



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Rockcastle County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Rockcastle 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 Rockcastle 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 fiscal court did not advertise for bids on all purchases that exceed \$20,000. The Rockcastle County Fiscal Court did not advertise for bids for the purchase of fire equipment exceeding \$20,000 during fiscal year 2015. The fiscal court entered into a debt agreement with KACO for \$280,000 to purchase fire equipment. The original agreement was approved; however, the actual purchases were never bid.

KRS 424.260(1) states, “Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, ... no county, ... may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty

thousand dollars (\$20,000) without first making newspaper advertisement for bids.” Competitive bidding ensures the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit.

We recommend the fiscal court follow the requirements of KRS 424.260. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met.

County Judge/Executive Doug Bishop’s response: Agree. Bids should have been obtained. The County will follow the statute in the future.

The fiscal court did not properly budget for and record all debt related disbursements. The Rockcastle County Fiscal Court entered into a \$415,000 lease purchase agreement with the Kentucky Country Music Hall of Fame for two houses located on the grounds of the Renfro Valley complex and failed to properly budget for and record the transaction. The fiscal court obtained a short term loan for \$400,000 in July 2014 in anticipation of closing on the lease purchase within 90 days. The fiscal court properly budgeted and recorded the initial transaction; however, when the fiscal court closed on the lease purchase agreement, an additional \$415,000 was borrowed to satisfy the short term loan and pay fees associated with the agreement. The second transaction did not run through the fiscal court’s bank accounts and was not included in the fiscal court’s budget process or reflected on the fiscal court’s Fourth Quarter Financial Report. As a result, the county failed to properly budget and record \$415,000 in debt related receipts and disbursements for the fiscal year.

KRS 68.300 states, “Any appropriation 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.” KRS 68.280 states, “The fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby.” Because the county failed to amend the budget according to KRS 68.280, they were not in compliance with statute.

We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all fiscal court disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements, including those handled by a third-party lender.

County Judge/Executive Doug Bishop’s response: This was a unique situation. The County will attempt to follow the KRS statute in the future.

The fiscal court did not ensure all timesheets were prepared and approved prior to payment. During our testing of payroll, we noted two employees were not completing a timesheet. The employees that did not have timesheets for the periods tested were the county treasurer and dog warden. Two other timesheets selected for testing had not been signed by the employee or by an approving authority. Both of these timesheets were from the Rockcastle County Detention Center.

Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. KRS 337.320 requires all employers to keep a record of the hours worked each day and week by each employee. 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.

County Judge/Executive Doug Bishop's response: Agree with timesheets, will comply in the future. However, disagree with the Fiscal Court reviewing time sheets prior to payment. It would be burdensome & not feasible to have the Fiscal Court review time sheets every two (2) weeks. This comment needs to be reconsidered!

Auditor's Reply: We recommend an employee of the fiscal court review timesheets, not the entire fiscal court.

Deposits to the jail commissary account were not adequately supported. Deposits made into the commissary (profit) account during the period July 1, 2014, through January 1, 2015, did not have appropriate supporting documentation. During the period January 1, 2015, through June 30, 2015, one deposit had no supporting documentation and another deposit was not made in a timely manner (this deposit consisted of two checks from the inmate account that had not been signed). Deposits to the inmate account could not be tested due to the lack of financial information for the inmate account.

Our review of internal controls revealed that the jail was not making daily deposits to the inmate account. The lack of supporting documentation prior to January 1 is the result of an administration change. The other two issues noted with the commissary (profit) receipts appear to be oversights by the jail commissary bookkeeping staff.

County Jailer Carlos McClure's response: Beginning process of daily to every 3 days to do deposits. Kiosk machine prints out reports of deposits & receipts. Policy & procedure pending.

The jailer did not present a jail commissary financial statement to the county treasurer for fiscal year ending June 30, 2015. A jail commissary financial statement was not presented to the county treasurer for the fiscal year ending June 30, 2015 as required by KRS 441.135 because the jailer was not aware of the requirement. As a result, the county treasurer and fiscal court were not made aware of the financial activity of the jail commissary fund. KRS 441.135(2) states the jailer "shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." We recommend the jailer prepare an accurate annual financial statement for the jail commissary fund and present the financial statement to the county treasurer as required.

