



Auditor of Public Accounts
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Harmon Releases Audit of Metcalfe County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Metcalfe County Fiscal Court for the fiscal year ended June 30, 2020. 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 Metcalfe 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 findings:

The Metcalfe County Fiscal Court did not approve changes to the American Rescue Plan Act fund budget: The Metcalfe County Fiscal Court received \$978,087 in American Rescue Plan Act (ARPA) money during Fiscal Year 2022. This amount was budgeted and deposited to the federal grants fund. The fiscal court approved a cash transfer of this money from the federal grants fund to the ARPA fund on August 24, 2021; however, the fiscal court failed to approve a budget amendment or a budget-appropriations transfer of these ARPA monies to the reserve for transfer line item in the ARPA fund. The fiscal court approved budget appropriations transfers of \$132,854 from the reserve for transfer line item to other disbursement line items in the ARPA fund budget without appropriate funds being available in the reserve for transfers line item. Further, \$103,199

of budget appropriation transfers within the ARPA fund were approved by fiscal court after the disbursement had already been paid out to the vendor.

The fiscal court approved disbursement code line items for the ARPA fund budget on November 9, 2021, to track ARPA fund receipts and disbursements. There were no figures added at the time and the minutes stated fiscal court would do budget transfers as needed; however, as noted above, budgeted transfer of funds into the ARPA fund was not completed. The fiscal court approved the cash transfer of funds from the federal grants fund to the ARPA fund but did not realize a budget appropriations transfer of funds was also necessary. Further, when preparing the fourth quarter report, \$978,000 was erroneously reported in the original budget column of the reserve for transfer line item of the ARPA fund making it appear as though sufficient budget was available in this line item. As a result, \$131,709 of ARPA fund disbursements were spent without sufficient budget in these line item amounts, and the original budget column on the fourth quarter report was materially misstated.

Strong internal controls over the budget preparation and reporting processes are vital to ensure the fiscal court's financial reports accurately reflect the financial activity of the fiscal court, as well as adherence to applicable laws and regulations.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, “[i]ntrafund transfers are transfers of appropriations from one line item to another within the same fund... By court order, transfers (of appropriation) may be made directly from one line item to another or channeled through 9200-999. The total of these transfers should equal zero within the same fund. All transfers require a court order.” The manual further states, “[i]t is necessary to amend the budget to reflect the receipt and expenditure of funds received through a state or federal grant if that grant was not part of the original budget document. An amendment of this nature should be made immediately upon receipt of those funds.”

KRS 68.300 states, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

We recommend the Metcalfe County Fiscal Court strengthen oversight and internal controls over financial reporting in order to ensure complete and accurate records are maintained. Further, we recommend the fiscal court ensure all line items, as well as all funds are properly budgeted. The budget should be reviewed periodically by management and department heads, and always before a purchase order is approved and the expenditure is completed. Budget transfers or budget amendments should be prepared and reported properly on the fourth quarter report.

County Judge/Executive's Response: This was new "Money" that required a new checking account and a new budget account. Since this was the first installment of the money, it had to be deposited to the Federal Grants Fund, and later transferred to the new ARPA Fund. The Finance

Officer performed an Interfund Transfer thinking the transfer would correctly appropriate the funds to the Reserve For Transfer Line. She was not aware that one step more needed to be performed as a Budget Amendment. Any new monies deposited into a new account will be included in a budget amendment in the future.

The Metcalfe County Treasurer did not submit an annual settlement to the fiscal court: The Metcalfe County Treasurer prepared an annual settlement for the fiscal year ended June 30, 2022; however, the annual settlement was not submitted to the fiscal court for review and approval. The county treasurer stated she was not aware she had to submit her annual settlement to the fiscal court for approval. The county treasurer was not in compliance with KRS 68.020 and 68.030 and the county administrative code as it pertains to duties of the county treasurer.

The Metcalfe County Administrative Code chapter 8 section (8)(a) details duties of the county treasurer and states the county treasurer shall “[k]eep financial records and make reports as set out in KRS 68.210, 68.020, 68.300, 68.360 and 66.480 and must also keep records as required by the Uniform System of Accounts for Kentucky.”

KRS 68.020(5) states, “[t]he county treasurer shall, when required by the fiscal court, settle his accounts as county treasurer, and within thirty (30) days after the close of each fiscal year, he shall, unless his immediate predecessor has done so, make a full and complete settlement for the preceding fiscal year with the fiscal court or with a person or persons whom the fiscal court, by order of record, appoints to make settlement with him.”

KRS 68.030 states, “[e]ach settlement made by the county treasurer shall be approved by the fiscal court in open court, and shall, by order of the fiscal court, be recorded by the county clerk in a book kept for that purpose. The original shall be filed in the county clerk’s office and preserved as a record of the court.”

