Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Perry County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Perry 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 Perry 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.

Findings 15 and 17 of the audit report will be referred to the Department for Local Government (DLG) for further review.

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 Perry County Fiscal Court failed to provide adequate oversight over all accounting and financial management practices: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The fiscal court lacks segregation of duties and compensating controls over an extensive number of accounting and reporting functions. Numerous deficiencies were noted in the county's internal control structure over their financial management practices, which resulted in numerous and pervasive audit deficiencies as listed below:

- The Perry County Fiscal Court Did Not Amend Its Budget to Reflect the Transfer of The Financial Management Activities of The Sanitation District No. 1 Of Perry County
- The Treasurer Did Not Prepare an Annual Settlement in Accordance With KRS 68.020
- The Perry County Fiscal Court Did Not Obtain Proper Approval for All Budget Amendments
- The Perry County Fiscal Court Did Not Properly Reconcile the Payroll Revolving Account
- The Perry County Fiscal Court Did Not Maintain Adequate Internal Controls Over Cash, Receipts, and the Reporting Process
- The Perry County Fiscal Court Failed to Properly Disclose Debt on The Quarterly Financial Report
- The Perry County Fiscal Court Did Not Properly Budget for And Record All Debt-Related Disbursements
- The Perry County Fiscal Court Failed to Maintain Proper Accounting Records for The Justice Center Corporation Fund
- The Perry County Fiscal Court Failed to Make Continuing Financial Disclosures Required by Bond Agreements
- The Perry County Fiscal Court Obtained Financing in the Form of a Promissory Note that Exceeds the Allowable Term Permitted
- The Perry County Fiscal Court's Disbursements Exceeded Approved Budgeted Appropriations
- The Perry County Fiscal Court Failed to Implement Controls Over Payroll Process and Approve Pay Rates for County Employees on an Annual Basis
- The Perry County Fiscal Court Failed to Implement Proper Internal Controls Over Disbursements
- The Treasurer Did Not Report Accurate Encumbrances on The Fourth Quarter Report
- The Perry County Fiscal Court Did Not Comply with Competitive Bidding Requirements

The lack of oversight of county personnel by the county judge/executive and fiscal court creates an environment where the accounting and reporting functions of the county go unchecked.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties. A lack of oversight could result in misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG), which could occur but go undetected.

A segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Furthermore, proper supervision helps to reduce risks associated with inaccurate financial reporting and accounting.

We recommend the fiscal court segregate duties and implement strong oversight over receipts, disbursements, bank reconciliation processes, and reporting. If segregation of duties is not possible, then the fiscal court should continue to implement compensating controls by monitoring the financial activities of the fiscal court and continue to document this review.

County Judge/Executive's Response: Internal controls have been implemented and more staff members review financial documents/reporting in order to decrease the likelihood of errors.

The Perry County Fiscal Court did not amend its budget to reflect the transfer of the financial management activities of the Sanitation District No. 1 of Perry County: During the fiscal year, the Sanitation District No. 1 of Perry County and the Perry County Fiscal Court agreed that the fiscal court would take over the financial accounting of the sanitation district. Once the county started maintaining these bank accounts, the county treasurer included the maintenance and operation account on the fourth quarter financial statement. This was not a budgeted fund of the county and no amendment to the budget was prepared to include this fund. The county treasurer did not include $138,744 of receipts to the fourth quarter financial statement therefore showing the sanitation fund in a deficit of $64,001.

Per the minutes of the fiscal court, the county would receive all the funds and the sanitation district would approve the expenditures before the treasurer wrote the check. However, the fiscal court added these claims to the claims list and the fiscal court approved these claims. Once the claims were approved the county treasurer and county judge/executive would sign the checks. Therefore, no documented oversight from the sanitation board was obtained for these expenditures. The county judge/executive, county treasurer, fiscal court members, and the sanitation district board members have not determined how the sanitation fund should operate, causing inconsistency in how claims were approved and paid during the audit period. In addition, no documented oversight and review procedures were in place to ensure funds were expended for their intended purpose.

