



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Lawrence County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Lawrence County Fiscal Court for the fiscal year ended June 30, 2018. 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 Lawrence 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 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 fiscal court did not pay invoices within 30 days: Four invoices totaling \$153,413 from the jail fund were not paid within 30 days. These invoices were for housing inmates. The fiscal court did not have procedures in place to ensure invoices are paid within 30 days. As a result, the fiscal court was not in compliance with KRS 65.140. KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, 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.” KRS 65.140(3) states, “[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the

purchaser.” We recommend the fiscal court comply with KRS 65.140 by paying invoices within thirty working days.

County Judge/Executive’s Response: The county was waiting on LGEA funds to pay for jail bills due to rising costs.

Disbursements exceeded approved budget appropriations for the road fund: Disbursements exceeded approved budget appropriations for the road fund. Budget amendments or appropriation transfers were not made to ensure the budget was not overspent. This was due to an oversight by management. Road fund roads exceeded budgeted appropriations by \$99,945. KRS 68.300 states, “[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. No 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.

County Judge/Executive’s Response: This was caused by the county’s Mack truck leasing. These leases will be taken into account for future budgets.

The Lawrence County Fiscal Court’s capital asset schedule was inaccurate: The county did not maintain a complete and accurate capital asset schedule. While the county did maintain a capital asset schedule, we noted land and land improvements, buildings, vehicles and equipment, and infrastructure were included that did not meet the capitalization threshold. The fiscal court did not adequately monitor or track capital assets as required by the Department for Local Government (DLG) or the fiscal court’s capitalization policy. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. Under the authority of KRS 68.210, the state local finance officer has established a system of uniform accounts for all counties and county officials. This system of accounts is set forth in DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, “[f]or purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year.”

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with DLG requirements and the county’s capitalization policy.

County Judge/Executive’s Response: This issue has been taken care of.

The fiscal court does not have adequate controls over payroll: The Lawrence County Fiscal Court does not have proper internal controls and lacks oversight over the payroll process. The following findings were noted:

- Eighteen vacation and sick leave days for one employee were not deducted from the ledger maintained to track the balance of remaining vacation and sick leave for employees.
- A part-time employee was overpaid \$596 due to overtime not being calculated correctly.

- Overtime was paid at time and one half regardless of whether leave time was taken during the week.
- During one pay period, seven payroll checks were written in advance of the pay date and cleared the bank as much as 11 days early. These payroll checks included advance overtime pay totaling \$1,070.
- Two employees tested did not prepare or submit timesheets.

Weak internal controls over payroll and lack of adequate management oversight have allowed these issues to go undetected. Pay checks are issued on the same day the pay period ends which allows for no time to make changes and properly account for overtime worked or leave time taken.

As a result, employees may be paid for vacation and sick days they have not earned/accrued. Employees are not paid correctly when the overtime pay rate is miscalculated. Improper maintenance and approval of timesheets could lead to incorrect payments to employees. Advancing pay checks may result in employees receiving compensation for services not performed. Finally, by not maintaining timesheets, there is no record of leave time used and no verification that employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

Strong internal controls over payroll are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them. Furthermore, internal control procedures that are properly designed and implemented allow employees to detect misstatements in a timely manner while preventing misappropriation of assets or inaccurate financial reporting.

Timesheets should be kept for payroll verification, as a record of leave time use, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. An individual who is independent of the recording and disbursement process should approve employee timesheets. KRS 337.320 requires that "[e]very employer shall maintain a record of: (a) The amount paid each pay period to each employee; [and] (b) The 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. According to OAG 79-448, "Section 3 of the [Kentucky] Constitution is unequivocal on the point that public emolument to any person must be based on the consideration of public services. By the strongest implication this means 'public services actually rendered.'"

Without timesheets, it cannot be determined if services were actually rendered. It is not a good practice to advance payroll to employees, especially advancing overtime pay to employees. The pay period has not concluded, and employees could take leave time before the end of the pay period and therefore not be entitled to overtime.

Maintaining sick and vacation leave balances is vital to ensure employees are receiving the time they are due and that they are using leave time earned in accordance with county and office policies.

Employees who work over 40 hours per week are entitled to payment of overtime wages in the amount of one and one half times the hourly rate. However, hourly employees who work more hours than the prescribed work week, but less than 40 hours, are entitled to payment of wages on an hour-for-hour basis.

We recommend the fiscal court strengthen its internal control system over payroll and reduce the risk of payroll errors by first segregating incompatible duties, such as timekeeping and check writing, then implementing compensating controls over payroll processing such as management oversight or independent reviews over payroll processing. Further, we recommend:

- Vacation and sick leave balance ledger should be updated after each pay period.
- Ensuring that overtime is calculated correctly, using either the regular hourly rate or overtime hourly rate as determined by actual hours worked.
- The fiscal court discontinue advancing payroll checks to employees.
- The fiscal court consider holding back pay checks at least a week after the pay period ends to allow time to make changes or corrections prior to payment rather than attempting to make prior pay period corrections on a subsequent pay period.
- All employees submit timesheets and ensure supervisors sign timesheets.

County Judge/Executive's Response: This issue has been corrected and should not pose a problem concerning future payroll.

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

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