We recommend the county treasurer submit a full and complete annual settlement to the fiscal court for the next fiscal year within 30 days after the close of the fiscal year to be in compliance with the fiscal court’s administrative code and state statutes.

County Judge/Executive’s Response: The County Treasurer prepared the Annual Settlement and sent it in to the Department of Local Government. She was not aware that it needed to be presented to and approved by Fiscal Court. In the future, the County Treasurer will present the Annual Settlement to Fiscal Court for approval before sending it to the Department of Local Government.

The Metcalfe County Fiscal Court does not have controls over disbursements: During Fiscal Year 2022, the Metcalfe County Fiscal Court had material weaknesses in internal control and noncompliances over disbursements. The following findings were noted regarding the fiscal court’s disbursements:

- Sixty-seven of 89 disbursements tested in the amount of \$2,851,410 did not have purchase orders issued before the item was purchased or service was performed.

- One of 89 disbursements tested in amount of \$11,500 did not have a purchase order. This disbursement was for a road department vehicle and the check written to pay for it was not signed by the county treasurer.
- Twenty of 89 disbursements tested in the amount of \$1,520,294 exceeded available line-item appropriation when the purchase orders were issued. Seven of these 20 disbursements in the amount of \$564,051 were paid before the budget transfer was made.
- Twenty of 35 claims tested paid in July 2022, totaling \$310,131 should have been included as encumbrances on the fourth quarter financial statement for Fiscal Year 2022.
- An invoice paid in July 2021, in the amount of \$216,126 for June 2021 road paving did not have detail or tickets of when the work was done.
- Three of 89 disbursements tested totaling \$305,921 were not paid within 30 working days of receipt.

The finance officer stated that employees do not call and request purchase orders before making purchases so she cannot issue the purchase order until she receives the invoices. She has always issued the purchase orders for utilities and contributions when she receives the invoices. The finance officer also stated the county treasurer was on vacation out of state when the road department vehicle was purchased. The former county judge/executive was adamant that the check be cosigned by the finance officer so the vendor could be paid immediately. He insisted she cosign the check even when she told him that all checks had to be signed by the county treasurer. The finance officer further stated that the former county judge/executive wanted disbursements that already had fiscal court approval paid as soon as possible even when a line item did not have enough available budget. She stated she would pay them if she knew she had enough budget in the reserve for transfers line item to make a budget transfer at the next meeting. Additionally, the finance officer stated the former county/judge executive took care of the tickets for road paving and she did not know why the tickets for June 2021 road paving were not filed. The county treasurer stated that they did not have any encumbrances because they paid all invoices outstanding as of June 30.

The issues noted above could result in line-items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets. Due to the purchase order process not working as designed, outstanding invoices were not listed as encumbrances on the fourth quarter report.

KRS 68.300 states, in part, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void.”

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 fiscal court 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 purchase orders for payroll and utility claims.

The manual further states “[p]urchases shall not be made without approval by the judge/executive (or designee), and/or a department head” and “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.” The manual requires reporting unpaid purchase orders as encumbrances in section I of the summary and reconciliation portion of the quarterly financial statement. The county treasurer should according to the manual “[e]nter the total dollar amount of unpaid purchase orders from the purchase order journal” as encumbrances and then “[s]ubtract total encumbrances from the cash balance. This figure represents the ‘uncommitted cash’ available” or the unencumbered cash balance.

In addition, Metcalfe County Administrative Code and Employee Policy And Procedure Handbook General Purchase Procedures section A states, “[a]ll purchases must be verified and approved by the issuance of a purchase order if the County budget has the proper appropriation for the Department’s line item. When the vendor submits an invoice the purchase order number must be indicated; invoices without a purchase order number will not be paid. Sufficient funds must also exist in the department’s particular line item from which the purchases will be paid. The county Judge/Executive, County Treasurer, and/or Finance Officer shall complete the purchase order form and signify their approval of the purchases by their signature or other appropriate method.”

KRS 68.020(1) states, in part, “[a]ll warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive.” The Metcalfe County Administrative Code and Employee Policy And Procedure Handbook Claims against the County section H states “[t]he depositor of Metcalfe County funds shall not honor any warrant on the county unless it is signed by both the County Judge/Executive and the County Treasurer. In the absence of the County Judge/Executive, the Finance Officer may sign.”

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[.]”

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, include proper supporting proper supporting documentation, and are paid in a timely manner.

We recommend the Metcalfe County Fiscal Court strengthen internal controls over disbursements by ensuring purchase orders are issued prior to all purchases being made, all invoices are paid within 30 working days, all checks are signed by the county treasurer, and all invoices have detailed supporting documentation. We further recommend the fiscal court use the purchase orders to keep an accurate list of encumbrances.

