



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Henderson County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Henderson County Fiscal Court for the fiscal year ended June 30, 2022. 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 Henderson 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 116 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 Henderson County Fiscal Court did not have adequate controls over disbursements: During Fiscal Year 2022, the Henderson County Fiscal Court had material weaknesses in internal control and noncompliances over disbursements. The following findings were noted in regard to the Henderson County Fiscal Court's disbursements:

- Fourteen of 88 invoices totaling \$310,765 that were examined during testing were not paid within 30 days.
- There were four instances found in testing where lump-sum expenses in the amount of \$210 were paid to employees to reimburse phone usage.

- Eighteen of the 88 invoices tested totaling \$1,092,863 had purchase orders dated after the invoices were received.
- One equipment purchase in the amount of \$30,887 was not properly bid in accordance with the county's adopted procurement procedures.
- There was not adequate documentation for one \$37 transaction on a credit card statement.
- Records including bill lists and other documents that were submitted to the fiscal court for approval were not being in the permanent record of the fiscal court.

According to the county treasurer and finance officer, the findings listed above were due to an oversight and a software anomaly. The lump-sum expenses are monthly phone expenses reimbursed to employees. The equipment purchased at the end of the year was thought to be on the state contract, however, it was not on state contract and failed to follow the bidding procedures. Vendor claims reports are submitted to the fiscal court for approval at meetings and kept in the county treasurer's office.

Failure to pay obligations timely (within 30 days) is indicative of poor financial management practices and can result in late fees and finance charges, which are a poor use of taxpayer resources. Also, by not maintaining itemized invoices, purchases could be made, which are personal in nature. When failing to maintain adequate 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. Additionally, the county was not in compliance with various statutes when providing lump sum expenses, not properly documenting purchase orders, not following bidding procedures, or keeping fiscal court records with the minutes as a permanent record.

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's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties and each county is responsible for ensuring their purchase order system is executed and working properly.

According to a memorandum from 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 POs for payroll and utility claims.

KRS 65.140(2), states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipts of a vendor's invoice[.]"

KRS 64.710 states, "[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly."

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:

- (a) Materials;
- (b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits;
- (c) Equipment; or
- (d) Contractual services other than professional;
involving an expenditure of more than thirty thousand (\$30,000) without first making newspaper advertisement for bids.” The Henderson County Purchasing Procedure states, “[a]ll purchases over \$20,000 shall be bid pursuant to KRS 424.260. (With the exception of professional services and state contract pricing.)”

KRS 67.100 states, “(1) The fiscal court is a court of record. Minutes of the proceedings of each meeting shall be prepared and submitted for approval at the next succeeding meeting. (2) Every official action of the fiscal court shall be made a part of the permanent records of the county.” Additionally, the county’s administrative code states, “the clerk of the fiscal court shall...keep a full and complete record of its proceedings.”

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.

We make the following recommendations to the fiscal court:

- All invoices should be paid within 30 days in accordance with KRS 65.140(2).
- No employee shall be paid any lump sum expense in accordance with KRS 64.710.
- Internal control procedures regarding purchase orders should be strengthened by requiring purchase orders be issued prior to purchases being made or services rendered in accordance with DLG requirements and KRS 68.210.
- Any expenditure over \$30,000 shall following bidding procedures in accordance with KRS 424.260.
- Proper documentation should be maintained for all disbursements to properly support claims.
- All fiscal court records and actions should be filed with fiscal court minutes as a permanent record of the county in accordance with KRS 67.100.

County Judge/Executive’s Response: 2022-001 (1) The Treasurer’s Office processes/pays invoices when forwarded from the internal departments. The court does not pay the majority of invoices until the approval of the Fiscal Court, sometimes causing a conflict between the invoice due date and the court date. The Treasurer’s Office will continue to work with departments that work with vendors to ensure payments are made within the due date based on Fiscal Court meeting dates and the 30-day window.

2022-001 (2) *Monthly checks are currently issued to key personnel for reimbursement of personal cell phone usage for business purposes. The court will examine possible options for this, that fall under a qualified reimbursement plan.*

2202-001 (3) *Due to a software glitch, changes have been made with the purchase order vendor to correct the date issue. The purchase order number has been changed to reflect the date the purchase was requested.*

2202-001 (4) *The Treasurer's office continues to work closely with department heads to gain a better understating of the purchasing, the bid process, and the \$30,000 threshold as stated in the county's procurement procedures. Early 2023 all county departments should be using the same purchase order system, providing improved continuity within the county's procurement system.*

2021-001 (5) *Due to an oversight, the \$37 transaction on a credit card statement did have supporting documentation attached, but not as detailed as deemed necessary.*

2022-001 (6) *The permanent record of the fiscal court has been changed to include bill lists submitted for court approval.*

The Henderson County Fiscal Court's schedule of Expenditures of federal awards (SEFA) was misstated: The Henderson County Fiscal Court's original schedule of expenditures of federal awards (SEFA) was misstated by \$645,842, requiring adjustments to the county's federal awards schedule. The total adjustments are made up of the following errors made on the following programs:

- Assistance Listing 21.027 – \$433,917 was not included on the schedule of expenditures of federal awards that were expensed in fiscal year 2022.
- Assistance Listing 11.307 – \$99,425 was included on the schedule of expenditures of federal awards that were expensed in fiscal year 2020 and 2021.
- Assistance Listing 90.401 – \$112,500 of election equipment reimbursement amount was included on the schedule of expenditures of federal awards that were expensed in fiscal year 2020.