The fiscal court did not follow guidelines set forth by the Department for Local Government (DLG) for handling public funds. In addition, the sanitation district did not document they approved bills prior to the fiscal court voting on them to be paid by the county treasurer. The resulting effect is neither entity complied with their given mandates and created confusion to the taxpayer on the responsibilities of each entity.

The DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the original budget and amendments to agree to the quarterly reports. In addition, KRS 68.240 defines the duties of fiscal court as, "(1) The county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year. The proposed budget shall be classified into budget units as outlined in subsection (2) of this section. In addition to preparing a reasonable estimate of the funds actually needed for both general and special purposes, the county judge/executive shall prepare an estimated statement of receipts to be anticipated from local, state and federal sources. The county judge/executive shall submit the proposed budget and estimate of receipts to the fiscal court by May 1 of each year." Lastly, good internal controls require documented policies and procedures to be put in place to ensure sufficient oversight and administration of all county funds.

We recommend the fiscal court seek written guidance from the county attorney and DLG to determine any and all legal ramifications of taking over the financial duties of a wholly separate entity. In addition, we recommend the fiscal court properly budget and account for any and all monies received and deposited into the custody of the fiscal court.

County Judge/Executive's Response: The fiscal court will amend its budget to reflect all financial changes in the future. New treasurer was unaware that it had not been performed.

The treasurer did not prepare an annual settlement in accordance with KRS 68.020: This is a repeat finding and was included in the prior year audit report as finding 2019-002. The county treasurer did not present a treasurer's settlement to the fiscal court for approval at the end of the fiscal year in accordance with KRS 68.020. The situation occurred due to lack of management oversight regarding reporting requirements. Failure to obtain fiscal court approval of the treasurer's settlement creates a situation where the public is not informed of the availability of public records and where to obtain them and violates Kentucky Revised Statutes.

KRS 68.020 requires the treasurer to present an annual financial settlement to the fiscal court within 30 days of the end of the fiscal year.

We recommend the treasurer prepare and present a treasurer's settlement as required by KRS 68.020.

County Judge/Executive's Response: Going forward, the treasurer will prepare and present an annual treasurer's settlement as required.

The Perry County Fiscal Court did not obtain proper approval for all budget amendments: The fiscal court did not obtain proper approval for all budget amendments. On April 30, 2020, the fiscal court approved the first reading to amend the budget in the amount of $1,169,986 for Appalachian Regional Commission funds that were received. However, the fiscal court did not obtain a second reading of the budget amendment and approval from the Department for Local Government. Therefore, this budget amendment will not be shown on the financial statement in the audit report, since this is not an allowable and appropriate amendment to the budget.

The county judge/executive, county treasurer and fiscal court members were aware the funds should have been amended to the budget. It appears to have been an oversight that was not detected by adequate review and oversight procedures. Failing to amend the budget resulted in noncompliance with the applicable statute. Further, the county spent $1,169,986 of CDBG funds that were never properly approved and allocated to be spent.

KRS 68.240(1) states, "[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year."

In addition, the *County Budget Preparation and State Local Officer Policy Manual* issued by the Department for Local Government (DLG) states, "It 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."We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary, to amend funds into the county's budget.

County Judge/Executive's Response: Going forward, all budget changes will be submitted for amendment following all DLG guidelines. New treasurer was unaware that the approval had not been obtained.

The Perry County Fiscal Court did not properly reconcile the payroll revolving account: This is a repeat finding and was included in the prior year audit report as finding 2019-010. The reconciliation for the payroll revolving account was not reconciled completely and was inaccurate. The county failed to take into account outstanding liabilities of $43,530 that should be taken into consideration for an accurate reconciliation of a revolving account. The payroll account had a reconciled balance of $30,970 that will be included in the general fund ending balance.

