



Auditor of Public Accounts  
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FOR IMMEDIATE RELEASE

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### **Edelen Releases Audit of Casey County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Adam Edelen has released the audit of the financial statements of the Casey County Fiscal Court for the fiscal year ended June 30, 2013. State law requires annual audits of county fiscal courts.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in cash and cash equivalents of the Casey County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court 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 should comply with bidding requirements per KRS 424.260.** During Auditor's review of disbursements, we noted the Fiscal Court paid one vendor \$214,863 for road materials without obtaining bids. This vendor supplying the road materials was a state price contract vendor for other counties but not for Casey County.

Competitive bidding helps to ensure that the county procures goods and services at the best price available

The County has not adopted the state's Model Procurement Code and KRS 424.260 states:

“Except 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 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.”

Since the County has not adopted the state’s Model Procurement Code, we recommend the Fiscal Court comply with KRS 424.260 by obtaining bids for all purchases involving disbursements of more than twenty Thousand dollars (\$20,000) except for those items exempted in the statute or make purchased from correct state price contract vendors.

*County Judge/Executive Wright’s response: “We were told that Hudson Materials has state contract pricing. We didn’t realize Casey County was not in this group. We will bid out.”*

**The Jailer should comply with bidding requirements per KRS 424.260.** During the fiscal year ended June 30, 2013, the jailer paid a total of fifty-six thousand seven hundred and ninety six dollars (\$56,796) to a single vendor for electronic cigarettes purchased for resale through the jail commissary fund without obtaining bids. By not obtaining bids, the Jailer cannot be sure that he has procured these items at the best price available.

KRS 424.260 (1) states: “Except 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 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.”

We recommend the Jailer comply with KRS 424.260 by obtaining bids for all purchases involving disbursements of more than twenty Thousand dollars (\$20,000) except for those items exempted in the statute.

*County Jailer Miller’s response: “The jailer will take the auditor’s advisement under consideration.”*

**The Jailer should issue pre-numbered receipts in triplicate as required by KRS 64.840 and ensure that all electronic files are properly backed up.** The Jailer maintains two (2) bank accounts for the jail commissary fund. The inmate account is used to account for inmate funds received and the commissary account is used to account for fees collected from the inmates for commissary sales and various jail fees. When inmates are booked into the jail, any money in their possession is deposited into the inmate account. In addition funds received from others on behalf of the inmates are deposited to the inmate account. In accordance with KRS 68.840(1), the Jailer is required to issue three copies of pre-numbered receipts for all fines forfeitures, taxes, or fees collected.

KRS 68.840(2) states: “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.”

Two copies of pre-numbered receipts were printed for fees collected and deposited to the commissary account and a third copy was maintained electronically. One of the printed copies was given to the inmate and the other printed copy was batched and attached to the daily checkout sheet and bank deposit ticket as required. However the Jailer only printed one copy of pre-numbered receipts for inmate monies received. This copy was given to the inmate and no other printed copy of the receipt was attached to the daily checkout sheet and deposit ticket. In addition, although the Jailer maintained electronic copies of the pre-numbered receipts for both accounts these were not available for review during the audit.

On February 12, 2013, the Jailer switched to a new computerized accounting system and the old system was terminated. The Jailer no longer had any access to the electronic copies of the pre-number receipts issued from July 1, 2012 through February 11, 2013. Without copies of all pre-numbered receipts being available for review, the possibility that monies collected could go unreported increases.

We recommend the Jail comply with KRS 64.840 by issuing pre-numbered receipts in triplicate for the inmate account. One copy of the receipts should be attached to the daily checkout sheet and deposit ticket. If the third copy of receipts is maintained electronically, the Jailer should ensure that all files are backed up regularly.

*County Jailer Miller's response: "This again was due to the changing of commissary software. This issue has been implemented and put in place since November 2013."*

**Only allowable disbursements should be made from Jail Commissary Fund.** The Jailer expended \$1,359 from the jail commissary fund for items used as Christmas gifts to be distributed by a charitable organization. These gifts were packed for shipping by jail inmates and the Jailer expended an additional \$1,120 to pay the shipping cost.