According to the county treasurer, all monies expended from the *Coronavirus State and Local Fiscal recovery Funds* were recorded wrong due to lack of guidance and misunderstanding of the guidance provided the Treasury Department. In addition, the treasurer failed to verify that the monies expended from the Economic Adjustment Assistance Program in the prior year were not included on the current year SEFA. Lastly, the county treasurer mistakenly treated a receipt amount which was reimbursement for an election equipment through Help America Vote Act as an expenditure. The equipment was purchased in fiscal year 2020. As a result of the errors made and lack of effective operating controls, the original schedule of federal expenditures of federal awards was misstated. Furthermore, the fiscal court is not in compliance with 2 CFR 200.510(b).

Strong internal controls over financial reporting are vital in ensuring that federal awards expended are accounted for and reported 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 all requirements and guidance. Additionally, 2 CFR 200.510(b) states, "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended."

We recommend the Henderson County Fiscal Court implement or strengthen controls over federal award expenditures reporting to ensure amounts reported represent true federal expenditures during the year.

County Judge/Executive's Response: 2 of the 3 findings relate closely to the receipt of funds not typical in previous years and confusion existed with the US Treasury continuing updates. The Treasurer continues to gain knowledge and understanding to ensure that federal expenditures are allowable and fall within the correct period of performance. The Treasurer and Fiscal Court Clerk continue to work with departments with regards to tracking and recording of federal funds, to avoid including expenditures in the wrong fiscal year.

The Henderson County Fiscal Court does not have adequate internal controls over payroll processing: The following findings were noted during testing of Henderson County Fiscal Court's payroll:

- Timesheets were not completed or maintained for two employees.
- Judge's office employees took time off without using any leave time.
- Judge's office employees leave time balance maintained without any review and supervisor approval.
- Ten employees' timesheets do not support actual hours worked and paid.
- County Personnel Policy does not address where employees can select to get paid for overtime or accumulate towards compensatory time for the clerk's office employees.

Based on county records there was a lack of segregation of duties over payroll preparation and no independent review of payroll items before processing and disbursing payroll. Due to the lack of internal controls over payroll, payments for payroll were not properly supported. Failure to maintain timesheets resulted in the county not being in compliance with KRS 337.320.

Strong internal controls over payroll and timekeeping are vital in ensuring the 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 statutes and Henderson County Administrative Code.

Lastly, KRS 337.320(1) requires employers to maintain a record of "[t]he hours worked each day by each employee."

We make the following recommendations to address these findings:

- Documentation of each employee of the county, including the appropriate hourly rate for hourly employees and monthly or yearly amounts for all salaried employees, should be presented to the fiscal court for approval and included in the fiscal court minutes as a matter of public record in accordance with the Henderson County Administrative Code.
- Fiscal court should strengthen controls over the payroll process by requiring all county employees to maintain a timesheet that is approved by a supervisor.

- The county also should develop and strengthen controls over maintaining leave balance reports for judge's office employees to ensure the employees are being paid for actual hours worked and to protect the county's assets.
- Furthermore, we recommend the fiscal court consult with the county attorney to review the county's administrative code to determine what a full-time salaried employee's hours of work consist of to ensure all employees are eligible for full time benefits of the county. We recommend addressing by each department separately if a fulltime employee's total hours per week varies between departments.

County Judge/Executive's Response: 2022-003 (1) Documentation has been provided showing that there was significant timekeeping detail for one employee, prior to the audit. Misunderstanding of the requirement being asked may have stemmed from the change in the sample tested.

2022-003 (2) & (3) Both our current Human Resources specialist and our former Finance Officer, who handled payroll, agreed that the key members of my staff fit the U.S. Department Labor's Division of Wage and Hour criteria to be classified as Salary Exempt employees and therefore not eligible for overtime pay. As such, we believed their hours and leave time were not based strictly on time sheets and not a "lack of internal controls" as stated in the audit finding. An internal survey of several counties showed they also treated some or all of their judge's staff as Salary Exempt, so we thought we were correct in our classification of my staff's classification. We were informed by our auditors that my staff should be classified as Salary Non-Exempt, should require timesheets and much stricter leave time oversight. While we are confused why so many other counties treat their judge's staff as Salary Exempt, we will change our classification to Salary Non-Exempt and comply with the requirements spelled out by our auditors.