The lack of oversight and internal controls resulted in the situation described. The balance as noted above results in there being an overage of funds that the county could have utilized elsewhere.

The payroll revolving account is a clearing account and should be reconciled to a zero balance, or set amount, at the end of each pay period. Therefore, only the exact amount needed to cover payroll expenditures should be transferred to the payroll account.

We recommend the county treasurer transfer to the general fund or other fund as deemed appropriate to reduce the excess funds from the revolving accounts. In the future, the county treasurer should only transfer enough funds to meet payroll obligations each pay period. We further recommend, the county treasurer maintain written documentation of the reconciliation between the transfer checks written to the payroll accounts and the payroll register to ensure accurate amounts are transferred to the payroll accounts each pay period.

County Judge/Executive's Response: The payroll revolving account will be/is properly reconciled monthly. Only payroll obligations are transferred into the payroll fund and all reconciliations are recorded and maintained.

The Perry County Fiscal Court did not maintain adequate internal controls over cash, receipts, and the reporting process: This is a repeat finding and was included in the prior year audit report as finding 2019-007. The county lacks proper internal controls over the cash, receipt, and reporting functions. We noted the following:

- There is no documented evidence of the review of bank reconciliations, bank statements, and deposits by someone independent of the recording and reporting functions.
- The fourth quarter report and bank reconciliations were incorrect.
- Monies owed to the road fund from the jail fund due to an occurrence in the fiscal year ending June 30, 2018 that has not been remedied. As a result, the jail fund owes the road fund $201,601.
- The payroll account was not properly reconciled.

- The county failed to reconcile and prepare a financial statement for the justice center corporation fund.
- The county failed to include $179,412 in the jail fund for unused proceeds from the refinancing of a bank note.

The county failed to implement internal controls over cash, receipt, and reporting processes.

Without having proper internal controls over cash, receipt, and reporting processes the county could be at risk for misappropriation of assets and/or inaccurate financial reporting. Transferring of funds for uses other than prescribed by law may result in penalties, fines, or funds being required to be returned.

The quarterly report is a cumulative report and is prepared on a regulatory basis by the county judge/executive and the county treasurer pursuant to KRS 68.210. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Kentucky Department for Local Government's *County Budget Preparation and State Local Officer Policy Manual*, requires the fourth quarter financial report to be utilized for reporting. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the *County Budget Preparation and State Local Finance Officer Policy Manual* that require deposits be made on a daily basis. KRS 68.110 prohibits the use of funds from road fund monies for other purposes not associated with roads. However, the road fund is permitted to transfer, based on the road cost allocation sheet provided by the Department for Local Government monies to the general fund. Furthermore, compensating controls over the cash and reconciliation functions when staff is limited is essential for providing protection from asset misappropriation and/or fraud.

We recommend the fiscal court separate the duties of the cash and reconciliation process. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

County Judge/Executive's Response: The county has increased internal controls to included strong oversight in regards to related accounting duties.

The Perry County Fiscal Court failed to properly disclose debt on the quarterly financial report: This is a repeat finding and was included in the prior year audit report as finding 2019-003. The county did not accurately disclose liabilities on the fourth quarter financial report. The ending balance that should have been reported on the fourth quarter financial report as of June 30, 2020, for principal and interest was $15,170,557 and $4,182,692, respectively. The amounts reported for principal and interest were $7,758,894 and $2,492,496, respectively. The difference resulted in a net understatement of liabilities reported of $7,436,845.

The county failed to implement sufficient monitoring over the reporting process. By not correctly reporting for outstanding liabilities, fiscal court cannot make effective management decisions related to debt service outstanding each fiscal year.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts as set forth in the Department for Local Government's (DLG) manual. DLG's manual requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt.

We recommend the fiscal court properly disclosure all debt on the quarterly financial reports.

County Judge/Executive's Response: The treasurer will correctly disclose debt on the quarterly financial report as required.

