



Auditor of Public Accounts
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Edelen Releases Audit of Hardin County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Hardin 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 Hardin 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 Hardin County Fiscal Court did not comply with state law when making purchases.

Test procedures conducted over the county's disbursements revealed the following deficiencies:

- Bids were not obtained for petroleum products including Diesel and Gas (Key Oil Company)
- Advertised for bids for a used Forestry Truck, but ultimately purchased a new one which was not what the original specifications specified.

KRS 424.260 states when the county purchases, makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. Competitive bidding ensures that the county procures equipment and services at the best price available. By limiting competition, the county may not get the benefits of the best price available. We recommend that the county ensure all purchases exceeding \$20,000 be made in compliance with KRS 424.260 and in the event that no one bids, that the county document this in the fiscal court minutes. We also recommend that the county only select bids for items which they advertised, if no company responds to an advertisement for used item, the fiscal court should rebid for a new item.

County Judge/Executive Harry L. Berry's response: Due to fluctuating prices of Diesel and Gas in the past, the county has had difficulty obtaining any responses to bids for fuel. Quotes from suppliers were obtained before each purchase to ensure best price. Research is being done to restructure bid specification to provide more flexibility, thereby attempting to entice vendor participation. The vehicle ultimately purchased was a prior model year that was not previously titled. In the future, the county's specifications will be written for both used and new when a used vehicle is anticipated. This will allow greater flexibility.

The Hardin County Fiscal Court did not have adequate controls over offsite billing service.

Fiscal Court should establish controls that could prevent or detect and lower any potential risk of fraud and possible material misstatement of revenues for offsite billing service. Fiscal Court contracted with a third party for collection of service billings that are material to the financial statements. Auditor determined that the County did not have adequate controls to monitor the activities of the third party billing service. The third party initiates, records, processes, and accounts for all transactions. Additions to and deletions from the master billing log are also initiated by the third party without the knowledge of Fiscal Court of these changes. Receipts from an offsite billing service could be understated and go undetected without controls in place to be monitored by Fiscal Court. There is a direct relationship between the third party billing service and the Fiscal Court because the County entered into an agreement with the billing service for the services to be provided. To assure that all billing and collections of receipts by a third party billing service are properly accounted for, we recommend that Fiscal Court implement controls with the billing service. These controls should include obtaining a copy of the master log of all customers to be billed, informed of additions to and deletions from the master log, changes to dumpster exemptions, and analytical review of billing to revenues received. Strong controls would provide a basis to conclude that the controls are operating effectively.

County Judge/Executive Harry L. Berry's response: Before the audit began, the county already revised its procedures and policies to provide better controls for monitoring billing activities more efficiently.

Hardin County Fiscal Court should improve controls over payroll. Strong internal control policies dictate that all timesheets should be reviewed and approved by a supervisor. Timesheets prepared by an EMS employee were not approved and the same employee submitted the detailed job analysis report to fiscal court for payroll processing. Auditors were made aware of the possible abuse of overtime by an EMS employee. After further inquiry and testing, it was determined that the EMS Director prepared an internal memorandum for job reassignments that changed this employee from a 24 hour paramedic position, to an 8 hour administration position

titled "Executive Officer". However, this employee continued to charge overtime for all pay periods after the reassignment. Timesheets were prepared manually. Auditors noted on several timesheets, overtime hours calculated were incorrect. The majority of timesheets prepared by this employee were not approved. As Executive Officer, this employee submitted the job detailed analysis report to the County for payment of payroll. This report details all employees by job title and hours worked. The job title for this employee on the job detail analysis report remained "Paramedic" but timesheets stated "Administrative". This report is required to be signed by the person preparing the report and the EMS Director. By not having strong internal controls in place for review and approval of all timesheets prepared by employees, fraudulent timesheets could be submitted and not be detected. Total overtime hours reported by the employee was 805.5 hours, which resulted in the employee receiving \$18,274 in overtime pay from April 21, 2013 through May 15, 2014. If the amount of overtime reported by the employee (\$18,274) is determined to be owed back to the county, it may be reduced by legitimate overtime worked. Fiscal court order dated August 12, 2014, stated that the EMS investigation by the Kentucky Board of EMS was dismissed because it did not fall within their regulatory powers. Both the employee and the EMS director resigned effective May 15, 2014 and May 17, 2014 respectively. To assure that timesheet calculations are accurate and overtime hours are properly recorded, we recommend that Hardin County EMS implement strong internal controls that include all timesheets being approved by a supervisor. The use of manual timesheets was discontinued and the Hardin County EMS installed Time Clock Plus after fiscal year ended June 30, 2014.

County Judge/Executive Harry L. Berry's response: To assure accuracy of time worked within EMS and other departments, the county implemented the use of automated time clocks within large departments. All timesheets are also approved by the appropriate supervisor. Additional training of payroll processing personnel is ongoing.

The Jail Commissary lacks adequate segregation of duties over receipts and expenditures.

Strong internal controls dictate no one employee should have control over every aspect of a transaction process. The Bookkeeper makes the deposits, signs most checks, makes entries into the accounting system, and performs bank reconciliations. The result of one person performing all of these duties increases the likelihood that errors or fraud could occur and go undetected by the internal control system. If segregating duties is not possible, the Jailer should implement compensating controls to reduce the risk. Such compensating controls could consist of the Jailer reviewing bank reconciliations and monthly reports, comparing the book balance to the bank balance and looking for unusual reconciling items. Additionally, the Jailer could periodically do surprise cash counts of the deposit to ensure that all funds are correctly accounted for properly.

County Jailer Danny Allen's response: We have short office staff; we have changed policies to correct.

County Judge/Executive Harry L. Berry's response: Duties have been segregated to allow controls in the form of Jailer and/or Deputy Jailer-Major approving daily deposits prepared by the Jail Administration/Director. Other administrative staff will deliver prepared deposits to the bank. The Jailer, Deputy Jailer-Major, and Administrative Community Service Director are authorized to sign checks prepared by the Jail Administration/Director.

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

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