



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Webster County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Webster 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 Webster 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 Webster County Fiscal Court had inadequate controls over disbursements and was not compliant with various statutes: The following issues were noted when testing disbursements:

- One instance where an invoice was not itemized sufficiently to adequately support the disbursement.
- One instance where finance charges, such as late fees, were paid on a disbursement.
- Thirteen instances where invoices were not maintained to support the purchase. Twelve of these instances were for disbursements made by county credit cards.
- One instance where a check written for a disbursement did not have dual signatures.

- Three instances where disbursements were not presented to fiscal court prior to payment.
- Thirteen instances where disbursements exceeded budgeted appropriations totaling \$299,415.

We also identified two instances where the fiscal court was not verifying that they were receiving specified bid rates on road materials. In addition, we also identified one instance in which a disbursement in the amount of \$89,768 was not bid out as required by KRS 424.260.

Due to the fiscal court failing to establish appropriate internal controls over disbursements, numerous instances of noncompliance were noted and reflected above. These control 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 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for counties' handling of public funds, including required purchasing procedures for counties. These requirements prescribe that appropriate supporting documentation is maintained for all operating disbursements. While, KRS 68.275(2) states, “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment[.]” Good controls over disbursements are necessary to ensure proper reporting and ensure the county is conducting business that is compliant with required statutes.

Per KRS 68.300, “[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.”

Also, 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 Webster County Fiscal Court improve procedures over disbursements by ensuring that sufficient supporting documentation is provided for all disbursements, and that checks written for disbursements require dual signatures and are properly endorsed by the payee. We also recommend that disbursements are reviewed for unallowable charges such as late fees before their approval and payment. We further recommend that the fiscal court ensure that purchase requests are not approved in an amount that exceeds the available line item appropriation without the appropriate transfers being made and that KRS 424.260 is followed.

County Judge/Executive's Response:

1. *The Fiscal Court will work with vendors to ensure itemized invoices.*
2. *Because the court does not pay claims until the approval of the Fiscal Court all bills are paid then and paid within the due date unless those court dates cause the due dates to pass. The court will work with vendors to ensure payments are made within the due date based upon on Fiscal Court meeting dates.*
3. *Instances noted were approved purchases that services provided by internet services that were recurring monthly services. No instances referenced were un-allowed purchases. The Fiscal Court will continue to work with vendors to ensure detailed invoices for purchases.*
4. *The court will continue to work to ensure signatures are on disbursement checks.*
5. *The court will work to ensure that checks are not dispersed before being voted upon. Each instance noted, were paid to the contractor on the Senior Center. Those funds are sent through DLG and have a 5 day window to be paid.*
6. *Budget Transfers will be done in a timely manner to prevent the appropriation line item to not exceed to budget amount.*

The Webster County Jail lacks adequate segregation of duties over the jail commissary and inmate accounts: The Webster County Jail lacks adequate segregation of duties over the jail commissary and inmate accounts. The jail bookkeeper prepares deposits, prepares daily checkout sheets, and posts to the receipts ledgers. The bookkeeper also prepares monthly collection and disbursement reports, writes and signs checks, posts to the disbursements ledger, and prepares the monthly bank reconciliations. Compensating controls such as the review of daily checkout sheets by the jailer and the requirement of dual signatures on all checks were noted, but were not deemed adequate enough to offset this control deficiency.

A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG). In addition, too much control by one individual without oversight can lead to undetected irregularities. Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting;

Due to the small size of staff and limited resources, the Webster County Jail has limited options for establishing segregation of duties.

We recommend the Webster County Jail segregate duties to the extent possible. If proper segregation of duties is not possible due to budget constraints, we recommend that the Webster County Jail implement compensating controls over jail canteen and inmate accounts.

Jailer's Response: The Jailer, Chief Deputy, Programs Director, and Finance Officer will all assist in the segregation of duties over the Jail Canteen & Inmate Account. Meaning someone other than the Finance Officer will approve all items pertaining to the Jail Canteen & Inmate Account. This change will take place immediately.

The Webster County Jail lacks adequate internal controls over online and credit card payments: The Webster County Jail contracts with a third-party commissary company to handle online payments to inmates' accounts. This third party company also handles any credit or debit

card payments made to the kiosks located within the jail. During Fiscal Year 2019, funds in the amount of \$293,022 were handled and processed by this third party company. This commissary company receives payments, makes direct deposits to the inmate account, posts transactions to the inmates' accounts, and posts to the ledgers. The jail bookkeeper does not receive any information or documentation of these activities, and does not oversee any of these activities to ensure their accuracy.

According to the bookkeeper, they were not aware that any further controls needed to be implemented over the activities handled by the third party company. A lack of adequate internal controls increases the risk that undetected fraud or errors could occur. Because the jailer is responsible for the inmates of the county, it is imperative for the jailer to provide sufficient oversight of all accounts associated with the inmates, including the inmate fund.

We recommend that the Webster County Jailer implement internal controls over the processes that are handled by this third party company.

Jailer's Response: I, jail bookkeeper started a binder dating back to July 1, 2019 with all credit card deposit reports. I am now pulling daily credit card reports to verify that all credit card deposits are accurate according to what is direct deposited into the bank and into each inmates account. I will continue to review all daily credit card deposits and enter them into Jail Tracker as I have in the past.

Internal control deficiencies exist over the reporting of liabilities and debt: Internal control deficiencies exist over the reporting of liabilities and debt of Webster County. Outstanding debt as of June 30, 2019, reported on the fourth quarter financial report was \$232,632 less than outstanding debt per debt schedules.

Due to a lack of oversight, the amount of outstanding debt reported on the fourth quarter financial report was incorrect and does not agree with outstanding debt on the debt schedules. Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the Webster County Fiscal Court strengthen internal controls over the reporting of debt service payments and outstanding 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 lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that the proper amounts are reported.

County Judge/Executive's Response: I, Treasurer will strengthen the internal controls and will compare the payments made with Accounts Receivable Officer – Financial Services at KACO in June.

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

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