



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Russell County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Russell 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 Russell 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 had weak internal controls over leave records. The fiscal court paid a total of \$107,624 to four employees for accumulated leave time without adequate documentation to support the balances.

During the year, four county employees requested reimbursement payments from the fiscal court for their accumulated leave balances. The employees were unable to provide any formal records that reflected either the accumulation of leave time or their total balances. However, each employee stated what they believed to be their accumulated total leave balances, which were later used to calculate the payments made to them by the fiscal court.

Upon examination of each employee's personnel records, the auditor found attendance records that included detailed information regarding yearly carryover, earning, usage, and the accumulation of unused leave time up until the date that reimbursement payments were requested.

When using balances reflected in the employee's personnel files, the calculated payout for leave balances would have totaled \$36,522. This amount was \$71,102 less than what the fiscal court actually paid.

Lack of adequate internal controls and reviews of the county's payroll processes has allowed payouts for possibly inaccurate leave time balances.

The county's policy indicates that employees hired prior to 2010 can carry forward a maximum of 180 sick days and 100 sick days for any employee hired after 2010. However, the county should maintain accurate leave records and properly review all payroll processes to ensure all payouts are accurate for leave time balances maintained.

We recommend the fiscal court maintain accurate leave time records for all county employees. Additionally, we recommend the fiscal court implement stronger internal controls that would include thorough reviews over the payroll process.

County judge/executive's response: In December 2014, we were informed by the office manager of the sheriff's office that in the past, during the former Sheriff's tenure, they had not maintained records of leave balances for employees. We were also told after several years of audit and recommendations from auditors for the Sheriff to keep accurate leave balance records, the office began doing so. However, because of failure to keep the records for so many years prior to this, there was a discrepancy of leave balances when it came time for the retiring employees to retire. We were also informed by the office manager that after speaking with KY Wage and Hour personnel, that the retiring employees were entitled to the accumulated leave even though not it was not documented. The County Attorney also spoke with a KACO attorney regarding the undocumented leave time as well as KY Wage and Hour and was also informed there was a responsibility to pay the leave balances. We have attached signed affidavits from both former Sheriffs regarding the retiring employees leave time balances, which warranted the payout amount by the fiscal court. Also, attached is a letter from the County Attorney regarding his involvement/opinion in this matter.

In addition, the fiscal court will add language in its Administrative Code, to require excess fee offices to provide monthly documentation of all employee leave balances.

Auditor's reply: We reviewed the information the fiscal court provided. The information is not included as part of the fiscal court's response in the audit report. While it helped to explain why the fiscal court paid the amounts they paid, the actual documentation obtained during the audit and available to the fiscal court at the time the payments were approved was not sufficient to support the amounts paid. This is why our recommendation to have proper controls and maintain proper documentation is important.

The fiscal court did not follow their purchase and procurement procedures. Of the 59 fiscal court disbursements tested, the following was noted:

- One disbursement was paid more than 30 days past due.
- For almost all disbursements the purchase order date & the date invoice stamped received were the same. For example, road projects should have been reviewed with budget and given a purchase order number and maximum amount available to spend before the project was completed.
- Twelve invoices, totaling \$1,128,592, for road work were paid from the invoice without any supporting documentation, such as signed haul tickets, to ensure that the amount billed by the companies was the amount received by the county.
- Petty cash disbursements totaling \$2,000 were issued for two separate pass through federal grants. The only supporting documentation used to approve the disbursements was purchase orders from the grant partner (see Comment 2015-003).
- One grant disbursement totaling \$8,000 was issued to purchase gift cards. Again, the only supporting documentation used to approve the disbursement was a purchase order from the grant partner (see Comment 2015-003).

The findings are the result of lack of segregation of duties and failure of internal controls.

By circumventing the procedures in place which mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud. By approving grant disbursements without reviewing the grant terms the fiscal court is exposing the county to the risk of repayment to state and/or federal entities.

The State Local Finance Officer, given the authority by KRS 68.210, requires all expenditures to be accompanied by a purchase order, within budgeted amounts, and sufficiently documented. KRS 65.140(2) states, "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

We recommend fiscal court follow the procedures in place by obtaining purchase orders *before* any goods are purchased or service is conducted. We recommend the fiscal court maintain supporting documentation (such as haul tickets) with the original invoices and purchase orders. Those documents should be reviewed along with the invoice presented to ensure the county is charged appropriately. We recommend the haul tickets or packing slip be signed by an employee of the county upon delivery. We recommend the fiscal court pay all disbursements within 30 working days in compliance with KRS 65.140. Furthermore, we recommend the fiscal court review grant contracts before approving the disbursement.

*County judge/executive's response: **1st Bullet Point:** We held payment on one invoice due to the fact the vendor had not provided the service they were hired to provide. We held the payment until such time the services were performed.*

2nd Bullet Point: *County employees are all aware of the fiscal court policy on obtaining a purchase order prior to the purchase of goods or services. However, in MANY instances, a purchase order is obtained via telephone and later that day the employee will drop off the receipt or invoice which will also have the date stamp of the same day the purchase order was issued.*

3rd Bullet Point: *The invoices questioned, were all invoices for work that was performed in conjunction with the KY Department of Transportation Rural & Municipal Aid. Each year, KY Dept. of Transportation, District 8 Engineers, review roads in the county that have been submitted for road resurfacing. The engineers measure each road for tonnage required for resurfacing. After work is completed, all invoices are sent to KY Dept. of Transportation for review. Tonnage provided by the asphalt contractor are compared to the tonnage provided by the District 8 engineers to make sure the proper variance of tonnage exists for the resurfacing, and if acceptable, payments are made to the asphalt contractor. Note: There could not be a discrepancy in the amount of asphalt per haul, as when work was reviewed, it would be evident any portion of the road that did not receive the asphalt.*

For Bullet Points 4 & 5 please see attached response and grant documents provided by the grant recipient, Partners & Prevention. Note:* *The Fiscal Court has informed the agency in which the fiscal court is acting as a pass thru agent, should their response not be adequate to remove these audit findings, the Judge Executive will recommend to the fiscal court the agency will have to find a new pass thru host.*

Auditor's reply: The fiscal court cannot avoid their responsibility for oversight and monitoring of road disbursements by relying on the Kentucky Transportation Cabinet to perform this management function. Proper supporting documentation of road work is necessary to ensure work was performed on county roads.

