



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Breckinridge County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Breckinridge County Fiscal Court for the fiscal year ended June 30, 2014. 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 Breckinridge 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 Breckinridge County Jail lacks adequate segregation of duties over the accounting functions in the Jail Commissary. A lack of segregation of duties exists over the following accounting functions: receipts and processing, record-keeping, report preparation, and reconciliations. Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting which could occur but go undetected. Adequate segregation of duties would prevent the same person from having a significant role in these functions.

The former Jailer's bookkeeper prepared and deposited the receipts, prepared and signed checks, posted to the ledger, prepared reports, and performed the bank reconciliations.

The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting, the former Jailer should have separated the duties in preparing and depositing receipts, preparing and signing checks, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

Judge/Executive Maurice Lucas' response: Due to a lack of funds for additional staff, segregation is limited.

Former Jailer Alan Shrewsberry's response: The official did not respond.

Prisoner reimbursements (Jail Fees) should be submitted to Treasurer on a monthly basis.

Prisoner reimbursements (Jail Fees) were not being turned over to the County Treasurer on a regular basis. By prisoner reimbursements not being submitted on a monthly basis along with the appropriate supporting documentation the County Treasurer is unable to ensure that the appropriate amounts are being collected and submitted to the Fiscal Court. The Jail only made 3 payments to the County Treasurer during fiscal year ending June 30, 2014. These payments should be submitted on at least a monthly basis and should include documentation to support the amount being remitted. We recommend that prisoner reimbursements (Jail Fees) be submitted to the Treasurer on a monthly basis.

Judge/Executive Maurice Lucas' response: The County Treasurer will request that the Jailer turn over the prisoner reimbursements (Jail Fees) along with the appropriate supporting documentation in a timely manner.

Former Jailer Alan Shrewsberry's response: The official did not respond.

The former Jailer should have required copies of receipts be maintained and made daily deposits. The copies of receipts that were batched daily were not maintained and deposits were not made daily. The former Jailer increased the possibility of misappropriation or theft of receipts by not making daily deposits. Auditor noted during testing that receipts from May 6th through May 12th of \$2,236 were not deposited until May 15th. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual issued by the Department for Local Government, requires daily deposits and a daily check out sheet where receipts are batched and categorized as part of the minimum accounting requirements for the Jail Commissary. The former Jailer should have required copies of receipts be kept and deposits be made daily in order to be in compliance with the minimum accounting standards as prescribed by the Department for Local Government.

Judge/Executive Maurice Lucas' response: Copies of receipts will be maintained and deposits will be made regularly in order to be in compliance.

Former Jailer Alan Shrewsberry's response: The official did not respond.

The Breckinridge County Fiscal Court should make daily deposits for the Jail Fund. Jail Fund deposits were not prepared daily, on average about 4 times a month. For September 2013 and February 2014, there were two deposits made for each month that were at or above \$132,075. The County Treasurer explained that the Jail does not always turn over their fees to her timely and then she sometimes will hold deposits. Not properly depositing monies received by the office could result in a loss of receipts or misplaced monies. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily and intact. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Therefore, we recommend that the Fiscal Court deposit receipts daily as required by the State Local Finance Officer.

Judge/Executive Maurice Lucas' response: Jail deposits will be deposited in a timely manner and arrangements will be made to have receipts deposited in the absence of the County Treasurer.

Internal controls over disbursements/credit cards should be strengthened. During our testing of disbursements and credit cards, we noted the following deficiencies:

- Five credit card transactions that did not have adequate supporting documentation (itemized invoices).
- Five invoices were not paid within 30 working days.
- Three disbursements that were not paid within 30 days.
- Credit cards were not always paid in full each month, resulting in finance charges/late fees of \$7.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports.

These deficiencies over disbursements and credit card transactions occurred because the Fiscal Court's lack of internal controls and oversight.

Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the County. Also, by not paying invoices within 30 days or paying credit cards in full each month the Fiscal Court could be assessed penalties or finance charges.

We recommend that the County develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

Judge/Executive Maurice Lucas' response: Employees, who request authorization to use the credit card, will be required to submit all supporting documentation to the account payable clerk in order to process the disbursements in a timely manner. Also, the County will develop internal procedures to ensure that employees understand the importance of maintaining and turning in all supporting invoices and receipts.

The Fiscal Court should fix all employees' salaries. The Fiscal Court did not fix all employees' hourly rates. Fiscal Court currently approves an annual percentage raise, but does not list each employee's current rate and new rate for Fiscal Court's approval. Since hourly rates are not properly fixed employees could inadvertently be paid the incorrect wages. The Fiscal Court thought that by approving the annual percentage raises that they were in compliance with the statute. KRS 64.530(1) states, in part, that "except as provided in subsections (5) and (6) of this section, the Fiscal Court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the County Attorney and Jailer." In order to comply with this statute, we recommend that at the beginning of each fiscal year, a list of each employee, by job position, along with his/her pay be listed and approved by Fiscal Court. This list when approved by Fiscal Court should be documented in the Fiscal Court Order Book.

Judge/Executive Maurice Lucas' response: The Fiscal Court will approve a list of each employee, by job position, along with his/her pay at the beginning of each fiscal year and document the list in the Fiscal Court Order Book along with the budget.

Employees should be compensated for actual hours worked. The County Treasurer, Finance Officer, Judge's Secretary, EMA Director, and Road Supervisor were being treated as exempt employees. It was the County Judge/Executive's understanding that these individuals met the requirements by Wage and Labor to be considered salaried employees. By treating these individuals as exempt they are not being compensated at time and a half for hours worked over 40 hours per workweek. KRS 337.285(1) states, "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 not less than one and one-half (1-1/2) times the hourly rate at which he is employed". The Fair Labor Standards Act (FLSA) also requires that all covered, nonexempt employees be paid overtime pay at a rate of not less than one and one-half times an employee's regular rate of pay after 40 hours of work in a workweek. We recommend that the Fiscal Court compensate all employees in accordance with KRS 337.285(1).

Judge/Executive Maurice Lucas' response: The Fiscal Court will compensate all employees in accordance with KRS 337.285 (1).

The Breckinridge County Jail should strengthen controls over sick/vacation days accrued/used and ensure that the correct jail policy is being followed. Breckinridge County Jail has a lack of controls and accounting over sick/vacation days accrued/used. In September 2014, it was discovered that sick/vacation time was not being given correctly to employees. After this was discovered, some of the effected employees had negative balances. Several jail employees were given additional sick/vacation time due to a misunderstanding of the policies. Lack of oversight could result in employees using leave time that they have not earned. The

Jail's Personnel Policy and Procedure Manual states that "Accrued sick leave shall not be used until the employee has worked in a full-time position for one (1) full year." However, the Policy was silent on the use of vacation time. We recommend the Jailer strengthen controls over sick/vacation days accrued/used and ensure that the correct jail policy is being followed.

Judge/Executive Maurice Lucas' response: The Breckinridge County Jail has strengthened controls over sick/vacation days accrued/used and the correct jail policy is being followed.

Former Jailer Alan Shrewsberry's response: The official did not respond.

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

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