2022-003 (4) The IO employees referenced were, we believe, members of the County Clerk's staff who routinely put in their office's business hours, 8 a.m. to 4:30 p.m., on their timesheets because that had been the accepted practice in that office for decades without objection from the State Auditor's Office. In fact the County Clerk's team regularly works from before 8 until after 4:30 and also takes turns covering lunch hours and extended office hours on Fridays that last until 6 p.m., all resulting in 40 hours of actual work each week. We have consulted with the County Clerk and advised her to have the exact times worked each pay period by her employees and not just put the rote "8 to 4:30" listing on their timesheets.

2022-003 (5) We will update the County Personnel Policy to reflect the ability of clerk's office employees to choose either overtime or comp time.

Auditor's Reply:

1. The Henderson County finance office paid two employees without having obtained timesheets. Detail was received by the finance office for one employee after the audit was complete.
2. The Henderson County Judge/Executive was offered guidance that he should contact the U.S Department of Labor for clarification of employee designations. That office is the oversight agency for wage and labor issues, not other counties governing bodies.

3. The Henderson County Judge's office and financial staff erroneously included hours they did not work on timesheets submitted for payment. While staff was leaving after lunch on Fridays, their timesheets documented that they worked the entire day. There was no documentation of review of office employee leave balances by an appropriate supervisor.
4. KRS 337.320(1) requires employers to maintain a record of "[t]he hours worked each day by each employee."

The Henderson County Fiscal Court did not establish and maintain effective internal controls over compliance with coronavirus state and local fiscal recovery und (SLFRF) requirements:

Federal Program: 21.027 Covid 19-Coronavirus State and Local Fiscal Recovery Funds

Award Number and Year: 2022

Name of Federal Agency: U.S. Department of the Treasury

Compliance Requirements Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Type of Finding: Significant Deficiency

Amount of Questioned Costs: \$0

COVID Related: Yes

The Henderson County Fiscal Court transferred federal funds from the American Rescue Plan Act (ARPA) fund to the general fund without first ensuring sufficient supporting documentation of allowable expenditures during the same period as the funds were reported as expended on the schedule of expenditures of federal awards (SEFA).

The county was awarded \$8,781,513 in ARPA funds, receiving the first payment of \$4,390,756 into the ARPA fund in June 2021 and a second payment of \$4,390,757 in June 2022. In September 2021, the county transferred \$1,490,494 from the ARPA fund into the general fund for "lost revenue". At the time of the transfer, and until auditors inquired about the supporting documentation, the county did not maintain a list of expenditures that reconciled to the transfer total. After this inquiry, the county gathered documentation and provided auditors a reconciliation of expenditures of eligible costs that supported the amount transferred into the general fund.

An effective internal control system was not in place in Henderson County to ensure compliance with requirements related to the administration of ARPA funds and the Allowable Costs/Cost Principles compliance requirements.

Failure to establish and maintain effective internal controls over compliance with federal program requirements could subject the county to the risk of reporting ineligible expenditures on the SEFA and using grant funds for unallowable purposes.

2 CFR 200.303 states in part:

"The non-Federal entity must: (a) Establish and maintain effective internal controls over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the county establish and maintain internal controls over compliance for all federal program expenditures to ensure accurate use and reporting of federal awards, including maintaining sufficient supporting documentation of expenditures that reconciles to any transfer from a federal program fund into other county funds.

County Judge/Executive's Response: We disagree with the audit assessment that the county did not have an "effective internal control system" for compliance with Coronavirus State and Local Fiscal Recovery Fund Requirements. Faced with the unique situation surrounding these funds, the lack of any formal guidance from the State Auditor's Office on expending the funds before they arrived, and the often confusing and contradictory guidance provided by various state organizations and consultants, we believe Henderson County attempted to correctly and conscientiously handle these monies with the best information we had at the time. We found it interesting that shortly after the initial word from our auditors that we did not administer the funds properly, the State Auditor's Office then issued guidelines for counties. In our exit interview we were told the negative finding language covering our use of these funds would likely appear as findings in the audits of dozens of other counties who also made unwitting mistakes. We believe the after-the-fact guidelines and nearly universal adverse findings for counties indicate that it wasn't local officials who failed to do the proper thing but were, in fact, evidence the State Auditor's Office that failed to do its job. Simply put, if we'd been told in advance by state auditors specifically how they wanted these federal funds accounted for, we'd have done that. Minus that information, were left to figure it all out on our own as best we could. We respectfully believe our efforts should not be described as failures or non-compliance.

Auditor's Reply: 2 CFR 200.303 states, "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Henderson County's financial management failed to implement an adequate system of internal controls due to a lack of understanding of the requirements spelled out by the U.S. Department of the Treasury. While the Auditor of Public Accounts offers guidance when possible, the APA's role is to audit the compliance and internal controls over federal expenditures. In order to remain independent, auditors cannot prescribe processes for the fiscal courts to use. It is the fiscal court's management's responsibility to know the federal funding requirements.

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

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