KRS 441.135 (2)(3) states: "All profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. Allowable expenditures from a canteen account shall include but not be limited to recreational, vocational, and medical purposes." These disbursements were not for the benefit of the prisoners and did not contribute to the well-being of the prisoners. By expending funds in this manner, the Jailer decreases funds available for allowable purposes.

We recommend the Jailer refrain from making any expenditure from the jail commissary fund that does not meet these criteria. We also recommend the fiscal court repay the jail commissary fund for these disbursements from the county jail fund.

*County Jailer Miller's response: "I feel this is a matter of opinion, as I read the jail canteen rules the jailer makes the determination on what is a viable rehabilitation program for the inmates. I have letters from inmates that was a part of this program and they stated how that this program helped them feel like they was giving back to society and blessed them to be able to give back and help needy children. I feel it is a great program for the inmates to be able to give back to society and be able to help someone. I will take the auditor's advisement into consideration."*

**The Fiscal Court should improve purchase and procurement procedures.** Auditors tested one hundred ninety two (192) disbursements from all of the Fiscal Court's budgeted funds and noted the following exceptions:

- Two (2) invoices were cancelled incorrectly: incorrect check numbers written on invoice, one invoice was not an original invoice and had no cancelling information documented.
- Thirty Three (33) payments were not paid within thirty (30) working days.
- Ten (10) disbursements not in compliance with bid laws.
- The same expenditure was billed on two (2) separate monthly statements and therefore incorrectly paid twice resulting in overpayments of \$61.
- Eleven (11) disbursements missing current contract.
- One (1) missing invoice.

All invoices should be cancelled when paid to prevent duplicate payments. All original vendor invoices should be maintained including any supporting documentation. All disbursements should be paid within thirty (30) working days.

Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, Fiscal Court is exposing public resources to potential misstatements and/or fraud.

KRS 65.140 states that "unless 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". This statute further states "an interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved each month or fraction thereof after the thirty (30) working days which follow receipt of vendor's invoice by the purchaser."

We recommend Fiscal Court maintain all original vendor invoices including any supporting documentation, cancel actual invoices upon payment to prevent duplicate payments, maintain current contracts with all required vendors, and approve and issue purchase orders before purchases are made or the work or service is performed. All disbursements should be paid within thirty (30) working days in compliance with KRS 65.140. In addition the fiscal court should request refunds for the two duplicate payments and ensure that duplicate payments are not made in the future.

*County Judge/Executive Wright's response: "This has been corrected."*

**The Jail Commissary lacks adequate segregation of duties.** A lack of segregation of duties exists over all jail commissary accounting functions. The Jailer's bookkeeper receives the mail, collects money, issue receipts, prepares and deposit receipts, writes checks, and prepares bank reconciliations with no documented oversight by the Jailer. Adequate segregation of duties would prevent the same person or persons from having a significant role in the receiving processing, recording, and reporting of receipts and disbursements. The Jailer should strengthen internal controls by either segregating the duties or by implementing and documenting

compensating controls. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. Any compensating controls performed should be documented with date and initials.

We recommend the Jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties

*County Jailer Miller's response: "I will take the auditor's recommendations into consideration and look for ways to improve the segregation of duties for the canteen staff."*

**The Jailer should prepare and present a complete and accurate annual Jail Commissary financial report.** During Auditor's review of the Jail Commissary, we noted the Jailer did not prepare and present an accurate annual Jail Commissary financial report. For the period of July 1, 2012 through February 11, 2013, the jailer used a computerized accounting program to account for jail commissary receipts and disbursements. During this period receipts or disbursements ledgers were not printed and electronic copies of the computerized files were not backed up by the jailer. After February 11, 2013, the jailer began using a different computerized accounting system. At that time the first computerized accounting system was terminated and the jailer had no access to the records for this period. Therefore he could not prepare a complete and accurate annual Jail Commissary financial report for the fiscal year ended June 30, 2013. The jailer did present a copy of his computerized receipts and disbursements ledger for the period of February 12, 2013 through June 30, 2013 to the county treasurer. Auditors had to recap the daily checkout sheets and cancelled checks to obtain receipt and disbursement totals for July 1, 2012 through February 11, 2013.

