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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Trimble County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Trimble County Fiscal Court for the fiscal year ended June 30, 2019. 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 Trimble 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.

Finding 1 of this report will be referred to Kentucky Office of the Attorney General, Kentucky State Police, and Trimble County Ethics Commission for further review.

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 comment:

The Trimble County Fiscal Court did not have adequate internal controls over the payroll process: While testing payroll, we noted several material weaknesses in internal control over payroll. The following exceptions were noted with payroll testing:

- The former deputy judge/financial officer changed her wages from salary to an hourly rate of \$14.97 and increased her hourly rate by \$0.56 to \$15.53 per hour. She was paid the

adjusted rate for three pay periods earning \$44.80 more per pay period. The wage increase was not approved by the fiscal court.

- The former deputy judge/financial officer changed her compensatory time rate to pay time and a half of her hourly rate at \$22.46 per hour. She was paid 93 hours at the adjusted rate for a total of \$2,088.78 and used 32 hours of compensatory time during fiscal year. Per the former financial officer's timesheets, no compensatory time was earned.
- The former animal control officer, who is the son of the former financial officer (mother) and the former part-time animal control officer (father), had his wages changed from salary to an hourly rate of \$15.81. His hourly rate increased by \$1.13 to \$ 16.94 per hour. His wage increase was not approved by the fiscal court. His compensatory time rate was changed to pay time and a half of his hourly rate to \$25.41 per hour.
- The former part-time animal control officer was earning compensatory time as a part-time employee. His son was his supervisor and authorized the compensatory time by signing off on the form. However, there was no authorizing signature from the judge.
- The former deputy judge was earning overtime as an exempt employee. From January 2019 to May 2019, she earned 173 overtime hours.
- One time sheet was missing supervisor approval.
- One road worker was paid overtime two times his hourly rate. His hourly rate was \$15.55 and overtime rate was \$31.11. He was paid overtime at this rate for 15 pay periods.
- Four road workers overtime paid did not agree to timesheets.
- Four employees (two EMS and two animal control) compensatory leaves balances exceeded the maximum amount of two-hundred hours. One EMS employees exceed the maximum by 260 hours and the other EMS employee exceeded by 152 hours. One animal control employee exceeded the maximum by 98 hours and the second animal control employee exceeded the maximum by 32 hours. Also, compensatory time requests were missing signatures for approval.
- Four timesheets and three leave balance reports were missing.
- Three employees (two deputy coroners and fiscal court clerk) did not prepare timesheets.

The fiscal court did not have adequate controls and oversight over payroll functions and reporting, which resulted in the following:

- (1) Timesheets not being approved by supervisors.
- (2) Employees not being paid according to the pay rate approved by fiscal court.
- (3) Employees being paid to work overtime without having proper prior approval for working the overtime per the county's administrative code.
- (4) Employees who are exempt from working overtime, being approved to work the overtime and being paid for the overtime which is not in compliance with the county's administrative code.
- (5) Employees being supervised by their family members and not having independent supervisor review their timesheets and overtime requests.
- (6) The county treasurer does not review timesheets when she signs the payroll checks.

Without proper review of payroll timesheets, overtime requests, and checking that pay rates actually paid are accurate and in accordance with approval by fiscal court, employees can be paid for time not worked, and/or paid an increased pay rate without detection. Weak internal controls over payroll have allowed these issues to go undetected. In addition, federal and state laws require

employees to keep an accurate record of time worked in order to calculate employee pay and benefits. The fiscal court is not in compliance with federal and state labor regulations or the county's administrative code.

Federal and state laws require employees to keep an accurate record of time worked in order to calculate employee pay and benefits. KRS 337.320(1) 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." KRS 337.320(2) state, "[s]uch records shall be kept on file for at least one (1) year after entry. They shall be open to inspection at any reasonable time, and every employer shall furnish to the commissioner or the commissioner's authorized representative on demand a sworn statement of them."

Per the county's administrative code "all county employees shall be declared exempt or non-exempt under the provisions of federal and state wage and hour laws. Exempt employees shall not receive overtime pay." Also, as to comp-time, the county's administrative code states "maximum amount of two-hundred hours can be accumulated. Use of comp-time must be approved by the department head and the County Judge." Further, the county's administrative code states "the annual budget may include wage increases for the budget year effective July 1 annually, subject to available revenues. Individual adjustments may be made during the year as necessary, (introductory completion, etc.) subject to availability of revenues and the current budget."

We recommend the county strengthen its internal control system over payroll and reduce the risks of noncompliance, as well as protect itself against disputes regarding payroll amounts and employee benefits. In order to strengthen internal controls over payroll, we recommend the fiscal court implement procedures to ensure that timesheets are maintained and properly documented with supervisor's approval. Payroll should be reviewed to ensure payments are properly calculated and paid in accordance with the county's administrative code, as well as federal and state laws. . . We further recommend that the fiscal court update the approved salary schedule to reflect accurate salaries for all employees and review salaries in the payroll system to ensure pay rates agree to the salary schedule approved by the fiscal court. The county should maintain all timesheets for each employee, maintain accurate leave balance reports for each employee and supporting payroll tax and retirement documentation for all employees for each pay period. This finding will be referred to the Kentucky Office of the Attorney General, Kentucky State Police, and Trimble County Ethics Commission for further review.

