



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 Edmonson County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Edmonson County Fiscal Court for the fiscal year ended June 30, 2021. 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 Edmonson 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 Edmonson County Fiscal Court does not have adequate internal controls over procurement:** This is a repeat finding and was included in the prior year audit report as Finding 2020-001. During Fiscal Year 2021, the Edmonson County Fiscal Court had material weaknesses over procurement. The following findings were noted regarding the Edmonson County Fiscal Court's procurement process:

- The fiscal court failed to keep documentation of state contract prices for three purchases totaling \$95,441 that were made from state contract vendors.

- The fiscal court paid for courthouse elevator repairs in the amount of \$36,900. The treasurer was instructed by an Administrative Office of the Courts facilities administrator to mark the job as an emergency repair. In lieu of utilizing competitive sealed bidding under KRS 45A.365, the county used noncompetitive negotiation under KRS 45A.380 to procure the services of the company that provided maintenance for the elevator pursuant to an elevator service agreement. In doing so, the county judge/executive failed to make the written determinations required by that statute. Moreover, contrary to KRS 45A.343(2), the contract with the elevator service company did not include disclosures by the contractor and subcontractors of violations of, and compliance with, specified statutes.
- The fiscal court orders state that all road materials bids were accepted. The ability to award multiple bids was not included in the bid solicitation.
- On November 23, 2020, the fiscal court approved to advertise for bids for a paver. At that same fiscal court meeting, the fiscal court approved for the road supervisor to travel to Florida to look at a paver. When the road supervisor returned from Florida, he brought a sealed bid from the company whose paver he had examined. This sealed bid was dated December 1, 2020. However, the bid advertisement did not run in the newspaper until December 3 and 10, 2020. This advertisement was specific for a 2015 Caterpillar AP-1055F track paver, which was the same year, make, and model of paver that the road supervisor had previously traveled to Florida to inspect. On December 14, 2020, the fiscal court approved the purchase of the paver in the amount of \$148,000 from the company in Florida. However, there was no mention made of opening or accepting bids in the fiscal court orders.
- The bid accepted for asphalt had a clause for fluctuation in petroleum-based products, allowing the vendor the right to adjust the proposal price (+ or -) at the time of installation to reflect changes in petroleum-based products using the Kentucky Average Price Index (KAPI) as published by the Kentucky Transportation Cabinet. The county treasurer emails the vendor at the beginning of each month to get the new asphalt price and she verifies the increase with the KAPI. However, there was no documentation to support the verification of the KAPI or that the amount per the invoice is correct.

The county judge/executive stated that the fiscal court makes it a practice to accept all bids for road materials to allow the county to use the vendor that has the best price in relation to the location of the road project. Additionally, the county treasurer stated she was not aware that it was necessary to maintain the supporting documentation for state contract vendors.

As a result, the fiscal court was not in compliance with procurement laws or their administrative code. In addition, the fiscal court might not have received the best value for services or products provided.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with procurement laws, and to keep good records of all bids and other procurement transactions. Good internal controls would also include requiring the documentation of agreement of bid elements included on invoices, such as the KAPI amounts, to sources referenced in the original bid documents or specifications as part of state contract memorandum of agreement. KRS 178.140(1) states, “[a]ll bids for the construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced.” In addition, KRS 178.140(2) states, “[t]he contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county.”

KRS 45A.365(1) states, “[a]ll contracts and purchases shall be awarded by competitive seal bidding, which may include the use of a reverse auction, except as otherwise provided by KRS 45A.370 to 45A.385[.]” Additionally, KRS 45A.365(2) states, “[t]he invitation for bids shall state that the award shall be made on the basis of the lowest bid price or the lowest evaluated bid price. If the latter is used, the objective measurable criteria to be utilized shall be set forth in the invitation for bids. The invitation for bids shall include the reciprocal preference for resident bidders described in KRS 45A.494.”

KRS 45A.355(1) states, “[e]very determination required by this code shall be in writing and based upon written findings of the public official making the determination. These determinations and written findings shall be retained in the official contract file.” Additionally, KRS 45A.380 states, in pertinent part, “[a] local public agency may contract or purchase through noncompetitive negotiation only when a written determination is made that competition is not feasible and it is further determined in writing by a designee of the local public agency that:

- (1) An emergency exists which will cause public harm as a result of the delay in competitive procedures;
- (2) There is a single source within a reasonable geographical area of the product or service to be procured;
- (3) The contract is for the services of a licensed professional, such as attorney, physician, psychiatrist, psychologist, certified public accountant, registered nurse, or educational specialist; a technician such as a plumber, electrician, carpenter, or mechanic; or an artist such as a sculptor, aesthetic painter, or musician, provided, however, that this provision shall not apply to architects or engineers providing construction management services rather than professional architect or engineer services[.]”