We recommend in the future the Jailer prepare and present a complete and accurate annual Jail Commissary financial report to the County treasurer. We further recommend that complete receipts and disbursements ledgers be printed and maintained.

*County Jailer Miller's response: "We switched canteen accounting software programs and started using the software associated with our inmate software and stop using Swanson. The Swanson Company would not send us the records for certain dates and we were unable to obtain them. We did present the annual report from the date we started using the new software. In the future we will take the advisement of the auditor's office and make backup copies of all receipts and disbursements ledgers."*

**The Jailer should maintain accurate accounting records for the Jail Commissary Fund.**

During Auditor's testing of the Jail Commissary Fund we noted the following deficiencies:

- Receipts and disbursements ledgers for July 1, 2012 through February 11, 2013 were kept electronically. Due to a change in computerized accounting systems, the jailer was unable to print these for the audit. Auditor had to recap the daily cash checkout sheets and cancelled checks in order to obtain receipt and disbursement totals for this period.
- Receipts and disbursements ledgers for February 12, 2013 through June 30, 2013 did not include sufficient detail.

- Disbursements ledger for February 12, 2013 through June 30, 2013 did not include all disbursements paid to vendors.
- Inmate deposits totaling \$4,477 were deposited to the commissary account in error.
- Fees due to the Commissary Account from the inmate account totaling \$3,905 were erroneously re-deposited to the inmate account.
- Signed order sheets for inmate purchases were not maintained.
- Bank reconciliations for the Inmate account were inaccurate.
- Voided receipts were not maintained.

*The Instructional Guide for County Budget Preparation and State Local Finance Officer Manual* outlines the following minimum accounting requirements and reporting requirements pursuant to KRS 68.210:

- Detailed receipts Journal
- Detailed Disbursements Journal
- Jail commissary Summary and Reconciliation

We recommend the Jailer comply with the above requirements by posting detailed receipts daily to a receipts journal, and reconciling the daily checkout sheets to daily deposits and receipts journal, posting daily disbursements to a disbursement journal indicating what the disbursement is for, and preparing accurate monthly bank reconciliations. Complete copies of the receipts and disbursements journals as well as signed order sheets for inmate purchases should be maintained for audit purposes. All these records should be reviewed periodically by a responsible individual and review documented by initials and date. In addition all monthly reports submitted to the county treasurer should be reviewed for accuracy to ensure that correct amounts are paid to the fiscal court.

*County Jailer Miller's response: "This issue was due to switching software companies in the middle of the year and we couldn't get all the records from the company. This has been corrected all monies has been placed in correct account and the recommendations by the auditor is in place at this time"*

**Internal controls over Jail Commissary disbursements should be strengthened.** During Auditor's testing of twenty eight (28) Jail Commissary disbursements, we noted the following deficiencies:

- Twenty-seven (27) invoices showed no evidence of the Jailer's approval for payment.
- Four (4) invoices were not cancelled to prevent duplicate payments.
- No disbursement ledger was maintained for disbursements made from July 1, 2012 through February 11, 2013 and the disbursements ledger maintained for the remainder of the fiscal year was not adequately detailed.
- Purchase receipts were missing for one (1) tested item. Payment was made based on a credit card statement and the bookkeeper had to request documentation from the vendor during the audit.
- No documentation was available for one (1) tested item. This was for payment on a charge account and the bookkeeper had to request documentation from the vendor during the audit

- Gas tickets for one (1) tested item were not originals.
- Two (2) of the tested items were not paid within 30 days.
- One (1) tested disbursement was for an un-allowable expenditure of the commissary fund.

These deficiencies were the result of an in-effective review process for disbursements by the jailer and could result in improper amounts being paid to vendors or duplicate payments being made.

