill County Fiscal Court did not classify debt service payments properly:** This is a repeat finding and was included in the prior year audit report as Finding 2017-020. The Estill County Fiscal Court did not classify debt service payments properly. We noted a payment (totaling \$11,074) for one lease was recorded in an operating account code instead of a debt service account code.

The fiscal court failed to implement adequate internal controls, oversight, and review to ensure debt payments were properly recorded and classified. A simple review of these transactions would have revealed this error.

The risk of material misstatements and undetected errors increases when proper internal controls, oversight, and review procedures are not implemented.

Good internal controls over the processing and review of financial reporting could eliminate these errors. It is important to separate debt payments (which are ongoing obligations) from operating expenditures in order to properly budget, plan, and allocate resources in accordance with the needs of the county. It is easier to ensure debt payments are being made timely and it is easier to ensure the county doesn't overextend financial resources when all expenditures are properly classified.

We recommend that fiscal court implement adequate internal controls, oversight, and review procedures to ensure all debt service payments are recorded in the correct classification.

*County Judge/Executive's Response: To our understanding the debt service payments have been properly classified.*

*Continuing to train and implement better accounting practices.*

**The Estill County Fiscal Court did not prepare a Schedule Of Expenditures Of Federal Awards (SEFA):** The Estill County Fiscal Court did not prepare a *Schedule of Expenditures of Federal Awards* (SEFA) that reflects the county's expenditure of federal awards for the fiscal year ending June 30, 2018. The former county treasurer did not prepare the SEFA on behalf of the fiscal court. As a result, the total amount of federal expenditures were not readily available which determines whether a single audit will be performed.

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*. The manual requires the treasurer to prepare a SEFA.



We recommend the fiscal court ensure that a *Schedule of Expenditures of Federal Awards* is prepared in the future.

*County Judge/Executive's Response: Continuing to train and implement better accounting and reporting practices as we work to improve.*

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

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