



**Auditor of Public Accounts
Mike Harmon**

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Leslie County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Leslie County Fiscal Court for the fiscal year ended June 30, 2019. 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 fund balances of the Leslie County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

As described in Note 1 of the financial statement, the financial statement is prepared by the Leslie County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government (DLG) to demonstrate compliance with the Commonwealth of Kentucky’s regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Leslie County Fiscal Court as of June 30, 2019, or changes in financial position or cash flows thereof for the year then ended.

The regulatory basis of accounting requires the jail commissary fund receipts and disbursements to be included on the Leslie County Fiscal Court’s Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis. The Leslie County Jailer did not maintain adequate

accounting records or account for properly the receipts and disbursements of the jail commissary fund. As a result, auditors were unable to obtain sufficient appropriate audit evidence to conclude that the financial information provided for the jail commissary receipts, disbursements, and fund balance were free from material misstatement or reasonably accurate.

In our opinion, except for the effects of the matters discussed in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statement referred to above presents fairly, in all material respects, the fund balances of Leslie County, Kentucky as of June 30, 2019, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the DLG described in Note 1.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

The Leslie County Jailer did not maintain adequate accounting records resulting in a qualified opinion on the financial statement: The Leslie County Jail Commissary operates two bank accounts for the operation of the jail commissary, one for inmates and another for profits. The inmate account is to be used for the holding of inmate funds and the other is to be used for the proceeds from the sale of commissary items and purchases of the commissary account for other lawful purposes.

The Leslie County Jailer is required to present a financial statement for commissary activity to the fiscal court at the end of each fiscal year. The jailer did not present a financial statement for fiscal year 2019 as required by the Department for Local Government’s (DLG) *Budget Preparation and State Local Finance Officer Policy Manual*. The jailer later provided a financial statement to auditors, but due to inconsistencies in the information, we were unable to rely on what was provided. Queries in the accounting software for financial information for the period under audit would yield different results at different times requested. Because of the unreliability of financial statement amounts without adequate support to explain why amounts would change, auditors were unable to overcome the audit risk with procedures.

In addition, the jailer provided auditors a financial statement for the inmate account, but no underlying accounting records could be provided to support financial statement amounts.

The jailer did not have sufficient internal controls over the financial reporting processes that would ensure the financial statements amounts are accurate and consistent. According to the jailer, the financial statements were prepared by a vendor that provides accounting software used for accounting of activity of the inmate account. In addition, the jailer was unable to provide an explanation for the inconsistencies in the financial statements for the commissary fund.

As a result, auditors were not able to obtain sufficient appropriate audit evidence to conclude that the financial statement for the jail commissary and the inmate account was free from material

misstatement. Because a financial statement was not presented to the fiscal court, the jailer was not in compliance with reporting requirements established by the DLG.

Strong internal controls require that the jailer maintain accurate accounting records for any fund held by him as jailer. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. KRS 441.135(2) states, in part, "[t]he 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 Leslie County Jailer implement strong oversight, internal controls, supervision, and review to ensure receipts are batched and deposited daily. The jailer should comply with the applicable statutes by maintaining required records. The jailer should submit an accurate annual commissary report to the county treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts and disbursements ledgers. In addition, the jailer should implement procedures to ensure that all activity of the inmate account is supported by accounting records that are appropriate and accurate.

County Jailer's Response: In an effort to determine the discrepancies in the Cash Flow Summaries for the 2019 Fiscal Year ("Attachment 1" and Attachment 2"), the Jailer contacted [software name redacted] Customer Support. It was determined that a system update was conducted by [software name redacted] on July 1, 2021, updating from the 2019 version of [software name redacted] to the current version. The inflow/outflow sections of September 22, 2021 report became more detailed and larger ("Attachment 2"), while the inflow/outflow totals remained the same on both reports (\$179,101.31). It is believed by the Jailer and [software name redacted] that the discrepancies between the two Cash Flow Summaries are most likely attributed to the system update conducted on July 1, 2021 (See, "Attachment 3"). Also, per the [software name redacted] representative, sometime around the end of 2020, the Cash Flow Summary was modified by [software name redacted] to fix "a couple of bugs that were found in that report", which could have changed the transactions reported (Also See, "Attachment 4"). It is the belief of the Jailer and [software name redacted] that the differences in these reports could have been the result of the update and/or the bugs, but mostly likely the update in July 2021.