County Judge/Executive's Response: In the future we will try to make sure that all departments request a Purchase Order prior to making a purchase. Regarding invoices for road paving, we do request detailed tickets, but do not always receive them. Disbursements not paid within 30 days of receipt, is due to the work not being complete within the 30 working days of receiving the invoice. Once the work has been completed, then disbursements will be paid.

The Metcalfe County Fiscal Court did not properly award bids: The Metcalfe County Fiscal Court did not properly award bids for asphalt hot mix for surfacing roads and fuel oil for roads for fiscal year ended June 30, 2022. After being properly advertised, bids were obtained and opened for asphalt hot mix for surfacing roads and fuel oil for roads at the fiscal court meeting on May 11, 2021. The fiscal court voted at that meeting to award bids for yearly supplies on May 25, 2021. However, at the fiscal court meeting on May 25, 2021, the fiscal court failed to award or reject the only bid received for asphalt hot mix for surfacing roads and awarded all bids received for fuel oil for roads without explaining why they were accepting all bids.

The county treasurer stated the county judge/executive was absent the day the bids were accepted, and a magistrate conducted the meeting. She believes the magistrate either did not state the acceptance of the bid separately for the contract patching which was on the same sheet or the acceptance was accidentally omitted from the minutes. The county treasurer further stated that she believed that both bids were awarded for fuel oil for roads because the companies did not bid on every single type of road oil.

By not formally accepting one of the competitive bids, the fiscal court was not in compliance with procurement laws or the fiscal court's administrative code. Furthermore, the fiscal court may not have received the best value for services or products.

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." KRS 178.140(2) states, in part, "[t]he contract shall be awarded to the lowest and best bidder[.]" Additionally, the Metcalfe County Administrative Code and Employee Policy And Procedure Handbook Bid and Award Procedures section B states, "[c]ompetitive bids must be received on all purchases where (a) an individual item exceeds Thirty Thousand Dollars (\$30,000); (b) the total purchase order exceeds Thirty Thousand Dollars (\$30,000); and/or a recurring purchase is less than Thirty Thousand Dollars (\$30,000) per order, but the total for the fiscal year exceeds Thirty Thousand Dollars (\$30,000) or there is a reasonable expectation that the total annual purchase value will exceed Thirty Thousand Dollars (\$30,000) based on historical purchasing records. All purchases covered by competitive bids must be authorized and must be approved by Fiscal Court. In all cases, all activities of the Purchasing Department must comply with the Kentucky Revised Statutes and all County Ordinances." The Bid and Award Procedures section of the administrative code also states that after the bids are advertised in the newspaper, the county judge/executive "shall open all bids publicly at the time and place stated in the advertisement. Opening of the bids need not occur at a Fiscal Court meeting." After the bids are open, "the County Judge/Executive and Fiscal Court then decides whether or not to award the bid. The Fiscal Court has the right to accept and/or reject any and all bids."

KRS 67.100(1) states “[t]he 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.” KRS 67.100(2) further states “[e]very official action of the fiscal court shall be made a part of the permanent records of the county.” In addition, the Procedures for Meetings of Fiscal Court section of the administrative code states “[t]he clerk of the Fiscal Court shall attend all meetings of the Fiscal Court and keep a full and complete record of its proceedings.”

We recommend the fiscal court comply with procurement laws and their administrative code by documenting the awarding or rejecting of bids received in the fiscal court minutes. In addition, bids related to road maintenance and construction should be awarded to the lowest and best bidder with the decision documented in the fiscal court minutes.

County Judge/Executive’s Response: Due the County Judge Executive being absent for the Fiscal court meeting where Annual Supply bids were awarded, the meeting was conducted by a Magistrate. The finding of “Bids not being properly awarded”, was because either the acceptance of the bid was not stated for the contract patching, which was on the same bid sheet, or the acceptance was inadvertently omitted from the minutes. Both Bids were awarded for fuel oil for roads because the companies did not bid on every single type of road oil. In the future, we will make sure that all bids awarded separately and verbally, as well as, making sure all awards are recorded in the minutes.

The Metcalfe County Fiscal Court did not accurately report debt on the fourth quarter financial statement liabilities schedule: The debt schedule presented with the fourth quarter report did not accurately report debt obligations of the county. The quarterly report overstated the total debt principal and interest balances for Metcalfe County by \$886,693 and \$185,079, respectively.

The fiscal court did not have controls in place to ensure that debt obligations were properly reported on the fourth quarter report. By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, the fiscal court does not have accurate information for future financial decisions.

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 *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement.

We recommend the fiscal court ensure the correct debt liabilities are shown on the liabilities page of all financial statements presented to the fiscal court and the Department for Local Government (DLG).

County Judge/Executive’s Response: We believe this is a software issue and we are working to get this corrected.

