



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

### **Harmon Releases Audit of Simpson County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Simpson County Fiscal Court for the fiscal year ended June 30, 2018. 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 Simpson 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 Simpson County Fiscal Court did not bid food service agreement:** The Simpson County Fiscal Court did not bid food services disbursements for the jail totaling \$395,285 to one vendor. The disbursements were made to the vendor under a food service agreement that began on February 19, 2015. This agreement was negotiated by the jailer and presented to the fiscal court. According to the fiscal court minutes for December 16, 2014, the fiscal court approved “the food service agreement between [name redacted] and the Simpson County Jail.” The agreement was signed by a former county judge/executive and the county attorney. The agreement allows the vendor to be “the exclusive provider of food service (excluding vending machine operation) for the Facility and will provide consulting services as to administrative, dietetic, purchasing, and equipment; meal service; and personnel to prepare meals.” The term of the agreement was for

three years with renewal on a year to year basis after the initial term. No documentation could be found that the food services were bid at the time the contract was awarded.

The jailer stated he was not aware he was required to bid food services. He thought he could negotiate the price of the contract, and then get fiscal court approval for the contract without advertising for bids. By not receiving bids at all, the fiscal court may not get the benefits of the best prices available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available.

KRS 424.260(1) states, in part, “[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.” In addition, the Simpson County Administrative Code Section 4.2A regarding selection of vendors and contractors states “KRS 424.260 requires a County to advertise for bids on all contracts involving more than \$20,000” and “[u]pon authorization of the Fiscal Court to solicit contracts for amounts that exceed \$20,000 the Judge/Executive shall place an advertisement in the local newspaper of the largest circulation in the County at least once[.]”

We recommend the fiscal court follow proper bid laws and regulations by ensuring all purchases and contracts of \$20,000 or more be made in compliance with KRS 424.260.

*County Judge/Executive’s Response: The Fiscal Court needs to be notified by each department of any contracts needing to be bid or approved. The Fiscal Court will work with the Jail to be sure these contracts are bid and approved going forward.*

*Jailer’s Response: We have been advised of proper actions to take and have acknowledged the issues presented to our facility. At this time and in the future we will be taking the appropriate measures to make sure that we are in compliance with any and all state and local regulations.*

**The Simpson County Fiscal Court was not in compliance with occupational tax ordinances:**

The Simpson County Fiscal Court did not comply with occupational tax ordinances requiring a portion of the occupational tax received from certain industrial parks be paid to the industrial authority and occupational tax due from a certain company be waived. During Fiscal Year 2018, the fiscal court did not correctly compute and pay 80 percent of the difference in occupational tax received in year 2000 and received in the current year from payroll tax assessed in two development areas, East Interstate Industrial Park (Sanders Interstate Industrial Park) and North Industrial Park (Wilkey North Industrial Park) to the Franklin-Simpson Industrial Authority. The fiscal court took credit for waived occupational tax donated by a company to the industrial authority not authorized by the ordinances resulting in occupational tax being underpaid to the industrial authority by \$173,218. The following chart shows a breakdown of the amount due.

80% Required To Be Paid Under Ordinances	\$ 403,046
Amount Contributed By Fiscal Court	35,701
Lobbying Retainer	<u>12,000</u>
Total Due Industrial Authority	450,747
Add: Waived Occupational Tax Received From Company	62,203
Less: Waived Occupational Tax Donated By Company To Industrial Authority	<u>(235,421)</u>
Total Paid Industrial Authority	277,529
Total Due Industrial Authority	<u>450,747</u>
Total Amount Not Paid Industrial Authority	<u>\$ (173,218)</u>

Additionally, the fiscal court received occupational tax waived under ordinance 220.140 from a company in the amount of \$62,203 but did not return this amount to the company. Instead, the fiscal court paid this amount to the industrial authority.

The finance officer stated she was instructed by a former county judge/executive to take the credit for the waived occupational tax donated by the company to the industrial authority. The former county judge/executive stated that the fiscal court had a verbal agreement with the industrial authority allowing the credit. As a result, the fiscal court was not in compliance with their ordinances. In addition, the fiscal court owes the industrial authority \$173,218 and the company \$62,203 in waived occupational tax.