The Perry County Fiscal Court did not properly budget for and record all debt-related disbursements: This is a repeat finding and was included in the prior year audit report as finding 2019-004. The county did not comply with reporting requirements for debt bearing the county's name. During the year, the county issued six new debt instruments which totaled $5,184,910.

These transactions did not run through the fiscal court's bank accounts, were not included in the fiscal court's budget process, or reflected on the fiscal court's fourth quarter financial report. As a result, the fiscal court failed to properly budget for and record $5,184,910 of debt-related receipts and disbursements in the general fund. Failing to account for this activity resulted in appropriations in excess of budget in the general fund debt service category of $1,269,910 and capital project of $3,915,000.

The occurrence described above resulted in the liabilities information not accurately being presented to management, regulatory agencies, and other users of the information. Also, adjustments to include this activity on the fourth quarter financial report resulted in county appropriations exceeding the approved budget.

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 68.280 gives fiscal courts the ability to amend the budget, when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded.

We recommend fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all fiscal court disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements.

County Judge/Executive's Response: The fiscal will comply by budgeting all fiscal court disbursements and amending the budget to reflect unanticipated receipts and disbursements.

The Perry County Fiscal Court failed to maintain proper accounting records for the justice center corporation fund: This is a repeat finding and was included in the prior year audit report as finding 2019-009. The county did not maintain accurate accounting records for the justice center corporation fund, a public properties corporation. The county did not have accurate receipts and disbursement ledgers, reconcile the account monthly, or prepare a financial statement for the justice center corporation fund. The receipts, disbursements, and ending fund balances of the justice center corporation fund were $662,468, $662,495, and $25,396 for the year, respectively.

The lack of oversight by the county judge/executive and fiscal court resulted in a lack of proper accounting for the justice center corporation fund. Failure to maintain proper account records could cause the financial statements to be materially misstated with all transactions not being included. Since the county is financially accountable and legally obligated for the debt of the public properties corporation, this entity is included in the financial statements of the county as an unbudgeted fund.

We recommend the county maintain accurate receipts and disbursement ledgers, reconcile the account monthly, and prepare an annual financial statement.

County Judge/Executive's Response: The justice center fund is paid by the Administrative Office of the Courts. The fiscal court is responsible for the debt. The treasurer will reconcile these accounts and prepare financial statement for the fund.

The Perry County Fiscal Court failed to make continuing financial disclosures required by bond agreements: The Perry County Fiscal Court failed to make continuing financial disclosures that were required by the Perry County's bond issuances in fiscal year ended June 30, 2020. The Perry County Fiscal Court is not in compliance with the debt covenants included in the Perry County's bond issuances. This noncompliance could cause the fiscal court's bond rating to be affected. Additionally, bondholders could seek legal action to require the submission of required financial information. Perry County's Judicial Center Bonds state that annual financial information will be provided to the Municipal Securities Rulemaking Board (MSRB) within nine months following after the last day of the county's fiscal year.

We recommend Perry County Fiscal Court provide financial information to the MSRB as required by bond agreements.

County Judge/Executive's Response: The county will make financial disclosures as required by bond agreements.

The Perry County Fiscal Court obtained financing in the form of a promissory note that exceeds the allowable term permitted: During fiscal year 2020, the county entered into one financing agreement in the form of a promissory note with a local bank that extended beyond June 30, 2020. The note was for operating costs of the county.

Due to managements' lack of understanding of Kentucky Revised Statutes related to financing obligations the county executed this promissory note with a local bank. Since the promissory note term extends past the end of the fiscal year, it directly violates the Short-term Borrowing Act (KRS 65.7701 – 65.7721).

KRS 65.7707 requires that "[n]otes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued. Interest on notes from the date thereof shall be payable at their maturity or payable in installments at earlier dates. Interest on the notes may be at a rate, rates or method of determining rates the governing body of the governmental agency unit may determine."

We recommend the county follow the requirements of Kentucky Revised Statutes when seeking financing in the future.