The compliance examination report contained the following finding:

The Metcalfe County Fiscal Court did not establish and maintain effective internal controls over compliance with Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) requirements

Federal Program: Assistance Listing #21.027 Coronavirus State and Local Fiscal Recovery Fund

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

Pass-Through Agency: Not Applicable

Award Number and Year: 2022

Amount Expended: \$977,917

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

Type of Finding: Material Weakness, Noncompliance

Amount of Questioned Costs: \$11,219

Opinion Modification (if applicable): Adverse

During Fiscal Year 2022, the Metcalfe County Fiscal Court received funds from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). The fiscal court failed to establish effective internal controls over compliance requirements to ensure disbursements from the CSLFRF were not already reimbursed from another source, complied with fiscal court's administrative code, and had proper supporting documentation. The following findings were noted regarding the fiscal court's CSLFRF disbursements:

- Fifteen of 80 disbursements tested in amount of \$11,219 did not qualify to be covered by CSLFRF because \$10,181 had already been reimbursed by the state and \$1,038 was an overpayment to the revolving payroll account for employer's share retirement.
- Thirty-eight of 80 disbursements tested in amount of \$193,278 did not have purchase orders issued before the item was purchased or service was performed as required by the fiscal court's administrative code.
- Nineteen of 80 disbursements tested in amount of \$130,013 exceeded available line-item appropriation. Twelve of these 19 disbursements in the amount of \$70,199 were paid before the budget transfer was made.
- One of 80 disbursements tested in amount of \$3,237 was on a contract amendment not approved by the fiscal court as required by the fiscal court's administrative code.
- Nine of 80 disbursements tested in amount of \$90,855 did not have supporting documentation showing how amounts paid for employer's share retirement, employer's share social security, employer's share health insurance, and employer's share health reimbursement account were calculated.
- One of 80 disbursements tested in amount of \$60 did not agree to supporting documentation because the contractor was underpaid by \$6.

Due to the above material noncompliance with the compliance requirements "activities allowed or unallowed" and "allowable cost/cost principles" applicable to the Metcalfe County Fiscal Court for the year ended June 30, 2022, we will issue an adverse opinion on these compliance requirements.

Our total sample included 80 disbursements in the amount of \$413,534 from a universe of 518 transactions in the amount of \$977,917 identified by the finance officer and a third-party

administrator to be covered by the CSLFRF. The audit sample was selected using a non-statistical method. We then reviewed disbursements to determine if CSLFRF funds were used for ineligible uses and to determine whether the fiscal court significantly deviated from its established practices and policies regarding disbursements. The issues noted appear to be a systemic problem.

The known questioned costs are \$11,219. Questioned costs were computed by comparing reimbursements received from the state to disbursements included as covered by SLFRF and identifying disbursements made for overpayments. During testing, we found the following disbursements included that had already been reimbursed:

- \$1,197 employer's share retirement was reimbursed from the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) on incentive pay received by law enforcement officers
- \$8,984 regular operating expenses of janitorial costs, maintenance costs, ordinary repairs, and utilities were reimbursed from the Kentucky Administrative Office of the Courts (AOC).
- \$1,038 employer's share retirement was an overpayment to the revolving payroll account.

An effective internal control system was not in place in Metcalfe 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. The fiscal court may be required to repay the questioned costs back to the granting agency.

2 CFR 200.303 states in part: "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."

The Metcalfe County Administrative Code and Employee Policy And Procedure Handbook General Purchase Procedures section A states "[a]ll purchases must be verified and approved by the issuance of a purchase order if the County budget has the proper appropriation for the Department's line item. When the vendor submits an invoice the purchase order number must be indicated; invoices without a purchase order number will not be paid. Sufficient funds must also exist in the department's particular line item from which the purchases will be paid. The County Judge/Executive, County Treasurer, and/or Finance Officer shall complete the purchase order form and signify their approval of the purchases by their signature or other appropriate method." In addition, the administrative codes states "[e]very contract of the County shall be authorized or approved by the Fiscal Court, by Resolution if applicable, authorizing the County Judge/Executive to execute, sign and enter into same; and every contract of the County shall be approved as to form and reality by the County Attorney."

Not a repeat finding.

We recommend the fiscal court establish and maintain internal controls over compliance for all federal program expenditures to ensure expenditures are for eligible purposes and have not been

reimbursed by another source and comply with its established practices and policies regarding expenditures.

County Judge/Executive's Response: The Metcalfe County Fiscal Court contracted with an outside entity to manage the CSLFRF disbursements and reporting requirements. We entrusted that we were in compliance for all federal program expenditures where these funds were concerned.

Examiner's Reply: The fiscal court cannot abdicate their control over compliance by simply contracting with an outside entity. The fiscal court must have controls in place to ensure what a contractor does is correct and to ensure the funds spent comply with all requirements.

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

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