We recommend that all invoices be approved before payment and such approval be documented. All invoices should be cancelled (check number and date paid) to prevent duplicate payments and all disbursements should be posted to a disbursements ledger. We further recommend original documentation, including purchase receipts for charges made to either credit cards or charge accounts, be maintained for all disbursements and only allowable expenses be paid from the jail commissary fund.

*County Jailer Miller's response: "The recommendation of the auditor on this issue has been implemented."*

**The Fiscal Court should not pay the dog warden's salary in addition to contract labor costs.** During Auditor's review of disbursements and payroll, we noted the Dog Warden was receiving a payroll check for which he received a W-2, and received a \$400 to \$600 a month expense allowance for which he received a 1099. The Fiscal Court can either hire an individual as a county employee or hire the individual as contract labor but not both.

Without reporting all wages with his W-2 salary, the Fiscal Court is not requiring the Dog Warden to track his accurate time and mileage used in his position. There is an increase in the risk that misstatements of financial activity with time and/or expense will occur and go undetected by the Fiscal Court, when best business practices are not applied.

We recommend the Fiscal Court implement one of the following options:

- Increase the Dog Warden's salary to include the current rate of \$600 a month expense allowance and include on the employees W-2;
- Keep the Dog Warden's payroll salary the same and require the Dog Warden to prepare a travel/expense voucher at least monthly and turn in receipts for reimbursement.

*County Judge/Executive Wright's response: "Will consult with County Attorney and Dog Warden. If there is a problem we will try to correct."*

**The Fiscal Court should maintain proper records for the Public Properties Corporation Judicial Center Fund.** Since the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation (PPC), this entity is reported as a blended component unit of the Fiscal Court. During our review of cash we noted the Fiscal Court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2013 for PPC's Judicial Center Fund.

Per the County Treasurer, this occurred because of the difficulty in understanding the bank statements. As a result, the county's financial activity is not accurately reflected and funds are at a higher risk of misappropriation due to lack of documentation.

Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* "The uniform system of accounts requires revenues to be recorded when received and expenditures to be recorded when paid."

We recommend the Fiscal Court prepare and maintain ledgers for receipts and disbursements for the PPC's Judicial Center Fund. We also recommend that bank reconciliations be prepared monthly on all PPC bank accounts. We further recommend the Fiscal Court prepare end of the year financial statements for the PPC's Judicial Center Fund.

*County Judge/Executive Wright's response: "Didn't know we had to keep balance sheets on AOC payments. Will try to correct this."*

**The Fiscal Court should strengthen internal controls over payroll.** During Auditor's review of payroll, we noted the following:

- Three (3) out of fifteen (16) employees tested did not prepare a timesheet.
- Two (2) employee's timesheets/timecards were not signed by their immediate supervisor and/or the County Judge/Executive.
- Fiscal Court does not track Salary employee leave balances.

KRS 337.320(1)(a)(b)(c) requires that "every employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) the hours worked each day and each week by each employer; (c) and such other information as the executive director requires." Timesheets should be kept for payroll verification and as a record of leave time used 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. The employee and the appropriate supervisor should sign all timesheets.

Lack of proper documentation and internal controls over this area, increases the risk to the Fiscal Court as well as the employee. The risk of misstatements of financial activity and/or fraud will occur and go undetected by the Fiscal Court, or risk of employees not receiving the correct time available to them increases. Without proper procedures in place to mitigate this risk, Fiscal Court is exposing public resources to potential misstatements and/or fraud.

We recommend the Fiscal Court strengthen internal controls over the payroll process to ensure timecards/timesheets are prepared each pay period for all employees except elected officials, are submitted and signed by employees, and approved by supervisors. We also recommend all personnel files be updated to include hire date, position title/description, pay rates, state/federal withholding and citizenship forms, authorization for deductions, and any waivers applicable to payroll. In addition, we recommend a periodic review of compensated absences to ensure employees are not being paid for time not earned.

*County Judge/Executive Wright's response: "I wasn't aware that a salaried employee who supervises 2 or more employees needed a time sheet. Leave time will be corrected."*

**Internal controls over updating and maintaining capital assets addition list should be strengthened and insurance policy should be updated.** During Auditor's review of capital asset additions, we noted the additions listing was not complete for fiscal year ended June 30, 2013. We found ten (10) additional capital assets that needed to be included on the county's additions listing. We also reviewed the insurance policy statement of values and noted there was a capital asset addition (vehicle) that was not included.

