



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Rockcastle County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Rockcastle 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 Rockcastle 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 ensure appropriations do not exceed approved budgets. While reviewing budgetary comparisons for the fiscal year ending June 30, 2014, it was noted that General Fund – Transfers To, exceeded the county’s approved budget. The General Fund – Transfers To Other Funds exceeded the county’s approved budget by \$104,612.

According to KRS 68.300, “Any appropriations made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim”. The county was not compliant with KRS 68.300.

We recommend the County Treasurer and Finance Officer monitor the budget more closely and the fiscal court amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding line-item budget amounts.

Judge/Executive Doug Bishop's response: Agree.

The Jailer should ensure daily receipts are batched daily and compliant with KRS 64.840.

During receipts testing at the jail, the auditor noted that receipts were not batched daily. A three part receipt was being utilized; however, the receipts retained by employees who collected the monies daily were thrown away after the deposits were prepared. By not having a daily deposit process in place, funds could go missing or not be properly accounted for. Per KRS 64.840(2), "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." We recommend the Jailer ensure all funds are properly accounted for on a daily basis and the daily closeout worksheet and receipts are maintained.

Judge/Executive Doug Bishop's response: Agree.

Jailer Carlos McClure's response: Copies of all receipts are kept, sorted separately daily, and clearly marked with day/month/year on commissary and all money accepted.

The Fiscal Court should ensure compliance with KRS 42.455 regarding Local Government Economic Assistance (LGEA) disbursements. The county failed to adhere to KRS 42.455 with regards to LGEA disbursements. The fiscal court did not expend 30% of LGEA funds as established in this KRS. As required by KRS 42.455(2), "...Thirty percent (30%) of all moneys in the fund shall be spent on the coal haul road system as described in subsection (7) of this section... ." We recommend the fiscal court ensure compliance with KRS 42.455 for LGEA funds received.

Judge/Executive Doug Bishop's response: We will discuss with the Department of Transportation. We did not know if the county has any county coal haul roads, but will expend the required amount on county roads in the future.

The Fiscal Court should prepare and present a schedule of expenditure of Federal Awards to Department for Local Government. The County received and expended federal grant funds during fiscal year 2014. The Single Audit Act of 1984 established requirements for audits of federal grant funds under OMB Circular A-133 states that any entity that expends more than \$500,000 in federal awards is required to have a single audit conducted. Rockcastle County Fiscal Court met that threshold for one federal program. The Department of Local Government (DLG) requires an accurate Schedule of Expenditures of Federal Awards (SEFA) be maintained and submitted with their quarterly reports. This schedule was not prepared and provided to DLG. Not complying with this increases the risk of misstated financial statements. We recommend the county prepare a SEFA each fiscal year and timely submit it to DLG.

Judge/Executive Doug Bishop's response: Agree with finding, will see this schedule is completed in the future.

The Fiscal Court should ensure all timesheets are prepared and approved prior to payment. KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee. During our testing of payroll, we noted four (4) employees were not completing a timesheet. One (1) timesheet was calculated incorrectly and had not been signed by the employee or an approving authority. Three (3) other timesheets had not been signed by an approving authority. Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. Timesheets have not been required for salaried employees in the past. To ensure compliance with KRS 337.320, we recommend all employees, other than elected officials, complete a timesheet. We further recommend the Fiscal Court review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

Judge/Executive Doug Bishop's response: Agree. Will discuss with supervisors to review timesheets. Treasurer reluctantly agrees.

The Jail lacks adequate segregation of duties over receipts, disbursements, and reconciliations. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. Without proper segregation of duties, inaccurate financial reporting and/or misappropriation of assets can occur.

Due to the limited number of employees, the Jail has a lack of adequate segregation of duties over receipts, disbursements and reconciliations. The bookkeeper prepares deposits and posts these deposits to the receipts ledger. The bookkeeper also prepares and signs checks and posts these disbursements to the disbursements ledger. Furthermore, the bookkeeper is also responsible for reconciling to the bank account. By allowing the same employee to perform all functions relating to receipts, disbursements and reconciliations, the risk increases that errors or fraud could occur without being detected.

