



Auditor of Public Accounts  
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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, 2016. 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. Crittenden County's financial activity includes the activity of the Riverview Park Board, which failed to keep adequate accounting records. Riverview Park Board's financial information could not be determined to be reasonably accurate. The auditor's letter expressed a qualified opinion, finding that the financial statement of Crittenden County was presented fairly, except for the activity of the Riverview Park Board.

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:

**Weak internal controls over debt and debt service resulted in the misstatement of outstanding debt balances:** This is a repeat finding and was included in the prior year audit report as Finding 2015-001. Internal control weaknesses existed over the reporting of liabilities and the debt of Crittenden County, including a lack of segregation of duties. Additionally, there was no review of the long-term liabilities. As a result, the June 30, 2016 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 \$8,217,360 as of June 30, 2016. This figure excludes four debt agreements totaling \$274,291 and overstates the reported liabilities by \$185,225. While the net amount of misstatement associated with debt on the fourth quarter financial report is only \$89,066, the combined misstatement is \$459,516.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. The county failed to implement a strong internal control system over liabilities and debt service, and instead relied on a single person without adequate oversight. This lack of controls resulted in the county's fourth quarter financial report liabilities being materially misstated.

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. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

*County Judge/Executive's Response: All debt reports will be reviewed and approved by the supervisor rather than the office clerk moving forward. These reports had been noted as areas of weakness in the FY 15 audit as well and addressed with the office clerk at that time with a form report made available for use and tracking throughout the year. However, that form was not utilized as directed. We did address this issue internally and feel that the corrective actions taken will eliminate this issue from future findings.*

**Weak internal controls over capital assets resulted in the misstatement of capital assets on the county's schedule of capital assets:** This is a repeat finding and was included in the prior year audit report as Finding 2015-002. Crittenden County did not properly maintain the schedule of capital assets for the fiscal year ending June 30, 2016. The county failed to recognize all asset purchases from the jail commissary account, resulting in the misstatement of the ending balance on the county's schedule of capital assets. The county's vehicles were misstated by \$23,866.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. The fiscal court failed to emphasize strong internal controls over the reporting of capital assets by not devoting sufficient time to ensuring that the capital asset policy is followed and that assets are capitalized at the correct amounts. As a result, all capital asset purchases from the jail commissary were not captured on the county's schedule of capital assets.

In order to strengthen the fiscal court's internal controls over capital assets, we recommend the fiscal court establish a detailed inventory system. This system should include a detailed description of each fiscal court asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired. This system should be applied consistently in

accordance with the county's capitalization policy. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

*County Judge/Executive's Response: The corrective action taken will eliminate the issue related to the misstatement of capital assets in the future. An interactive form has been established for the use of the office clerk and the responsibility has been placed under the direct control of another office clerk with more direct monitoring capabilities of all capital assets.*

**The Crittenden County Fiscal Court does not have adequate internal controls over disbursements:** The Crittenden County Fiscal Court does not have adequate internal controls over disbursements. Auditors noted the following deficiencies:

- Five credit card transactions had missing invoices.
- Five credit card transactions were charged to the wrong account code.
- Five disbursements had no supporting documentation, including two from the general fund, one from the road fund, one from the jail fund, and one from the E-911 fund.
- Twenty-two disbursements were not presented to the fiscal court for review before payment, totaling \$1,237,425.
- The purchase of a vehicle for the Crittenden County Detention Center was charged to the road fund.
- One disbursement was not paid within 30 working days of the receipt of the invoice.
- A patcher truck was purchased from the road fund without proper documentation of approval.
- A cargo van was purchased for more than the accepted bid price.
- Finance charges were incurred on credit card statements.

These deficiencies over disbursements occurred because of the fiscal court's lack of internal controls and oversight. By failing to maintain adequate supporting documentation, the fiscal court is increasing their risk of paying invoices for goods or services that are unallowable or that were not provided to the county. They also resulted in the county not being in compliance with state statutes.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained, including any additional supporting documentation, and agreed to the corresponding purchase order and reports. They also should require transactions be presented to the fiscal court prior to being paid, and once reviewed, they should be paid in a timely manner. KRS 68.275 requires claims within budget line items and authorized by the fiscal court to be paid by the county/judge/executive and co-signed by the county treasurer. In addition, 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[.]"

We recommend the fiscal court develop internal control procedures to ensure that all disbursements are properly supported and that bills be paid within 30 working days to be in compliance with KRS 65.140(2). We also recommend the jail fund reimburse the road fund \$26,403 for the cost of the cargo van purchased from the wrong fund.