County Jailer Carlos McClure's response: Unaware of financial report. I will work with County Treasurer to assist jail in preparing financial statements.

The jailer did not establish procedures to reconcile book and bank balances on a monthly basis. The jailer maintains a manual general ledger of receipts and disbursements for the commissary (profit) account along with a checkbook register. An account balance is maintained in both of these ledgers. As of June 30, 2015, there was an \$894 difference between the ending balance in the manual ledger and the checkbook register. Additionally, there was no reconciliation between the manual ledger and the bank statement. There was evidence of a comparison to see what items had cleared, but there was no completed reconciliation between the balances. The jailer failed to adopt a policy requiring a monthly reconciliation between amounts reflected on the bank statements and the ledgers. The difference noted above could have been resolved if reconciliation procedures were established by the jailer.

Failure to reconcile ledgers can lead to financial reporting errors or misappropriations being undetected. KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual*, under minimum requirements for handling of public funds, requires monthly reconciliation of bank statements. We recommend the jailer establish a policy requiring monthly reconciliations of ledger and bank balances to minimize financial reporting errors and the risk of undetected fraudulent activity.

County Jailer Carlos McClure's response: Beginning process of monthly reconciliations, bank statements, ledger books along with training to accomplish goals for fiscal court.

Jailer failed to maintain required accounting records for the inmate account. The jailer failed to maintain required accounting records for the inmate account during the fiscal year ending June 30, 2015. Inmate account financial information was maintained in the accounting software of the commissary service provider through June 2015. In July 2015, the jailer changed commissary service providers, and the financial information maintained by the previous commissary service provider was not obtained. The jailer has made several unsuccessful attempts to retrieve the information from the previous service provider.

The lack of financial information for the inmate account prevents the performance of audit procedures necessary to ensure the accuracy of amounts presented for the inmate account, and auditors could not determine if the inmate account balance was sufficient to cover the jail's fiduciary responsibility to the inmates. Additionally, the lack of accounting records could prevent the jailer from detecting fraudulent activity within the account. KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials.

The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including:

- Books of original entry for receipts and disbursements.
- Monthly bank reconciliations.
- Daily deposits to a federally insured banking institution.

We recommend the jailer obtain financial information for the inmate account from the previous commissary service provider including receipts and disbursements, inmate account balances, outstanding accounts receivable balances, and any other necessary financial information as of and for the fiscal year ending June 30, 2015. Information obtained should also cover the period July 1, 2015 through the date the Jailer changed commissary service providers. The jailer will need this information to accurately report financial information for fiscal year 2016.

The jailer should obtain inmate balances as of the last day they used the former commissary service provider to compare to the first day of the current commissary service provider in order to verify that they began with the correct inmate balances. Further, the jailer should ensure that the total inmate balances held on the day of transfer to the new commissary vendor was transferred to the new bank account. If funds remain in the former commissary inmate bank account, the jailer should try to identify the owners of those funds. If the ownership of the funds cannot be determined, the balance should be held in escrow for three years, then escheat to the state treasury as unclaimed funds. Jail personnel charged with accounting for commissary and inmate funds should receive further training on proper bookkeeping for each of the accounts.

County Jailer Carlos McClure's response: We have since received reports from former commissary provider – Swanson-Trinity. Will provide more adequate training for staff and allot appropriate time.

The jail commissary lacks adequate segregation of duties over receipts, disbursements, and reconciliations. Due to a limited number of employees, the jail commissary lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper prepares deposits and posts these deposits to the general ledger. The bookkeeper also prepares and signs checks and posts these disbursements to the general ledger. Additionally, the bookkeeper is responsible for preparing reconciliations between the bank account and ledgers. Allowing the same employee to perform all functions relating to receipts, disbursements, and reconciliations increases the risk of undetected errors or fraud.

Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and 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 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.

County Jailer Carlos McClure's response: Jailer is beginning process of comparing & initialing bank reconciliations & balances in check books.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

