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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Crittenden County Fiscal Court

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

The Crittenden County Fiscal Court failed to implement adequate internal controls over cash transfers: The Crittenden County Fiscal Court does not have control over cash transfers. Although all cash transfers were approved by the fiscal court, the actual cash transfers were performed before the dates the fiscal court voted on them per the fiscal court minutes. None of the \$849,505 that was transferred during Fiscal Year 2019 had prior fiscal court approval.

This is due to the fiscal court passing an agreement before the start of the fiscal year allowing the treasurer to make transfers before their approval by fiscal court. However, this agreement only allows transfers between bank accounts to keep the bank accounts funded, and does not specify that cash transfers can be done before fiscal court approval. By cash transfers being made before

their approval by fiscal court, the risk of misappropriation is increased. Funds could be used in a way that the fiscal court does not agree upon.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which outlines requirements for counties' handling of public funds, including guidelines for fund transfers. Per the DLG manual page 73, "All transfers require a court order." Strong internal controls require fiscal court to approve all cash transfers before they are made to ensure proper oversight.

We recommend that the Crittenden County Fiscal Court approve all cash transfers prior to the treasurer actually transferring the funds.

County Judge/Executive's Response: We discovered a documentation dating error within our system that dated back several years. This is not a repeat finding however, it should have been. This was corrected as of July 2020.

The Crittenden County Jail inappropriately used a debit card for jail commissary purchases: During the 2019 fiscal year, the jail regularly used a bank debit card for commissary account purchases. No documented review or approval process was present for debit card transactions prior to the purchase being made. This was due to the jailer being unaware that debit card use is prohibited. The use of a debit card allowed the jailer to circumvent the review and approval procedures for jail commissary disbursements. This increases the risk of misappropriation of funds.

Strong internal controls require all purchases to be made with checks that have two authorized signatures to reduce the risk of fraud or misappropriation. Additionally, proper internal controls over commissary disbursements are important to ensure disbursements are properly handled and are in compliance with applicable laws and regulations.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum accounting and reporting requirements pursuant to the authority to prescribe a system of uniform accounts for all counties and county officials given to the state local finance officer by KRS 68.210. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual - Jail Commissary Fund Instructions for Disbursements Journal*, each check written must be posted to the proper category listed on the form. All expenditures made must be paid by check.

We recommend that the Crittenden County Jailer discontinue the practice of using debit cards for purchases made from the commissary account.

County Judge/Executive's Response: We disagree with this finding. This practice has been accomplished for the past six years with no notice of finding. The Jailer has responsibility for Commissary funds and makes purchases to supply Jail Commissary, as necessary. The Jailer was unaware debit card use is prohibited however, it is our opinion the debit card is more applicable because purchases cannot be made unless there is adequate balance in the account to cover the

purchase and all purchases are reviewed prior to purchase by the Jailer and his Admin Staff as well as all receipts reconciled with purchases being made. A credit card would be less responsible due to the ability to make purchases without having funds available from which to pay for said purchases.

County Jailer's Response: The official had no response

Auditor's Reply: The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires that all disbursement should be made by check.

The Crittenden County Fiscal Court failed to implement adequate internal controls over disbursements and was not compliance with various statutes: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. During our review and testing of 93 disbursements of the Crittenden County Fiscal Court, we noted the following exceptions:

- One invoice was not paid within 30 working days of receipt by the fiscal court.
- Paid \$62.10 and \$13.07 in sales tax and finance charges, respectively.
- Seven instances where disbursements exceeded budgeted appropriations.
- 22 instances where a purchase order was not issued until after the purchase had already been made.
- 37 instances where a purchase order was not issued due to, pre-approval by the county's annual standing order to pre-approve certain recurring expenses.
- The bid price did not agree to the amount paid for one vendor.
- The Crittenden County Fiscal Court failed to re-bid for the jail food service provider for Fiscal Year 2019. The fiscal court initially bid and entered into a renewable contract with the food service provider in 2013. The fiscal court paid \$283,449 for Fiscal Year 2019 to the jail service provider.

The Crittenden County Fiscal Court failed to implement internal controls over disbursements and bidding to ensure proper handling and compliance with applicable laws. The fiscal court's failure to establish effective internal controls over disbursements resulted in numerous instances of noncompliance reflected above. These deficiencies could also result in line items being over budget, claims being paid not related to the fiscal court, inaccurate reporting, and misappropriation of assets. Additionally, the fiscal court paid more than then bid price for one vendor.

KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and 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 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which outlines requirements for counties' handling of public funds, including required purchasing procedures for counties.

KRS 68.300 states, “[a]ny 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. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

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 twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

Additionally, strong internal controls over disbursements are vital in ensuring that disbursements have been accounted for properly and are in compliance with applicable statutes.

