



Auditor of Public Accounts
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Harmon Releases Audit of Perry County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Perry 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 Perry County Fiscal Court in accordance with accounting principles generally accepted in the United States. 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:

Invoices should be paid within 30 working days. We found three invoices totaling \$551,137 that were not paid timely. KRS 65.140(2) states that all bills for goods or services shall be paid within 30 working days of receipt of vendor's invoice except when payment is delayed because the purchaser has 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 1% interest penalty should be added. We recommend that the county comply with KRS 65.140 by paying invoices within 30 working days in the future.

Former County Judge/Executive Denny Ray Noble's response: The Fiscal Court will pay all invoices within 30 days to the best of our abilities.

Perry County should accurately report debt on the quarterly financial statement. The debt schedule presented with the 4th Quarter Report (which also serves as the year-end financial statement) inaccurately reported debt obligations. The quarterly report did not include the Perry County Justice Center Bonds with an outstanding balance of \$3,845,000. In addition, three additional debt issues shown have the incorrect principal balances. Due to these errors and the omission, long-term debt was understated by \$4,440,000. An accurate debt schedule is necessary for both Department of Local Government reporting requirements and for that of the financial statements. We recommend that Perry County ensure that the correct amounts are shown all financial statements presented to the public and the Department of Local Government. We further recommend that Perry County review all aspects of the Quarterly Reports before signing and submitting.

Former County Judge/Executive Denny Ray Noble's response: The Fiscal Court will see what our options are as far as reporting the Perry County Justice Center Bond since the Fiscal Court does not pay this debt. It is paid by the Justice Center Corporation.

Perry County Fiscal Court did not properly account for deferred compensation. During our test of the county's payroll, we found that the deferred compensation withholdings were not subject to social security and Medicare taxes. According to the IRS publication 525, "An elective deferral . . . is not included in wages subject to income tax at the time contributed. However, it is included in wages subject to social security and Medicare taxes." This could cause wages to be reported incorrectly on an employee's W-2s and social security and Medicare taxes to not be reported properly. We recommend the Perry County Fiscal Court seek the advice of a tax professional to determine whether employees' W-2s and withholding reports need to be amended.

Former County Judge/Executive Denny Ray Noble's response: After the Auditor made us aware of the taxes being cut incorrectly on the Deferred Compensation, I took all the payroll information and rules set for tax deductions in regards to Deferred Compensation to a local CPA who assisted the fiscal court in making tax adjustments. Also, he reviewed the next payroll to ensure taxes were being cut correctly.

Perry County Fiscal court should improve controls over payroll procedures. The fiscal court has deficiencies in internal controls over payroll. The deficiencies listed below occurred because the fiscal court lacked proper oversight over the payroll function. During our review of payroll, we noted the following:

- Timecards were not being properly completed. Of the timesheets tested, we noted the following:
 - Timecards tested did not indicate the amount of time taken for lunch and/or breaks.
 - Timecards for five employees were not signed by a supervisor

- Timecard for one employee did not indicate time worked for the second week for pay period and one employee did not clock out at the end of his shift.
- One road department employee clocked in 30 minutes early to open the shop but did not include this time on the worksheet submitted to the treasurer for pay period. If this time had been included on the worksheet, the employee would have been entitled to overtime for time worked.
- The County did not prepare a pay plan as required by their policies and procedures. The County did not approve and set the salaries for County employees. Only pay rate increases were noted per reading the minutes.

Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit timesheets for payroll processing. Per the County's Policies and Procedures Manual a pay plan should be prepared and shall prescribe for each class a minimum and maximum rate of pay. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every County officer and employee. The County should 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 are approved by the Fiscal Court. We recommend the Fiscal Court reevaluate their controls over payroll to determine the controls that would best address the findings listed above. The Fiscal Court may determine the controls listed above are adequate or may decide to implement other controls to eliminate such internal control weaknesses in the future.

Former County Judge/Executive Denny Ray Noble's response:

- *On July 1, 2015 the Fiscal Court adopted a new Policy and Procedure manual and Administrative Code that directly states that the Fiscal Court employees are given an hour for lunch and they do not clock in and out for this.*
- *All supervisors have been told to sign or initial each timecard (the finance officer is to check and make sure all timecards have been signed prior to filing them each pay period)*
- *All supervisors have been told to be sure that time reported to the treasurer matches what is on the timecard.*
- *Road supervisor has been told to report employees' time as stated on the time card*
- *On January 22, 2015 the Fiscal Court voted on hiring all employees and set pay rate for each employee and will continue to do this every January in the future.*

The Perry County Fiscal Court should establish adequate controls over the Public Properties Corporation Fund. The Perry County Fiscal Court did not maintain adequate controls over the Public Properties Corporation Bond Fund or the Justice Center Corporation Fund. During testing, we noted that the Treasurer did not reconcile bank statements or prepare financial statements for Public Properties Corporation Bond Fund or the Justice Center Corporation Fund. These are unbudgeted funds of the Fiscal Court. The Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation Bond Fund and the Justice Center Corporation Fund. The Fiscal Court should require that proper records be maintained for these unbudgeted funds. The Fiscal Court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds.

We recommend the Perry County Fiscal Court reconcile these accounts and prepare a financial statement for the Public Properties Corporation Bond Fund and the Justice Center Corporation Fund.

Former County Judge/Executive Denny Ray Noble's response: In the future the Treasurer will prepare bank reconciliations or financial statements for all Public Properties Corporation Bond Funds.

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

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