



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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

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, 2020. 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 comments:

The Crittenden County Fiscal Court failed to implement adequate internal controls over cash transfers: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The Crittenden County Fiscal Court does not have controls over cash transfers. Although all cash transfers were approved by the fiscal court, the actual cash transfers were made prior to fiscal court approval per the fiscal court minutes. None of the \$609,000 that was transferred during Fiscal Year 2020 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 the 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 the 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.

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County Judge/Executive's Response: This is a repeat finding from FY 2019 due to a backlog in audit completion. Response is repeated from FY 2019.

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 Fiscal Court failed to implement adequate internal controls over disbursements and was not in compliance with various statutes: This is a repeat finding and was included in the prior year audit report as Finding 2019-003. During our review and testing of the disbursements of the Crittenden County Fiscal Court, we noted the following exceptions:

- Two invoices from the jail fund were not paid within 30 working days.
- Five instances that the purchase order was issued after the date of the invoice.
- 32 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 Crittenden County Fiscal Court failed to re-bid for the jail food service provider for fiscal year 2020. The fiscal court initially bid and entered into a renewable contract with the food service provider in 2013. The fiscal court paid \$273,838 for fiscal year 2020 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.

KRS 65.140 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 (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 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.”

We recommend the Crittenden County Fiscal Court strengthen internal control procedures over disbursements, by reviewing disbursements to ensure that all invoices are paid timely. 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.

County Judge/Executive's Response: This is a repeat finding from FY 2019 due to a backlog in audit completion. Response is repeated from FY 2019.

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 order 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 and 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 vendor 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 for 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.

The Crittenden County Jail inappropriately used a debit card for jail commissary purchases:

This is a repeat finding and was included on the prior year audit report as Finding 2019-002. During the 2020 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 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 DLG's *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 the Crittenden County Jailer discontinue the practice of using debit cards for purchases made from the commissary account.

County Judge/Executive's Response: This is a repeat finding from FY 2019 due to a backlog in audit completion. Response is repeated from FY 2019.

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 debt and debt service: This is a repeat finding and was included in the prior year audit report as Finding 2019-004. Material 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 \$177,560 in March 2020 for the purchase of road equipment. 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, 2020.
- In April 2020, the Crittenden County Fiscal Court borrowed \$146,422 for the purchase of a Mack truck. The loan proceeds were paid directly to the vendor. Therefore, it was not included in the county's financial statements as a budgeted disbursement for fiscal year ended June 30, 2020.
- The June 30, 2020 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 \$7,111,327.65 as of June 30, 2020. This balance was understated by \$124,139.
- Interest balances were also understated by \$19,797.

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. 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 the line item roads of the road fund by \$102,040.

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: This is a repeat finding from FY 2019 due to a backlog in audit completion. Response is repeated from FY 2019.

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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