



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 Taylor County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Taylor County Fiscal Court for the fiscal year ended June 30, 2017. 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 Taylor 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 Taylor County Fiscal Court materially misstated liabilities on the fourth quarter financial report: Three of five liabilities reported on the fourth quarter financial statement were incorrect. Principal debt was understated by \$181,365 and interest was overstated by \$524,774. The fiscal court did not have controls in place to monitor or review amounts recorded on quarterly reports. As a result, the liabilities reported on the fourth quarter financial statement were materially overstated by a net amount of \$343,409.

KRS 68.210 gives the Department for Local Government (DLG) the authority to prescribe a uniform system of accounts. The uniform system of accounts is outlined in DLG's *County Budget*

Preparation and State Local Finance Office Policy Manual which requires an accurate and complete schedule of liabilities be submitted with each quarterly report.

We recommend the fiscal court submit an accurate and complete liabilities schedule as required. We also recommend the county implement internal control procedures to ensure the schedule of liabilities is accurate and complete on each quarterly report.

County Judge/Executive's Response: Accurate liabilities were presented to the auditors.

Auditor's Reply: The Taylor County Fiscal Court reported incorrect principal amounts on the fourth quarter report for the fire station lease; First Mortgage Revenue Bond, series 2007; and First Mortgage Refunding Revenue Bonds, series 2016.

The Taylor County Fiscal Court did not issue purchase orders on all disbursements as required: The fiscal court did not issue purchase orders on all disbursements. The fiscal court has a purchase order system in place for small purchases, however, it does not include payroll and utility claims. In addition, not all disbursements get a purchase order and some purchase orders are prepared after the invoice is received.

The fiscal court was not aware all disbursements require a purchase order. As a result, appropriation line items may be depleted or have a negative balance due to not ensuring funds are available at the time of purchase.

According to a memorandum from the Department for Local Government (DLG) dated August 4, 2016, "[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*" Furthermore, "DLG highly recommends that counties accept the practice of issuing PO's for payroll and utility claims."

We recommend the fiscal court implement procedures to ensure purchase orders are issued on all disbursements, including payroll and utility claims.

County Judge/Executive's Response: P.O.'s are not required for purchases under \$100 according to the Taylor County Administrative Code. Payroll and utilities are approved as a standing order by Taylor County Fiscal Court at the beginning of each Fiscal year. Each department is responsible for obtaining a P.O. and a letter will be sent to each department supervisor to make sure that they comply.

Auditor's Reply: Purchases were made prior to a purchase order being approved. Standing orders remove the requirement to present a disbursement to fiscal court, but purchase orders are still required to ensure there is sufficient funds in the budget to cover the expenditure. In addition, DLG highly recommends counties accept the practice of issuing purchase orders for payroll and utility claims.

The Taylor County Fiscal Court did not properly account for encumbrances at year end:

The fiscal court reported encumbrances on the fourth quarter financial report and maintained a list to support the amounts reported, however, the encumbrances were inaccurate. The encumbrances listed included old purchase orders that had not been cancelled out of the computer system and did not include all outstanding obligations at year end. Claims paid in July 2017 for invoices dated before July 1, 2017, that had a purchase order issued were not included on the outstanding encumbrance list and a purchase order was not prepared for all disbursements.

The fiscal court did not properly utilize the purchase order system and on numerous occasions issued purchase orders after they received the invoice.

Encumbrances are understated by approximately \$437,172. In addition, by not properly reporting encumbrances, the fiscal court is not in compliance with reporting requirements per the Department for Local Government. In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

The *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarterly financial report. The manual states, “[e]nter the total dollar amount of unpaid purchase orders from the purchase order journal.” Furthermore, KRS 68.360(2) states, in part, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfer made to or from the fund.”

We recommend the fiscal court institute procedures to ensure all disbursements receive a purchase order including payroll and utilities and all purchase orders be issued prior to receiving an invoice or disbursement occurs. We recommend all purchase orders be entered into the computer system at the time of issuance and any old outstanding purchase orders be removed to ensure an accurate encumbrance listing.