The fiscal court approved the use of federal grant funds to purchase gift cards. The fiscal court paid disbursements listed as 'petty cash' totaling \$2,000 using pass-through federal grant funds from the Department of Health and Human Services. The only supporting documentation was purchase orders from the grantee. The grantee provided auditors with receipts which materially agreed to the amounts disbursed by fiscal court. However, the auditors could find no mention of this practice being allowable in the grant contract. Additionally, the fiscal court paid a disbursement of \$8,000 using the same pass-through federal grant funds to purchase gift cards. Again, the only supporting documentation was a purchase order from the grantee. This purchase order was issued at the very end of the grant period and encompassed the majority of unused grant funds. A total of 74 gift cards ranging in value from \$25 to \$200 (for a total value of \$7,600) were purchased with an additional cost of \$400 for card activation fees. After subtracting invoices and counting cards physically present a total of \$786 was unaccounted for.

The findings are the result of lack of segregation of duties and failure of internal controls regarding purchase and procurement procedures.

The grant from the Department of Health and Human Services was for a Drug Free Communities Support Program. These funds were designated to complete a local Tobacco Free School signage project and a Social Norms Media campaign.

By approving grant disbursements without reviewing the grant terms, the fiscal court is exposing the county to the risk of repayment of grant funds to state and/or federal entities.

The State Local Finance Officer, given the authority by KRS 68.210, requires all expenditures to be accompanied by a purchase order, within budgeted amounts, and sufficiently documented.

We recommend the fiscal court review grant contracts before issuing disbursements. Also, we recommend the fiscal court require the grantee to provide sufficient documentation to the court before payment is made.

County judge/executive's response: Russell County Partners in Prevention (RCPIP), in response to Audit finding:

The purchased amount of gift cards was for allowable and approved activities/projects within the DFC Grant action plan. There were 74 cards purchased, totaling \$7600; activation fees total \$411.30, with receipt total of \$8011.30.

One activity from the DFC work-plan involved Tobacco Free Schools-tobacco free school signs were purchased, for which receipt (invoice)/documentation exist to account for this amount. There were 20 cards, \$3700 (\$3725.10) value-18, \$200 (\$206.95) cards and 2, \$50 (\$54.95) cards. An invoice is attached for \$3600 from Sign One. The two, \$50 (\$54.95) cards are unaccounted for out of the 20 cards provided for signs, a value of \$109.90.

A second activity, the Positive Community Norms Campaign, was in process. Data analysis revealed Norm messages could not be generated using the available data due to low survey participation rate. That project could not be completed as intended, instead the project guide recommended that the Coalition re-assess, re-engage, and educate coalition/community about the Positive Community Norm framework. The cards that physically remain and are accounted for were intended for this activity-total value \$3700 (\$3947.65 total with activation fee amounts).

A third activity was for Red Ribbon Drug Awareness Week. There were 6, \$25 (\$28.95) cards given to Russell County Youth Service Center for Red Ribbon Drug Awareness Week at the middle school in October 2014.

A fourth activity was for Middle School Academic Rewards. There was 1, 50 (\$54.95) card given to Russell County Youth Service Center (YSC) for Middle School Academic Rewards in October 2014.

In total, there are 2 of the 74 cards unaccounted for in documentation-2, \$50 (\$54.95) cards-Total \$109.90. The RCPIP Board had no knowledge that the gift cards were an unapproved, unallowable purchase.

Auditor's reply: We reviewed the information the fiscal court provided. Grant funds have an increased risk of improper use when they are spent on gift cards and petty cash. Management loses its oversight and monitoring of grant funds by not using the funds for direct grant

disbursements. In addition, the grant has ended and there are still gift cards that remain unused, so it appears that the funds were not needed to meet the objectives of the grant.

Jail commissary year-end statements were not prepared in accordance with reporting requirements and were not accurate. The year-end jail commissary report did not agree to the receipts and disbursements ledgers or to the bank information for the fiscal year ending June 30, 2015. Additionally, the annual report remitted did not break-down receipts and disbursements.

The jailer was not aware of the required format. Additionally, the jailer switched commissary services and computer software. Since the changeover did not happen until December 16, 2014, the printout given to the fiscal court did not include information prior to that date.

The information presented did not allow transparency of the jail commissary fund.

The Department for Local Government (DLG), given authority by KRS 68.210, requires minimum accounting and reporting standards. The *County Budget Preparation and State Local Finance Officer Policy Manual* specifies these standards and required formats for the jail commissary fund. Inherent in these requirements is that the reports submitted are materially accurate.

We recommend the jailer ensure the year-end summary report is accurate and follows DLG reporting requirements.

County jailer's response: We will comply with the auditor's recommendation to ensure the year-end summary report is accurate and follow the DLG reporting requirements.

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

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