Capital asset records are necessary for proper valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement.

We recommend all assets purchased during the fiscal year meeting the capitalization thresholds for each category be included on the capital assets additions list and included on the Fiscal Court's insurance policy. Without proper recording, capital assets could be misstated, misappropriated, and placed at a higher risk for theft.

Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* "Maintenance of records for fixed assets which fall into any of the following three categories is a requirement of the Uniform System of Accounts for Kentucky counties.

1. Real Estate (land and buildings)
2. Motor Vehicles (including road equipment)
3. Any other fixed assets that meet or exceed the capitalization policy set by fiscal court."

We recommend all assets purchased during the fiscal year meeting the capitalization thresholds for each category be included on the capital assets additions list and included on the Fiscal Court's insurance policy.

*County Judge/Executive Wright's response: "Has been corrected."*

**The jail telephone commission agreement should be between Fiscal Court and the vendor.**

On January 10, 2012 the Casey County Jailer entered into a contract with a telecommunications vendor to provide an inmate telecommunication system at the Casey County Detention Center (CCDC). Per the agreement, the vendor agreed to purchase computer hardware up front for the CCDC valued at \$19,769. In return, the vendor deducts \$412 from the monthly commission check for a period of forty-eight (48) months to pay off the debt. Also, a \$931 maintenance and support fee is deducted each month.

Auditor noted the Fiscal Court is therefore paying the monthly debt payments as well as the monthly maintenance fees since the Fiscal Court's commission check is being reduced by those amounts each month. This agreement should have been signed and approved by Fiscal Court instead of the County Jailer. By signing the agreement, the Jailer is in effect spending county

funds without them being budgeted and without Fiscal Court approval, which he has no authority to do.

After the auditor's brought this to the attention of the County Judge/Executive and the County Jailer, on January 20, 2014 the Fiscal Court approved the vendor contract, as written, therefore approving the debt payment and the maintenance fees to be deducted from the monthly commission check.

Auditor would make Fiscal Court aware that the Jail Commissary account is allowed to pay for the equipment since it is used directly for the commissary. Furthermore, we recommend any future contracts be signed and approved by Fiscal Court and not the County Jailer. Such approval should be included in the fiscal court minutes as public record.

*County Jailer Miller's response: "This issue has been resolved the fiscal court has adopted the agreement."*

**Proper fees for calling cards should be remitted to the Fiscal Court.** During the audit we noted that the Jailer was not remitting proper fees to the fiscal court for the sale of calling cards. The Casey County Fiscal Court purchases calling cards from the county jail fund and they are sold to inmates through the jail commissary fund. These cards are purchased by the fiscal court at a cost of five dollars (\$5) each and sold to inmates for ten dollars (\$10). Fees for the sale of the calling cards are remitted to the County Treasurer on a monthly basis. When the Jailer remitted the calling card fees to the County Treasurer each month, he only remitted five dollars (\$5) for each card sold and retained the profit from each sale in the commissary account. Since the calling cards are purchased by the fiscal court from the county jail fund, all profits from the sale of the cards should also be remitted to the County Treasurer for deposit to county jail fund.

Based on available records, the Jailer should have remitted an additional twenty-seven thousand dollars (\$27,000) to the fiscal for the sale of calling cards for the fiscal year ended June 30, 2013. As of February 12, 2014, an additional six thousand fifty dollars (\$6,050) was due for calling cards sold during the fiscal year ending June 30, 2014.

We recommend the Jailer remit these additional amounts due to the County Treasurer for deposit to the county's jail fund and ensure that correct fees are paid to the fiscal court in the future.

*County Jailer Miller's response: "This issue has been corrected the monies have been submitted to the fiscal court. This was an honest over site by staff. Now that we know that the profit from the calling cards are to be submitted to the fiscal court instead of canteen fund this should no longer be a problem."*

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

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