Simpson County Ordinances 920.50 and 920.51 create two development areas, East Interstate Industrial Park (Sanders Interstate Industrial Park) and North Industrial Park (Wilkey North Industrial Park). Under Simpson County Ordinances 920.54 and 920.55, the fiscal court entered into contracts with the Franklin-Simpson Industrial Authority to “pay the Authority 80% of the difference between the old revenues of year 2000 and the new revenues received during the previous calendar year” for occupational taxes received from businesses located in the Sanders Interstate Industrial Park and the Wilkey North Industrial Park. In addition, Simpson County Ordinance 220.140 authorizes a “company to retain the .75 percent (.75%) occupational license fees [taxes] otherwise derived by the County from salaries, wages and other compensation paid to its employees[.]”

We recommend the fiscal court pay occupational tax to the industrial authority and waived occupational tax to the company in compliance with their ordinances. Any changes to these ordinances should be voted on by the fiscal court and the county attorney consulted about the process to amend these ordinances. For Fiscal Year 2018, the fiscal court owes the industrial authority \$173,218 for their share of occupational tax and a company \$62,203 for waived occupational tax.

*County Judge/Executive’s Response: A business paying occupational tax started using [name of company redacted] for their payroll. [Name of company redacted] would only make that payment to Fiscal Court without any concern of the occupational tax. Documentation proves that Fiscal Court didn’t keep that money and it was given to the appropriate business. All other payments*

*have now been submitted directly back to the company. All parties have been notified of this finding and have all agreed that the monies have been rightfully submitted. They are going to provide documentation stating just that.*

**The Simpson County Fiscal Court did not maintain complete and accurate capital asset schedules in order to comply with regulatory requirements:** The schedule of capital assets and infrastructure for the audit period did not recognize all asset purchases that occurred throughout the year and the beginning balances did not agree to the prior year schedule of capital assets ending balances. The finance officer is responsible for maintaining the schedule. She makes additions and deletions based on insurance records. The fiscal court's schedule of capital assets was misstated by \$121,478. The fiscal court's schedule of capital assets for June 30, 2018, was understated (overstated) as follows:

- \$345,732 for land connected to buildings owned by the fiscal court erroneously removed from the fiscal court's schedule of capital assets.
- (\$60,000) for land connected to industrial building sold in Fiscal Year 2013.
- (\$99,731) for renovations to a building demolished in Fiscal Year 2015.
- (\$92,616) for park improvements to property during Fiscal Year 2018 not owned by fiscal court.
- \$50,692 for nine vehicles recorded incorrectly.
- \$18,924 for seven pieces of equipment recorded incorrectly.
- \$9,683 for a snow blade and mower not included, purchased in Fiscal Year 2017.
- (\$39,150) for one vehicle and three mowers sold in prior years.
- \$122,988 for body scanner purchased by the jail commissary fund during Fiscal Year 2018.
- (\$378,000) for a road recorded incorrectly on infrastructure.

Furthermore, capital asset records did not include any supporting documentation, such as invoices, to support amounts recorded for assets included on the fiscal court's schedule of capital assets.

The fiscal court lacks adequate controls over reporting of capital assets. Each department is required to submit inventory listings to the fiscal court; however, these were not being reconciled with the schedule of capital assets maintained by the finance officer. The finance officer stated the software company had entered the capital assets in the software program originally. The software company erroneously did not enter or entered values wrong on some capital assets. The finance officer also stated she compared her listing to the insurance listing but did not perform an actual inventory. By having weak internal controls over capital assets, assets are left vulnerable to misappropriation or misstatement. In this case, misstatements were able to occur without detection.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting, to protect assets from misappropriation, and to ensure accurate insurance coverage. 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 (DLG)'s *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. An annual physical inventory

of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented.” Furthermore, the manual states “[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by the authorized personnel and documented accordingly.”

In order to strengthen internal controls over capital assets, we recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with DLG’s requirements. Procedures should be implemented that will identify and track additions and deletions for the purpose of the schedule of capital assets with adequate supporting documentation and any additions or deletions should be reconciled to the department inventory records annually for insurance coverage.

*County Judge/Executive’s Response: The Capital Asset schedule was sent to our accounting software company to input all of our current information but they failed to post some of that information correctly. All of this has been corrected since it was brought to our attention.*

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

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