The Jailer will continue to comply with any recommend procedures to ensure all activity is supported by accounting records, and an accurate year-end report will be provided to the Leslie County Treasurer.

Auditor's Reply: We reviewed the attachments noted in the jailer's response and it does not change our finding and recommendations.

The Leslie County Jailer did not comply with bidding requirements set forth in KRS 424.260: This is a repeat finding and was included in the prior year audit report as Finding 2018-007. The jailer purchased electronic cigarettes for use as commissary inventory from three vendors totaling \$112,614 in the fiscal year ending June 30, 2019, without obtaining bids. Because electronic

cigarettes were purchased from three separate vendors, the jailer was unaware of the requirement to obtain bids for this item. The jailer cannot be sure that electronic cigarettes were procured at the best price available without obtaining bids.

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, 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 thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.” Strong internal controls require that all invoices and contracts be maintained and reviewed to ensure that the county is paying the best and lowest price for goods/services.

We recommend the jailer comply with KRS 424.260 by obtaining bids for all purchases involving expenditures of more than \$30,000 except for those items exempted in the statute and the jailer ensure that any future state price contract purchases are reviewed thoroughly and adequate documentation is maintained.

County Jailer’s Response: Since the previous audit, the Leslie County Jailer has complied with the bidding requirements set forth in KRS 424.260, and has had all contracts approved by the Fiscal Court.

The Leslie County Jail Commissary lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations: The Leslie County Jail Commissary bookkeeper’s duties include posting receipts, preparing and posting disbursements, and completing the bank reconciliations. When one employee is responsible for the receipt, disbursement, and reconciliation of funds, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. The Leslie County Jailer has implemented compensating controls over these functions by having another employee review daily checkout sheets, reviewing bank reconciliations, reviewing invoices, and the jailer co-signs all checks. However, due to issues related to Finding 2019-001, the compensating controls in place are not operating effectively.

Due to a limited number of staff in the jail commissary, segregation of duties is not feasible. As a result, this could result in undetected misappropriation of assets and/or incorrect financial reporting.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Leslie County Jailer segregate duties over receipts, disbursements, and the reconciliation process. If segregation of duties is not possible, then the Leslie County Jailer should continue to implement compensating controls by monitoring the financial activities of the jail commissary and continue to document his review.

County Jailer's Response: This department has been consulted about the importance of maintaining proper records and accounting information. Additional training is being sought for the correction of these problems. Furthermore, the Jailer will comply with any recommended procedures to ensure all activity is supported by accounting records, and an accurate year-end report will be provided to the Leslie County Treasurer.

The Leslie County Fiscal Court lacks adequate segregation of duties over receipts, disbursements, and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The Leslie County Fiscal Court does not have adequate segregation of duties over receipts, disbursements, and reconciliations. The county treasurer is responsible for preparing deposits, posting to the receipts and disbursements ledgers, signing checks, reconciling all bank accounts, preparing monthly reports for the fiscal court and quarterly reports for Department for Local Government (DLG) with little or no documented review.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the DLG. Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, posting receipts and disbursements, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited 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.

We recommend the fiscal court separate the duties involving the opening of mail, collecting and depositing of receipts, posting receipts, disbursements, and preparation of reports and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

County Judge/Executive's Response: A new financial software has been implemented. This has allowed designated employees and Treasurer to review and obtain any financial documents anytime including all financial reports, reconciliations, receipts ledgers, and expenditure ledgers.

The Leslie County Fiscal Court did not follow proper bid laws and regulations: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. The Leslie County Fiscal Court did not properly follow proper bid laws and regulations.

- Two payments were made for road and bridge repairs that totaled \$50,800 to one vendor without receiving any submitted bids.
- Two payments were made for the cleanup of illegal dumps that totaled \$110,751 to one vendor without receiving any submitted bids.

