



Auditor of Public Accounts
Mike Harmon

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

Harmon Releases Audit of Bell County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Bell 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 fund balances of the Bell 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 paid two food service providers a total of \$170,027 without accepting bids or maintaining service contracts. The fiscal court did not select the county's food service provider for the jail through a public bid process. While each monthly bill did not exceed the \$20,000 limit set in KRS 424.260, they did in the aggregate for Fiscal Year 2015. We noted the fiscal court remitted payments to two food service vendors totaling \$170,027 for food service to the jail for Fiscal Year 2015. The fiscal court did not maintain a service contract with one of the food service vendors during Fiscal Year 2015. Also, the jailer entered into a contract with a food service vendor during January 2015, which was not presented to the fiscal court for approval. In addition, no internal controls have been implemented to verify the accuracy or correctness of billings received and paid from the food service provider.

The lack of knowledge or understanding of the process resulted in the internal control weakness in which billings were not verified. As a result, the fiscal court may have overpaid for services, either because a lower rate could have been obtained, or because the billings may have been overstated.

KRS 424.260(1) states that no county “may make a contract, lease, or other agreement for materials, supplies..., 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.”

We recommend the fiscal court take the necessary steps to ensure compliance with applicable statutes. The county’s food service providers for the jail should be selected through a public bid process if billings for the year will exceed the \$20,000 limit, and the fiscal court should maintain appropriate contracts with all service providers. Further, the fiscal court should implement internal controls to verify the accuracy and validity of billings received before payment is issued to a food service provider.

Judge/Executive’s response: No Response.

The fiscal court paid GPMS service providers \$31,234 without accepting bids or maintaining service contracts. The county did not select the county’s global positioning monitoring system (GPMS) service provider through a public bid process. We noted the county remitted payments totaling \$31,234 to three service providers, without maintaining service contracts during Fiscal Year 2015. In addition, no internal controls have been implemented to verify the accuracy or correctness of billings received and paid from the GPMS service provider.

KRS 424.260(1) states that no county “may make a contract, lease, or other agreement for materials, supplies..., equipment, or contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” KRS 67.374(3) states, “A county ... electing to participate in a global positioning monitoring system program shall, through a public bid process, select an entity or entities to provide the best available technology with regard to global positioning monitoring system devices that meet the requirements of this section and KRS 67.372, 403.720, 403.747, 403.750, and 403.761 and a system that meets those same requirements, including but not limited to the acceptance of reduced fees for petitioners and indigent persons ordered to wear a monitoring device.” KRS 67.374(4) states, “A ... county ... electing to participate in a global positioning monitoring system program shall continuously monitor the performance of successful bidders, receive complaints regarding service, and conduct hearings pursuant to KRS Chapter 13B which may result in penalties as set out in the contract against an entity providing global positioning monitoring system services or which may result in cancellation of the contract with the provider of the service, or both. The provisions of this subsection shall be part of any bid offering and any contract entered into between the county... and an entity providing global positioning monitoring system services.”

KRS 67.374(5) allows a county electing to operate a GPMS program to utilize that program for monitoring domestic violence petitioners and respondents, persons on pretrial release who have been charged with a crime, persons assigned to a pretrial diversion program, and persons granted probation or conditional discharge, who have been ordered by a court or other authority to wear a GPMS monitoring device. KRS 67.372 sets forth numerous additional requirements related to the county's GPMS service provider contract.

Effective internal controls require amounts billed to the county and paid by the county to be verified for accuracy and validity. These weaknesses are the result of an oversight, as management was unaware of statutory restrictions and requirements. The lack of knowledge or understanding of the process resulted in the internal control weakness in which billings were not verified. As a result, the county may have overpaid for services, either because a lower rate could have been obtained, or because the billings may have been overstated.

We recommend the fiscal court consult with the county attorney and take the necessary steps to ensure compliance with applicable statutes. The county's GPMS service providers should be selected through a public bid process, and the fiscal court should maintain appropriate contracts with all service providers. Further, the fiscal court should implement internal controls to verify the accuracy and validity of billings received before payment is issued to a GPMS service provider.

Judge/Executive's response: No Response.

The jailer did not have adequate segregation of duties over jail commissary accounting functions. A lack of segregation of duties existed over jail commissary receipts, disbursements, and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the daily checkout sheets, prepared the monthly receipt ledger, recorded entries on inmate accounts, could prepare checks for disbursements, prepared the monthly disbursement ledger, and performed the monthly bank reconciliation. In addition, the bookkeeper can release unused inmate account cash to inmates upon release. Although the jailer implemented compensating controls in the form of his oversight through verifying the deposit, and comparison of monthly ledgers to the bank reconciliation, these procedures were not documented.

The lack of adequate segregation of duties is a result of the jailer's limited budget for staff. A lack of segregation of duties increased the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations and would have prevented the same person from having a significant role in these incompatible functions.

We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employees responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date on applicable documentation. The following are examples of other controls the jailer could implement:

- Triplicate receipts could be compared to the inmate account sheets.
- Commissary sales amounts could be compared to daily deposits for agreement. Any differences should be reconciled.
- Supporting documentation for disbursements, such as invoices, could be reviewed by the jailer.
- The jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliation for accuracy. This could be documented by initialing the bank reconciliation.

Judge/Executive's response: No Response.

Jailer's response: I did not understand fully what segregation of duties were. I now initial and verify all transactions. I also sign original copies.

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

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