*County Judge/Executive's Response: While the finding regarding missing invoices on credit card transactions are agreed upon we disagree with the lack of presentation to the fiscal court for approval of payment and respond as follows. (1-3) Two of the credit card invoices that were shown as missing are automatic renewals of computer security and program fees which apparently did not get printed out at the time of renewal. The other invoices were for services that had emailed invoices sent that did not get printed out at the time of receipt. These issues were addressed by placing this responsibility for monitoring under another office clerk's duties and responsibilities. (4) The 22 disbursements that are claimed to have not been presented to the court are presented to the court monthly as a part of the income and disbursements report that is approved at each month's fiscal court meeting. \$804,000 of this amount is pass through funds from the KYTC to the Cave-In-Rock Ferry which is a line item budgeted amount that Crittenden County has responsibility for disbursement. These have since been placed on recurring expenses and approved by the fiscal court. (5) The purchase amount for the Jail vehicle paid out of the road fund has been reimbursed to the road fund when that was noted. (6) Due to the fact our fiscal court meets once per month periodically we will receive an invoice that may exceed 30 days before payment due to the meeting dates. This is a common occurrence that all vendors with whom we do business understand and have agreements with the fiscal court. (7) The patcher truck purchase was from a neighboring county and all magistrates recall the discussion of the purchase and agreed on the purchase but none of us can recall whether official action was taken in court or not and will ensure that does occur at every moment as required. (8) The cargo van in question was purchased at the bid price with an additional fee of \$934 paid once we were notified there was no rear air conditioning duct work. That fee is the difference in the amount paid for the vehicle. Documentation is attached. (9) Through a misunderstanding of new personnel, a finance charge was placed on an account due to an oversight with new personnel. That was addressed immediately upon notice and has not occurred since.*

**Auditor's Reply:** The income and disbursements report the county judge/executive refers to in his response is approved by the fiscal court the month subsequent to corresponding financial activity. Approval of transactions after they are processed is not an effective method of internal controls. Furthermore, KRS 68.275(2) states "[t]he 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." Therefore, not only were internal controls over these disbursements weak, the county was not in compliance with state statute.

The cargo van was purchased for more than the accepted bid price. The county judge/executive stated the difference paid was for air conditioning duct work to be added to the rear of the vehicle. This claim is not supported by the additional documentation provided. According to this documentation, the cargo van had a bid price of \$25,469 and an invoice price of \$25,904. This \$435 difference does not agree with the \$934 that the county judge/executives suggests was paid for rear air conditioning.

**The Crittenden County Fiscal Court lacks adequate internal controls over payroll:** The Crittenden County Fiscal Court lacks adequate internal controls, including a lack of segregation of duties, over the payroll process. The following findings were noted with Crittenden County's payroll during testing:

- One employee did not have his or her pay rate approved by fiscal court.
- Salaries for three employees could not be recomputed to ensure they were being paid the correct amount.
- One employee received both compensatory time and overtime pay during the same pay period, despite signing a compensatory time agreement with the county.
- Payroll tax payments did not always agree to the payroll records.
- Monthly retirement contributions were incorrect for two of the three months tested.
- The fiscal court contribution for the employees' health reimbursement account did not agree to what was approved by the fiscal court.
- The health reimbursement account was not properly reconciled.
- Health insurance claims were not presented to the fiscal court.

The county failed to implement a strong internal control system over payroll, and instead relied on a single person without adequate oversight. As a result, the following occurred:

- Employees may not have been compensated the correct amount.
- One employee received overtime pay after signing an agreement to receive compensatory time.
- The wrong amounts were paid for payroll taxes, retirement withholdings and contributions, and health reimbursement account (HRA) contributions.

Strong internal controls over payroll are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statute and county policies such as compensatory time agreements.

We recommend the fiscal court strengthen its internal control system over payroll and reduce the risk of payroll errors by segregating duties over payroll or implementing compensating controls over payroll processing such as management oversight or independent review over payroll processing.

*County Judge/Executive's Response: (1) This employee was hired during the year under the court approved pay rate schedule. Date of hire was 10-22-2015 after the rehiring of county employees was noted in the court record. Since this employee was hired per approved pay scale there is no issue. (2) The one employee questioned is the new hire explained above. The Treasurer's salary would not compute because the test month requested was September and she had received an incentive raise in February which was not accounted for during the test. The Magistrates pay is an annual salary divided by 26 pay periods. This rate is set by court order and should be the same with no computation problems. I cannot say why auditors could not get this to compute. (3) Per administrative code an employee may receive either overtime for hours worked over 40 or comp time. Our pay periods cover two weeks and one could easily receive overtime in one week and comp time for another. No issues here. (4-5) This issue has been identified as a software issue and it has been resolved prior to this audit. (6) Apparently when setting up the HSA an amount over the annual maximum was transferred for account establishment. This has been corrected and has not happened since the inception of the account. To ensure this does not happen again the total number of participants are made available at the beginning of each fiscal year and the corresponding funding total will be transferred at that one time per year. (7) After the start of the HSA program it was noticed that we were not receiving monthly statements on that account. We immediately requested monthly statements be made available and have reconciled this account monthly since. (8) This was put on recurring expenses and approved by the fiscal court.*