Additionally, the Edmonson County Administrative Code Sections 420.4 regarding selection of vendors and contracts states, in part, “[s]ealed bidding procedures shall be followed under the circumstances, conditions and in the manner as set forth by KRS 45A.365.” The Edmonson County Administrative Code Section 420.7 regarding selection of vendors and contracts states, “[t]he County Judge/Executive shall submit the bid selected to the Fiscal Court for approval and thereafter shall notify in writing all bidders of the award. If the lowest bid is not selected, the reasons for the selection shall be stated in writing.”

We recommend the fiscal court implement internal controls to monitor all procurements in order to ensure that all required elements of bidding procedures are followed. The fiscal court should also ensure that bid prices and other elements included in approved bids, agree to the invoices submitted by vendors. We further recommend the fiscal court document these procedures in the fiscal court minutes and in the bid files including documenting the acceptance of the winning bid in writing in accordance with their administrative code and to be in compliance with KRS 178.140 as it relates to construction or maintenance of county roads and bridges. If the fiscal court does not accept the lowest bid for road materials, they should document the reason in the fiscal court minutes.

*County Judge/Executive's Response:*

- *We do not agree with this violation as the state contracts were printed and provided to the Auditor upon immediate request. The State Vendor Contracts for the 3 purchases that were audited were supplied to the Auditor the day they were requested, they had not been printed due to the size of the documents. Going forward the state vendor contracts will be printed and attached to the purchase invoice.*
- *The Judge Executive office was unfortunately not aware of the requirements of the Emergency Executive Order for the elevator repair, and if this shall arise in the future we will proceed correctly.*
- *Road Material Bid will include the multiple vendor bids in the future advertisement.*
- *The Fiscal Court will make bid advertisement more open to multiple vendors in future advertisements.*
- *We do not agree with this violation due to the fact that the Treasurer follows the KAPI on a monthly basis and even communicates with asphalt company at the first of each month to guarantee the county is paying the correct amount, even having a chart hanging in her office to reflect the monthly price, this along with all the saved emails from the asphalt company, all asphalt invoices are reconciled to an extremely detailed breakdown, including the price on each rock/asphalt ticket. The Judge Executive Office feels this never should have been a violation from the Auditor's, as this step that the Treasurer does is not a requirement, this is her own procedure for her to ensure the County is charged properly. We highly disagree with this violation.*

Auditor's Reply: The issue with the state price contracts is not whether they were printed prior to audit, saved electronically prior to audit, or printed on demand during the audit, but rather that at no time was documentation as to the actual pricing under the state contracts retained or provided to APA. While the treasurer stated she verified amounts to the Kentucky Average Price Index (KAPI), auditors were not provided any documentation to support that this procedure was actually performed.

**The Edmonson County Fiscal Court failed to accurately record activity of the general fund and road fund on the fourth quarter financial report:** The Edmonson County Fiscal Court's fourth quarter financial report required audit adjustments to the general fund and road fund. Funds of \$218,537 were transferred per the road fund cost allocation worksheet from the road fund to the general fund. Instead of recording the transaction as a transfer, it was recorded as a receipt to general fund and disbursement to the road fund.

Due to the bank accounts associated with these funds, which are in different banks, the county treasurer had to write a check from one bank to another since an inter account transfer was not optional. When the transactions were entered in the accounting system, the treasurer could not determine how to record as a transfer between funds.

As a result of the activity, a transfer of \$218,537 was incorrectly posted as a disbursement of the road fund and receipt of the general fund, which overstated the total operating receipts for the general fund and total operating disbursement for the road fund.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Those standards require an accurate financial statement.

We recommend the fiscal court determine a way to enter transfers between different bank accounts correctly in the accounting system in order to reflect an accurate fourth quarter financial report.

*County Judge/Executive's Response: We were made aware of this issue in the FY20 audit but unfortunately did not have time to correct it due to the fact the State Auditor's were in a rush to begin work on our FY21 audit. This has been corrected for FY22.*

Auditor's Reply: We disagree that APA was "in a rush to begin work," as we engaged to perform our work (January 14, 2022) more than six months after the close of the fiscal year (June 30, 2021). Delays in completing the previous audit by a private CPA retained by the fiscal court are outside of our control.

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

###

*The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.*

*Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.*