We recommend the Crittenden County Fiscal Court strengthen internal control procedures over disbursements, by reviewing disbursements to ensure that all invoices are paid timely and that sales tax is not being paid. We also recommend that the Crittenden County Fiscal Court strengthen their internal controls over purchase orders and ensure that purchase orders are obtained prior to all purchases being made, as well as ensure that purchase requests are not approved in an amount that exceeds the available line item appropriation without the appropriate transfers being made. We further recommend that the fiscal court ensure compliance with bid laws governing competitive procurement. The fiscal court should also ensure that bid prices agree to amount billed on invoices.

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County Judge/Executive’s Response: This finding is multi-layered in nature and we disagree with a portion of the finding and we have corrected other portions of this finding. We disagree with the finding regarding the non-issuance of a purchase orders for recurring expenses and payroll due to the fact of a statement of record issued by DLG in 2016 highly recommending the practice of issuing purchase orders for utility bills an payroll. It did not mandate the use of purchase orders for such. Both these items of payment are for goods and services already received which violates the requirement for a purchase order to be issued prior to purchases, not after. The other disagreement is that we were unaware Jail food services contracts were to be re-bid. The Jailer has been extremely satisfied with the current service provider and accomplishes a periodic price comparison review with other vendors to ensure pricing is competitive. If rebid, we would risk the possibility of losing a very reliable and trusted vender with whom a quality and reliable service has been established. Other portions of this finding where one sole invoice was not paid within 30 days and we have eliminated this by requiring all departments to submit invoices on a weekly basis. A finding of sales tax being paid of less than \$100.00 for the entire year which may occur periodically due to purchases from states that do not reciprocate our state sales tax exemption status and we do not feel this can be avoided in its entirety. Purchase orders being issued after purchases made has been corrected and was a result of a program issue of auto-changing the dates to reflect the actual date of data entry versus the date of PO issuance.

Auditor's Reply: The Department of Local Government provided guidance to all county treasurers that payroll and utilities included on standing orders should have corresponding purchase orders in order to document that cash and budget were available prior to the expense being paid. The use of standing orders does not preclude the use of purchase orders. The proper use of purchase orders also strengthens internal controls over disbursements.

KRS 424.260(1) only exempts professional services as well as perishable meat, fish, and vegetables from the requirements for advertising for bids. Food service is not a professional service, and the contract for food service includes meal preparation service, and other items mentioned in the contract that do not fall within the exemption for perishable food items. Therefore, the contract for jail food service should have been advertised for bid.

The Crittenden County Fiscal Court failed to implement adequate internal controls over debt and debt service: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. Significant internal control deficiencies existed over the reporting of debt and debt service of the Crittenden County Fiscal Court, and the following discrepancies were noted:

- The Crittenden County Fiscal Court borrowed \$144,922 in June 2019 for the purchase of a 2020 Mack truck. The loan proceeds were paid directly to the vendor on behalf of the fiscal court for this purchase. Therefore, it was not included in the county's financial statements as a budgeted disbursement for fiscal year ended June 30, 2019.
- In July 2018, the Crittenden County Fiscal Court borrowed \$75,000 for the Sheridan Fire Project. The loan proceeds were paid directly to the Sheridan Fire Department. Therefore, it was not included in the county's financial statements as a budgeted disbursement for fiscal year ended June 30, 2019.
- The June 30, 2019 outstanding debt balances reported on the fourth quarter financial report were misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$7,330,339 as of June 30, 2019. This balance was understated by \$70,000, for the remaining balance of the Sheridan Fire Project.
- Interest balances were also understated by \$17,434.

The county failed to implement a strong internal control system over debt and debt service. The county treasurer was unaware that all debt borrowed in the name of the fiscal court should be disclosed on the fourth quarter financial report. She thought since a third party was responsible for making these debt payments this debt didn't require disclosure on the fourth quarter financial report. Additionally, the county treasurer was not aware that she needed to budget for or record loan proceeds when they were paid directly by the lender to the vendor, since she did not directly receive these funds. This lack of internal controls resulted in the county's fourth quarter financial report being misstated. As well as, by not properly budgeting these items or properly recording all transactions the fiscal court overspent protection to persons and property of the general fund by \$20,833 and roads of the road fund by \$38,281.

Strong internal controls over outstanding debt and debt service are necessary to ensure accurate financial reporting. KRS 68.210 gives the state local finance officer the authority to prescribe a

uniform system of accounts for all counties and county officials. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including outstanding debt and liabilities. It also requires all borrowed money received and repaid must be reflected in the county budget. The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding liability balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. The fiscal court should also, ensure that they properly budget and record all borrowed money and any related purchases, as well as, any debt service payments. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's Response: These stemmed from debts carried by our local Volunteer Fire Departments and we were unaware it was our responsibility to report for these outside agencies. This has since been corrected as of FY-21 and have been added to our reporting procedures as required.

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

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