County Judge/Executive's Response: Deputy Judge will write pay checks, Judge will review timesheets to compare hours worked with hours paid on checks. Administrative assistant will review the same for a three person checking system.

The Trimble County Fiscal Court did not properly issue purchase orders and lacked invoice supporting documentation: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. During disbursement testing the following exceptions were noted:

- Forty-nine of 55 disbursements tested did not have a purchase order issued prior to purchase.

- No supporting documentation was available for two invoices.

The purchase order exceptions occurred due to the county judge/executive's office staff not issuing purchase orders for all purchases as required by the county's own administrative code or by staff issuing purchase orders after the invoice comes into the county judge/executive's office for payment. Regarding the two missing invoices, the county judge/executive's office staff did not maintain vendor files. As a result of not issuing purchase orders or issuing them after purchases, the county's appropriation line items may be depleted or in a negative balance due to the lack of procedure for ensuring funds are available at the time of purchase. This is a noncompliance with the Department for Local Government's (DLG) requirements. Failure to maintain all supporting documentation for invoices can result in amounts not being recorded timely on the disbursements ledger, and in the county paying finance charges and late fees. Also, failure to maintain supporting documentation for invoices, significantly increases the risk that county funds are used inappropriately.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the DLG "purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head." The state local finance officer requires that all counties have a purchase order system and follow the guidelines prescribed on page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*.

We recommend, prior to items being ordered for county operations or services received, a purchase order be completed and approved for the items/services. Purchase orders should be assigned for a purchase after county staff review the relevant budget line item to ensure adequate budget appropriations are available for the purchase. We also recommend all supporting documentation be maintained in vendor files for each county expenditure.

County Judge/Executive's Response: In June 2019, I sent out a memorandum to all county employees stating that all purchases for the county require a purchase order prior to making a purchase.

The Trimble County Fiscal Court did not follow correct bidding procedures: This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The fiscal court received and accepted two bids for asphalt, not the lowest and best bidder, for road materials. Per inquiry of the judge/executive, he was not aware this action was prohibited and this action does not align with the county's administrative code procedures regarding bids. By not accepting the lowest and best bidder, for road materials, the fiscal court was in noncompliance of KRS 178.140(1)(2), which results in a risk that they may pay a larger amount than necessary for the item being bid.

KRS 178.140(1) states, "[a]ll bids for the construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced." KRS 178.140(2) states, "[t]he contract shall be awarded to the lowest and best bidder[.]" The county's administrative code states, "[t]he county judge/executive shall open all bids publicly at

the time and place stated in the advertisement, and the fiscal court shall select the lowest or best bid by a qualified bidder.”

We recommend the fiscal court follow bidding procedures as required by KRS 178.140 and the county administrative code.

County Judge/Executive’s Response: In the past, fiscal court would accept bids from various businesses (relating to gravel, rock, etc.) based on location of the business and where the road department was working. We will begin accepting bids separately with regard to location.

The fiscal court overpaid federal taxes and did not pay state taxes timely: During the test of payroll taxes, we noted the former deputy judge overpaid Internal Revenue Service (IRS) federal taxes approximately \$43,825 for one quarter. Also, one payment for state taxes from form K-1 "The Kentucky Employer's Return of Income Tax Withheld" was paid seven months past the due date. The lack of segregation of duties could result in misappropriation of assets and inaccurate financial reporting to external agencies such as the payroll taxes to federal and state agencies. Payment of federal withholdings is made separately from the filing of the 941 forms by making electronic funds transfers (EFT). The former deputy judge made these EFT payments, and these payments were due within three days of the end of the pay period for which they were withheld. These EFT payments were made timely, but the payments were made for amounts not matching the actual withheld. Payroll tax withholdings were calculated incorrectly and overpaid, then subsequently refunded by the IRS. The failure to file these forms timely will likely result in penalties and is indicative of improper payroll procedures and poor financial management practices.

Good internal controls dictate that duties should be adequately segregated or compensating controls implemented to ensure accurate financial reporting. We recommend the treasurer ensure that FICA and Medicare deductions are calculated correctly and ensure complete, accurate and timely 941 forms are filed quarterly with the IRS. Also, we recommend the county segregate incompatible duties or implement strong compensating controls to mitigate risks. If duties cannot be adequately segregated due to a limited number of staff, compensating controls are necessary.

County Judge/Executive’s Response: Tax reports will be reviewed by deputy judge and administrative assistant. Reports will be filed in a timely manner.

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

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