Auditor's Reply: Audit testing was based on documentation in the fiscal court minutes along with other documentation provided by county personnel. This documentation included employees' salaries for the 2016 fiscal year. Employees' wages were recalculated based on the salary schedule provided. In some cases, the recalculated wages were not in agreement with actual payroll records. For new hires, no documentation was found in the fiscal court minutes or in personnel files to verify employees were compensated properly. This practice of allowing employees to be compensated with both paid overtime and compensatory time conflicts with the signed agreement between the county and the employee.

**The Crittenden County Fiscal Court did not properly budget or account for the Riverview Park Board:** The Crittenden County Fiscal Court failed to budget or account for the activities of the Riverview Park Board (board), a camping site owned by the county. As a result, proper records were not maintained to support the financial activity of the board. For Fiscal Year 2016, the board had bank receipts of \$10,981, bank disbursements of \$18,337, and an ending bank balance of \$23,183. According to personnel, receipt forms for the year had been destroyed due to a lack of storage, and adequate supporting documentation was not maintained for all disbursements.

According to the county judge/executive, the county was originally unsure of its responsibilities towards the board due to the nature of its operations. Although the county is in the process, it has not yet implemented systematic internal controls over the board's receipts and disbursements. The lack of internal controls over the operations of the board exposes its assets to the risk of misappropriation. Additionally, failure to maintain minimum accounting records means the county was not in compliance with KRS 68.210.

According to the minimum requirements for handling public funds established by KRS 68.210, accounting systems should include books of original entry for receipts and disbursements such as receipts and disbursements ledgers. They should also include pre-numbered receipt forms issued to customers. Additionally, good internal controls also dictate adequate supervision and review of all accounting activities.

We recommend the fiscal court require the park board submit all revenue and remit all bills to the fiscal court in order for the board activity to be properly budgeted and included in the fiscal court's financial information. We also recommend the county implement internal controls over the board's operations in order to protect its assets from misappropriation.

*County Judge/Executive's Response: I have informed the Riverview Park committee that they will provide an annual budget and quarterly statements of account for the Fiscal Court to review and approve at each respective court meeting. I also informed the treasurer for the Riverview Park committee that all statements and financial information much meet statute requirements of retainment for 3 years post audit and that all records be made available upon request by the fiscal court or the auditors. With respect to the receipts issue we will begin utilizing a numbered carbonless copy receipt book to have as backup to all funds received by camp site rental fees.*

**The Crittenden County Jailer did not properly procure vehicles:** The Crittenden County Jailer purchased four vehicles during the year. The total amount expended for these vehicles was \$101,549, with each vehicle exceeding \$20,000. Each vehicle was purchased with no advertisement for bids.

According to KRS 424.260, "[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, Section 8.2 (C) of the county's administrative code states "[a]ny expenditure or contract 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 (\$20,000) shall be subject to competitive bidding." According to the jailer, he was informed that vehicles could be purchased through the state price contract, or a price match of the state price contract. Therefore, he did not advertise for bids for the applicable vehicles, resulting in noncompliance with KRS 424.260 and the county's administrative code.

We recommend the jailer comply with the requirements of KRS 424.260 and the county's administrative code by making the proper advertisements for all applicable expenditures or contracts exceeding \$20,000.

*County Jailer's Response: After becoming Jailer in November of 2014, I found that the jail's vehicle fleet was mainly comprised of surplus deputy sheriff vehicles that were in poor mechanical condition. I first changed our commissary company as well as the way we sold commissary and was able to make the commissary account more profitable.*

*During the fiscal year of 2015/2016 I was able to purchase four new vehicles from commissary for our work crews. After comparing the prices of many different makes and models, I discovered that [Auto dealer A] in Lexington, Kentucky had the contract bid on both Dodge Ram Trucks and Dodge Chargers. Before purchasing the vehicles, I was told by another jailer that [Auto Dealer B] in Paducah would sell vehicles for the state contract price. I knew that I would be saving money purchasing the vehicles at a dealership closer to the jail because we must drive to the dealership and pick up the vehicles and it takes two deputies out of the jail to get this done. In Paducah I would be able to get the vehicles in approximately three hours and in Lexington it would be over eight hours. The choice seemed simple.*

*I now know [Auto Dealer A] holds the singular state bid contract for both vehicles and that even if I saved the jail money I am unable to do this again. I was proud to be able to purchase these four vehicles without using tax payer dollars but instead only using inmate account money from commissary.*

Auditor's Reply: The county was required to either use the vendor holding the state price contract or a competitive bid process, according to state law.

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

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