



Auditor of Public Accounts
Mike Harmon

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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, 2015. 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:

The county should pay invoices within 30 working days. During the course of our audit, we found 18 invoices totaling \$343,057 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: Revenue reimbursement from state.

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: CSEPP and Road are complete. In process of implementing all other departments.

The county should repay operating loans by June 30. On May 7, 2015, the county borrowed \$200,580 for the stated purpose of leasing vehicles, however the money was placed in the General Fund and used for operating purposes. Since these funds were not used for leasing per KRS 65.946 definition of leasing personal property but rather for operating purposes, then these funds should have been repaid by June 30, 2015. KRS 65.7707 states this type of debt "shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued." Using this definition, the funds should have been repaid by June 30, 2015, however the maturity date per the amortization schedule is May 7, 2017. The General Fund had a cash balance of \$53,527 as of June 30, 2015, which was insufficient to repay the \$192,631 balance of the operating loan as required by statute.

County Judge/Executive Wallace Taylor's response: Based upon lease agreement with local bank and approved by DLG.

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 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: Noted.

Excess restricted road funds of \$78,648 were transferred to the general fund, increasing to \$85,557 the liability 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 \$78,648 to the General Fund, increasing to \$85,557 the liability 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 fiscal court had actual disbursements in excess of budgeted disbursements. The fiscal court had actual disbursements in excess of budgeted disbursements which is in violation of KRS 68.300. The General Fund disbursements exceeded the budget by \$11,076. We recommend that the fiscal court limit disbursements to the budgeted amount.

County Judge/Executive Wallace Taylor's response: Noted.

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: In process of training personnel to handle bank issues.

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

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