



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Estill County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statements of the Estill County Fiscal Court for the fiscal year ended June 30, 2014. 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 cash and cash equivalents of the Estill 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:

**County employees should not be compensated as independent contractors.** We found that the fiscal court paid a Limited Liability Company that the Road Supervisor was a member of, in the amount of \$18,434, during fiscal year ending June 30, 2014. According to IRS Publication 15A, Circular E, the fiscal court must distinguish an individual as either an employee or an independent contractor. If the individual is distinguished as an employee, all compensation is considered wages and all earnings are subject to the applicable withholdings. We recommend the fiscal court cease the practice of paying individuals as both employees and independent contractors. Further, we recommend the fiscal court refer this matter to the county ethics commission.

*County Judge/Executive Wallace Taylor's response: No longer in business.*

**The county should pay invoices within 30 working days.** During the course of our audit, we found 20 invoices totaling \$859,605 that were not paid within 30 working days. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers have made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a one percent interest penalty should be added. We recommend that the county comply with KRS 65.140, by paying invoices within 30 working days and avoiding penalties/finance charges.

*County Judge/Executive Wallace Taylor's response: With the way state and federal funds drop down this causes problem.*

**The fiscal court should approve annually a salary schedule.** The fiscal court did not approve and set the salaries for county employees. KRS 64.530 states the fiscal court of each county shall fix the reasonable compensation of every county officer and employee. We recommend the county list all employees and each salary or hourly pay rate. The county should also include the starting pay rates for entry-level positions. The county should revise this list as increases in pay are approved by the fiscal court.

*County Judge/Executive Wallace Taylor's Response: We have some departments worked out.*

**Payroll taxes should be properly calculated.** During payroll testing we found the following payroll withholdings were not deducted properly from employees' wages:

- Withholding for payments to the Kentucky Public Employees' Deferred Compensation was deducted from Social Security and Medicare wages. Deferred compensation withholdings should only be deducted from federal and state tax calculations. By not including deferred compensation withholdings, the amount of Social Security and Medicare taxes paid was reduced.
- Withholding for payments to supplemental insurances, such as AFLAC and Colonial, were deducted from local wages. Local payroll tax should be calculated based on gross wages prior to any deductions. By not including supplemental insurances, the amount of taxes withheld and paid to the county was reduced.

We recommend the county correct this issue to ensure all payroll taxes are paid properly.

*County Judge/Executive Wallace Taylor's response: Working on.*

**The jailer did not prepare or submit an annual commissary report to the county treasurer.** The jailer did not submit an annual commissary report to the county treasurer. KRS 441.135(2) says the jailer "...shall annually report to the county treasurer on the canteen account." The jailer did not prepare a commissary report for the fiscal year ending June 30, 2014 until requested by the auditors. By not submitting a commissary report, the county is unaware of the activities of the jail commissary. We recommend the jailer submit an annual commissary report to the county treasurer at the end of each fiscal year.

*County Jailer Bo Morris' response: Was made aware of and paper will be submitted annually.*

**The jailer should account for receipts properly.** Receipts are not properly issued at the jail. The jailer should issue three-part receipt forms for all funds received, such as bond fees and any other moneys collected at the jail. At the end of each business day the jailer or assigned personnel should total the receipts issued on a daily check-out sheet and then post the amounts to the correct category on the receipts ledger. The jailer should retain a copy of the receipt and attach in sequential order to daily cash check-out or deposit record, and retain a copy to remain in file. Voided receipts should be so marked, copies one and two kept in numerical order with check-out records, and copy three remaining in file. These procedures are required by the accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210. We recommend the jailer ensure all funds collected at the Jail are accounted for properly.

*County Jailer Bo Morris' response: Daily sheets are being done at present time, started May 1,2015.*

**The jailer should deposit all funds daily.** We found that the receipts collected at the jail were not being deposited on a daily basis. Daily deposits are required by the minimum accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210. Deposits were made at the jailer's discretion and only twelve deposits were made during the fiscal year. The jail receives a significant amount of cash receipts. Due to the high risk associated with cash, it is crucial that the jailer make daily deposits. We recommend the jailer deposit funds on a daily basis.

*County Jailer Bo Morris' response: Is in the works, with limited staff.*

**Excess restricted road funds were transferred to the general fund, creating a liability of \$6,909 owed from the general fund to the road fund.** Road funds can only be spent on roads, except for the amount approved by Department for Local Government on the Road Cost Allocation Worksheet. During the year, we determined the Road Fund transferred an excess of \$6,909 to the General Fund, creating a liability of \$6,909 owed from the General Fund to the Road Fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, however the liability is still owed. We recommend the General Fund liability be paid as money becomes available.

We will refer this to the Kentucky Transportation Cabinet.

*County Judge/Executive Wallace Taylor's response: Upon review of the allocation worksheet, it appears that not all allowable expenses were used in determining the actual percentage rate for transfers.*

**The jailer lacks adequate segregation of duties over the accounting functions of the jail commissary fund.** A lack of segregation of duties exists over the accounting function at the jail. The jailer receives cash from the inmates for release fees and commissary purchases. He makes the deposits and remits inmate fees to the county treasurer. He makes all payments from the commissary fund, as he is the only check signer. Segregation of duties over accounting functions, such as the ones mentioned above, or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. If compensating controls are implemented, they should be documented by initialing the supporting documentation reviewed. Implementation of the following procedures could strengthen controls at the jail.

- An independent person should agree daily deposits to receipts issued, daily checkout sheets, and the receipts ledger.
- An independent person should reconcile the bank account to the receipts and disbursements ledgers.
- An independent person should compare invoices to payments.

*County Jailer Bo Morris' response: Staff limitations is main problem.*

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

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