



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

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statements of the Spencer 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 Spencer 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 comment:

The Spencer County Fiscal Court lacks adequate internal controls over the payroll process. The Spencer County Fiscal Court does not have sufficient internal controls in place to ensure accurate payroll processing and adequate recordkeeping.

The timesheets are prepared manually and do not include proper information for each employee as required. Timesheets are not checked by supervisors for proper calculation of time worked or for employee signature prior to being submitted to the county treasurer for payment. Employees are allowed to convert any compensatory/vacation leave to additional pay on any timesheet without proper documentation. Compensatory time earned for the pay period submitted may be added to the employee’s leave balance or paid to the employee. Employees may also split the

time and get paid for some hours but add the remaining to their leave balance. This is not properly documented and makes calculations for hours work for the pay period difficult. In addition, personnel files for each employee do not contain all required information and are not kept in an orderly manner. Updated personnel information is vital in determining proper withholdings and pay rates for each employee when calculating payroll.

Without accurate timesheet calculations, employees may be incorrectly paid and cause payroll to be misstated. Leave balances may also be misstated due to errors on timesheets. Excessive time is spent by county personnel recalculating time sheets and obtaining proper signatures prior to processing payroll. In addition, without updated personnel file information, calculations for withholdings, retirement and health insurance may be incorrect. Additional audit time is required to test payroll. Deferred Compensation paid by the county on behalf of the employees included an employee who did not have the reported amount withheld from his salary.

KRS 337.320(1) states, in part, "Every employer shall keep a record of . . . [t]he hours worked each day and each week by each employee." KRS 337.320(2) further requires "Such records shall be kept on file for at least one (1) year after entry." In addition, good accounting and recordkeeping practices dictate that timesheets should be kept for payroll verification, as a record of leave time used and overtime paid, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. Further, these documents are necessary to support accurate reporting to the Kentucky Retirement System and state and federal taxing authorities. Timesheets should be signed by both the employee and a direct supervisor to document and acknowledge agreement by the employee and supervisor that the timesheet accurately reflects time worked during the period.

Adequate internal controls over personnel files maintained should contain at least information for the following; employment application, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, W-4 form, INS Form I-9, specimen signatures, and termination data, where appropriate.

We recommend that timesheets be updated to include the hours worked each day and each week by each employee. A direct supervisor should review timesheets for accuracy and sign to acknowledge approval prior to submission to the county to minimize errors. Any changes to the time submitted on a timesheet should include proper documentation by the employee of acknowledgement and agreement with the changes. All personnel files should be updated to include employment applications, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, W-4 form, INS Form I-9, specimen signatures, and termination data, where appropriate. The personnel files should be kept in an orderly manner to easily access the required information. The county treasurer should contact the deferred compensation administrator to determine proper procedures for the employee who received the benefit of deferred compensation without having the reported amount withheld from his salary.

County Judge/Executive's response: The current administration is committed to making improvements to the payroll process as recommended in the auditors comment. We have updated the employee timesheets and have included a coversheet for department heads as a summary for each pay period to assure they have been checked for accuracy. All department heads have been directed to carefully examine employee timesheets to assure they are complete, signed and checked for accuracy of calculations of hours worked prior to submitting them to the County Finance Officer and County Treasurer. Any adjustments or corrections will be properly acknowledged by employees. We welcome this opportunity to embrace the auditors recommendations and improve our payroll processes, files and internal controls.

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

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