



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Rockcastle County Fiscal Court

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

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

The audit contains the following comments:

The fiscal court did not ensure all timesheets were prepared and approved prior to payment. During our testing of payroll, we noted three employees were not completing a timesheet. Three employees did not have a timesheet on-hand for pay periods examined during our testing of payroll. Employees that did not have timesheets were from the following departments: county treasurer, dog warden, and RCIDA department.

Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided.

KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee. To ensure compliance with KRS 337.320, we recommend all employees, other than elected officials, complete a timesheet. We further recommend the fiscal court review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

County Judge/Executive's Response: Department supervisors review timesheets prior to payment. The Treasurer has started keeping a timesheet, there are no longer any employees in the RCIDA program, and the Dog Warden keeps a log of incidents as he is on-call.

The fiscal court did not have controls over purchase orders. Testing of fiscal court disbursements revealed that sixteen disbursements were not supported by a purchase order.

Lack of oversight by accounting personnel appears to have been the cause. Failure to monitor expenses could lead to overspending budgeted amounts.

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. 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[.]” KRS 68.275(3) states “[t]he Fiscal Court may adopt an order, called a standing order, to preapprove the payment of recurrent monthly payroll and utility expenses. No other expenses shall be preapproved pursuant to this subsection without the written consent of the state local finance officer.”

We recommend the fiscal court strengthen the control over purchases by ensuring purchase orders are completed for all disbursements of the county and listed on the fiscal court's monthly claims list.

County Judge/Executive's Response: We will strive to continue to improve and attach purchase orders to all expenditures.

The fiscal court did not have a detailed salary schedule. The county approved the rehiring of all county employees, but failed to provide an updated salary schedule to auditors. This could lead to payroll errors including the over/under payment of county employees.

KRS 64.530 states the fiscal court of each county shall fix the compensation of every county officer and employee.

We recommend the county to continue approving salaries annually, and also keep an up to date salary schedule that lists a breakdown of hourly and salary wages for all county employees. Furthermore, the county should also include the starting pay rates for entry-level positions. The county should revise this list as increases are approved by the fiscal court.

County Judge/Executive's Response: We agree to start doing this. Mid-year adjustments will also be approved.

The fiscal court did not ensure all county employees accrue leave time in accordance with the county administrative policy. During our testing of payroll, we noted that Rockcastle County Detention Center employees accrue leave time annually, which is different than the rest of the county. Allowing multiple methods for accruing leave time could lead to inaccurate leave time balances.

According to the county's administrative policy, three hours of leave time per pay period accrues from the date of hire "for all full-time employees during their first twenty four (24) months of service[.] "During the first twelve (12) months of county service, no employee is permitted to take a paid personal leave of absence (personal time). For all full-time employees with two (2) or more years of service, four and one-half (4.5) hours per pay period shall be accrued. No employee may be compensated at a rate greater than his/her accrued personal time."

We recommend that all county employees, which include detention center employees, accrue leave time in accordance with the guidance covered in the administrative policy.

County Judge/Executive's Response: The Fiscal Court is currently evaluating the leave policy. Once we get it corrected, we will get it approved by the Fiscal Court.

The jailer did not present a jail commissary financial statement to the county treasurer for fiscal year ending June 30, 2016. A jail commissary financial statement was not presented to the county treasurer for the fiscal year ending June 30, 2016 as required by KRS 441.135. The jailer was not aware of the requirement to present an annual financial statement for the jail commissary to the county treasurer. The county treasurer and fiscal court were not made aware of the financial activity of the jail commissary fund.

KRS 441.135(2) requires the jailer to "keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account."

We recommend the jailer prepare an accurate annual financial statement for the jail commissary. The jail commissary's annual financial statement should then be presented to the county treasurer as required.

County Jailer's Response: We will prepare and submit to the Treasurer currently, and by July 31 going forward.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The jail commissary lacks adequate segregation of duties over receipts, disbursements, and reconciliations. Due to the limited number of employees, the jail lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper prepares deposits and posts these deposits to the receipts ledger. The bookkeeper also prepares and signs checks, and posts these disbursements to the disbursements ledger. The bookkeeper is also responsible for

reconciling to the bank account. By allowing the same employee to perform all functions relating to receipts, disbursements and reconciliations, the risk increases that errors or fraud could occur without being detected.

The jail has a small staff available to segregate duties in the accounting process. Without proper segregation of duties, inaccurate financial reporting and/or fraud can occur. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements written to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should set up the Commissary account to require two signatures on checks, with one being the jailer's signature.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

County Jailer's Response: Will implement a system where one person prepares reconciliations and the Jailer will review monthly.

The jailer did not establish procedures to reconcile book and bank balances on a monthly basis. The jailer maintains a manual general ledger of receipts and disbursements for the commissary (profit) account along with a checkbook register. An account balance is maintained in both of these ledgers. As of June 30, 2016, there was a difference of \$14,168 between the ending balance in the manual ledger and the checkbook register. Additionally, there was no reconciliation between the manual ledger and the bank statement. There was evidence of comparison to see what items had cleared, but there was no completed reconciliation between the balances.

The jailer failed to adopt a policy requiring a monthly reconciliation between amounts reflected on the bank statements and the ledgers. The difference noted above could have been resolved if reconciliation procedures were established by the jailer.

Failure to reconcile ledgers can lead to financial reporting errors or misappropriations being undetected.

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 minimum requirements for handling of public funds, requires monthly reconciliation of bank statements.

The jailer should establish a policy requiring monthly reconciliations of ledger and bank balances to minimize financial reporting errors and the risk of undetected fraudulent activity.

County Jailer's Response: Will implement a system where one person prepares reconciliations and the Jailer will review monthly.

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

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