- Bids submitted for steel driving were rejected and rebid, however no one rebid. During testing it was found that one vendor received \$451, 597, but did not have an accepted bid in place.
- Bids submitted for asphalt were rejected and rebid, however no one rebid. During testing it was found that one vendor received \$768,849, but did not have an accepted bid in place.

Sufficient internal controls were not in place over the bidding process to ensure items and services were not purchased from vendors without first advertising or receiving bids when necessary on all purchases required to be bid. By limiting competition or not receiving bids at all, fiscal court may not get the benefits of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available.

KRS 424.260(1) states, “[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, 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 thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

KRS 178.140 states, “(1) All bids for the construction or maintenance of county roads and bridges shall be received at the time and placed specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced. (2) The contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county.”

We recommend the fiscal court ensure any purchases over \$30,000 or more are bid in compliance with KRS 424.260 and ensure they obtain supporting documentation that bid terms are complied with.

County Judge/Executive’s Response: The Fiscal Court has consulted with the County Attorney to become more familiar with proper requirements to avoid improper bidding. Since that time all bids have complied with proper bid laws and regulations.

The Leslie County Fiscal Court did not have strong internal controls over disbursements:

This is a repeat finding and was included in the prior year audit report as Finding 2018-006. Proper procedures were not followed over disbursements, supporting documentation was not maintained and appropriate, haul tickets were not maintained for asphalt, and fiscal court was not properly approving invoices. The following exceptions were noted:

- Thirteen credit card charges did not have an itemized receipt or invoice.
- The asphalt invoices tested were missing haul tickets. Vendor would supply invoice with the total amount of blacktop per road, no one reviewed to make sure all loads charged goes to the county job site.
- Eleven invoices tested were not paid within 30 business days. One credit card invoice included interest of \$24, however the county did not pay the interest.

- Two invoices and one credit card invoice were paid and then listed on the Nunc Pro Tunc list for approval by fiscal court.
- Three instances where purchases on the credit card bill were not paid

As a result of not monitoring controls in place, it allowed for the deficiencies to occur. These deficiencies could result in inaccurate reporting and misappropriation of assets.

The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements should be made by check only. In addition, good internal controls require original supporting documentation be maintained for all disbursements.

KRS 65.140(2) states, “[u]nless 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.”

KRS 68.275 states, in part, “(2) The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid. (3) The fiscal court may adopt an order, called a standing order, to preapprove the payment of recurrent monthly payroll and utility expenses. No other expenses shall be preapproved pursuant to this subsection without the written consent of the state local finance officer...”

We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

County Judge/Executive’s Response: Each department has been consulted regarding the importance of obtaining proper receipts, invoices, etc. to comply with proper procedures.

The Leslie County Fiscal Court lacks adequate segregation of duties over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2018-008. The Leslie County Fiscal Court does not have adequate segregation of duties over payroll. The county treasurer receives the timesheet, enters the hours into the payroll system, prints and signs checks, prepares and submits all payroll related reports such as retirement and payroll withholdings. In addition, the treasurer maintains records for leave and sick time earned and used by employees. These payroll process are completed with little to no documented reviews.

The fiscal court and county judge executive failed to develop adequate segregate of duties over the payroll process and reporting functions and did not implement adequate oversight regarding the payroll process. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

Segregation of duties over various payroll functions, such as entering employees’ time into the payroll system, processing payroll, printing checks, and preparing and submitting all payroll and

payroll related reports or the implementation of compensating controls, when needed because the number of staff is limited, 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.

We recommend the fiscal court separate the payroll process, printing and signing checks, and preparing and submitting all payroll and payroll related reports. If segregation of duties is not possible, due to the limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

County Judge/Executive's Response: All time sheets are reviewed by each supervisor prior to submission to office. All time sheets are reviewed by office personnel for review of usage for sick time and vacation time. A new system has been created to track all sick and vacation time for each employee. This allows all employees an accurate record of their vacation and sick time available and the dates when such days were taken. All administrative office personnel have access to this information to be able to distribute accordingly as requested.

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

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