County Judge/Executive’s Response: In June a list of encumbrances will be created to satisfy the auditors. P.O.’s for payroll and utilities will not be given because the Taylor County Fiscal Court approves these expenses at the beginning of each new Fiscal year when salaries and operating expenses are presented. The encumbrance list will include these.

Auditor’s Reply: The DLG County Budget Preparation and State Local Finance Officer Policy Manual requires that encumbrances be maintained. The encumbrance list should be maintained throughout the entire fiscal year and should include payroll and utilities.

The Taylor County Fiscal Court and jailer did not follow bidding and contract procedures required by the county’s administrative code: The fiscal court did not bid for the detention center’s food service provider after the contract expired in November 2014 as required by the county’s administrative code. The fiscal court disbursed a total of \$360,473 to this food service provider during Fiscal Year 2017.

In addition, the jailer renewed a medical service provider contract without fiscal court approval as required by the county's administrative code. On March 23, 2016, the jailer renewed a 12 month agreement with a medical service provider to provide health care for inmates. The fiscal court disbursed a total of \$281,591 to this medical service provider during Fiscal Year 2017. The renewal contract was not signed by either the jailer or the county judge/executive.

The fiscal court and the jailer were unaware the food service provider contract expired and the jailer was unaware of the need to obtain fiscal court approval for the medical service provider contract renewal and did not present it to the fiscal court. As a result, the fiscal court and jailer are not in compliance with the county's administrative code relating to bidding and contracts.

The fiscal court's administrative code states in Section 8.2 Selection of Vendors and Contractors (Procedures for Sealed Bidding) subsection C. "[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 Dollars (\$20,000) shall be subject to competitive bidding. Except State Bid Pricing."

The fiscal court's administrative code states in Section 8.1 Authorization of County Contracts, "[e]very contract, change or amendment thereto, shall be authorized or approved by the Fiscal Court before being executed by the County Judge, except for small purchases."

We recommend the fiscal court follow their own administrative code policy as it relates to bidding for contractual services over \$20,000, and we also recommend the jailer abstain from entering into any contracts unless authorized or approved by the fiscal court.

County Judge/Executive's Response: Referred to Jailer for response

Jailer's Response: Concerning the [Food Service Vendor] Contract:

Under "Term of Agreement," the contract states "By mutual agreement, this Agreement may be renewed on a year by year basis."

[Vendor] has continuously supplied the food services at Taylor County Detention Center and have invoiced as such. The invoices were submitted for payment and have been paid. Thus, the parties have mutually agreed to renew the Agreement.

Additionally, per the Section 8.2 of the administrative code, professional services are not subject to competitive bidding. The jail contracts with [Vendor] for their professional services which include the services of a Registered Dietician.

Concerning the [Medical Service Vendor] Contract:

In a letter dated March 23, 2016, [Vendor] advised that there would be no price increase for the contract period of July 1, 2016 through June 30, 2017.

The document did not provide a place for signatures but instead offered the following language:

“In lieu of a contract amendment, this correspondence serves to confirm the renewal and extension of our Health Services Agreement without an annual fee increase for the twelve-month period effective July 1, 2016 through June 30, 2017. If you have any concerns or wish to discuss renewal terms in further detail, then please contact me to advise. We will otherwise assume you and the County are in agreement, and all provisions of the contract will remain in full force and effect until such time as amended or modified in writing by the parties.”

During the process of finalizing the jail’s budget for FY 2016-17, it was made known to the Budget Committee, the County Treasurer, and the County Judge/Executive that there would be no annual price increase for medical services. As there were no concerns or desire to discuss the terms with the vendor, approval obviously is present.

The contract with [Vendor] states that the contract “may be extended for additional one-year terms, if mutually agreeable to both parties.” Both parties were obviously in agreement as evidence by the lack of communication back to [Vendor] by any person in authority to do so. It was assumed that no signatures were needed and none were obtained.

Auditor’s Reply: All contracts are required to be approved by fiscal court and contracts over \$20,000 are required to go through the bidding process. The food services contract included food preparation which is not a professional service. Mutual agreements do not satisfy this requirement.

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

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