Auditors also noted that disbursements are paid without any documentation of approval by the Jailer. The Jailer also has a signature stamp that is used by the bookkeeper and other office personnel.

To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and/or misappropriation of assets, we recommend the Jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

- The Jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The Jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The Jailer should review supporting documentation for all disbursements made. The Jailer should also compare disbursements written to the disbursements ledger. The Jailer should document this by initialing the supporting documentation and the disbursements ledger.

- The Jailer should set up the Commissary account to require two signatures on checks, with one being the Jailer's signature.
- The Jailer should maintain access of his signature stamp by keeping it locked up in a secure location with limited access by others.
- The Jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

Judge/Executive Doug Bishop's response: Have discussed this matter with the newly elected jailer. He indicates he will implement changes as personnel allows.

Jailer Carlos McClure's response: Jailer and Assistant Jailer will be signing and initialing on receipts and deposits of money.

The Jailer should maintain supporting documenting over inmate commissary purchases and sales taxes collected/paid. During testing of the inmate accounts and submission/payment of sales taxes, the jailer was unable to locate the signed commissary order forms and the Sales Tax forms to provide to the auditor. The former jailer was unable to produce the necessary reports.

The Jail Commissary does maintain daily commissary order forms, however the current organizational system in place is not efficient. When inmates receive goods from the Commissary, they sign a copy of the order form; however these are not maintained properly by the Commissary. If a problem or dispute occurs between the inmate and the Commissary over charges deducted from the inmates account, the Jailer is not able to research to determine if the correct charges were made. In addition, if the Commissary order forms are destroyed, there is no supporting documentation for reductions in the inmate account balances for commissary purchases.

The auditor was able to look at the cancelled check where the sales taxes for the year were paid; however, the monthly reports were not available. The former jailer was unable to produce the necessary reports. These reports should be maintained with the appropriate supporting documentation to ensure accuracy and proper reporting.

Good internal controls dictate that all decreases in inmate account balances are reviewed and signed by the inmate, and all supporting documentation is maintained. Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected.

We recommend that the daily signed commissary order forms and monthly sales tax reports be maintained and properly supported.

Judge/Executive Doug Bishop's response: Agree.

Jailer Carlos McClure's response: All commissary slips are signed by inmates and deputies on a daily basis when commissary is passed. Receipts are filed on a daily basis.

The Jailer should improve procedures over reconciling inmate accounts. During testing of the inmate account at the jail, auditors found that the inmate account is not being properly reconciled. Jail personnel are marking cleared items as reconciled in their accounting software; however the software is not producing a reconciliation that documents the ledger balance in the account. The report that is being generated is a restatement of the checking account statement, not a reconciliation to the ledger balance.

As a result of this, the auditor noted two checks being carried on the commissary account that require action. Check 1651 to King Bottling for \$41.10 and check 1666 to Securus for \$1,881.47. Auditors confirmed with Securus that no outstanding amounts are due from the Detention Center as of June 30, 2014. Jail personnel should confirm with King Bottling that all accounts are up to date. If the amount is due to King Bottling, check 1651 should be voided and reissued to the vendor. If the amount is not due to the vendor, the check should be voided and the amount added back into the balance.

We recommend the Jailer improve the reconciliation process. If a reconciliation report is available, it should be printed and attached to the bank statement as evidence that reconciliation between ledger and bank balances is being performed. If a reconciliation report is not available, the jail should find an alternative method of reconciling the bank balance to the ledger balance. This could include a manual reconciliation on the back of the bank statement.

Judge/Executive Doug Bishop's response: Agree.

Jailer Carlos McClure's response: Need the process for reconciliation to be updated and reports to be printed out.

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

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