County Judge/Executive's Response: The county was unaware of the term limit, however, will not exceed term limits when obtaining financing in the future.

The Perry County Fiscal Court's disbursements exceeded approved budgeted appropriations: This is a repeat finding and was included in the prior year audit report as finding 2019-012. Disbursements exceeded approved budgeted appropriations as follows:

General Fund - Debt Service $1,390,374
General Fund - Capital Projects $750,000
Road Fund - Debt Service $760,880
State Grant Fund - Recreation and Culture $4,844,848
State Grant Fund - Administration $169
Sanitation Fund - Capital Projects $8,606
Sanitation Fund - Administration $417

This situation occurred due to lack of oversight over the disbursement and budgeting processes. In addition, the fiscal court did not monitor the budget or quarterly reports to prevent disbursements from exceeding the approved budget appropriations. The Road fund exceeded budget appropriations after three financial agreements for the vehicles were adjusted in the financial statements.

Failure to spend within the budget or amend the budget may skew the financial position of the county.

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 68.280 gives fiscal courts the ability to amend the budget, when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded. In addition, the Department for Local Government requires that all debt incurred be budgeted in the financial statements.

We recommend fiscal court comply with KRS 68.300, KRS 68.280, and Department for Local Government requirements by budgeting all fiscal court disbursements and debt by amending the budget as necessary to reflect unanticipated receipts and disbursements.

County Judge/Executive's Response: The treasurer will closely monitor the disbursement and budgeting processes in order to prevent disbursements exceeding the approved budget and make amendments as needed.

The Perry County Fiscal Court failed to implement controls over payroll process and approve pay rates for county employees on an annual basis: This is a repeat finding and was included in the prior year audit report as finding 2019-005. During our testing of payroll and review of the fiscal court order book, we noted no evidence that the fiscal court performed the requirement to fix the compensation of every county officer and employee in accordance with KRS 64.530(1) for the fiscal year ended June 30, 2020.

There was a lack of oversight over payroll processes and knowledge or understanding of the KRS requirement to approve pay rates annually.

By not approving pay rates in accordance with KRS 64.530(1), the public is not informed of the use of taxpayer dollars. In addition, by not having a listing of approved pay rates it makes it difficult for a person that is reviewing payroll to determine whether pay rates are correct which may result in errors. Failure to properly provide supervision contributes to lacking controls that may result in misappropriation of assets and potential penalties due to lack of payment.

KRS 64.530(1) states, in part, "the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535." In addition, proper internal controls are essential to reduce risk associated with inaccurate financial reporting and accounting. Furthermore, wages that are subject to social security and medicare taxes are to be withheld in accordance with wage and hour regulations.

We recommend the county annually prepare a list of each employee of the county and include the appropriate hourly rate for hourly employees and monthly or yearly amounts for all salaried employees. This list should be presented to the fiscal court for approval and included in the fiscal court minutes as a matter of public record. We further recommend the county implement proper controls over payroll.

County Judge/Executive's Response: The treasurer will annually present to the fiscal court a list of employees and include hourly and/or salary rates for fiscal court approval.

The Perry County Fiscal Court failed to implement proper internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as finding 2019-014. The fiscal court did not follow proper procedures and requirements for disbursements of county funds. The follow deficiencies were noted during the testing of 88 total disbursements.

- Three invoices did not have sufficient supporting documentation totaling $9,835.
- Seventy-six disbursements were missing purchase orders totaling $2,929,651.
- Eleven disbursements totaling $791,186 were not paid within 30 days.
- Two invoices totaling $244,269 did not have bid files or explanations of no bidding.
- Three credit card invoices that were tested showed paid finance charges of $276.
- Three credit card invoices totaling $7,982 that were tested showed no purchase orders.
- Three credit card invoices that were tested showed paid sales tax totaling $500.

The county failed to implement sufficient monitoring over the disbursement process. The internal control deficiencies noted above resulted in noncompliance with Kentucky Revised Statues and potential for the misappropriation of assets.

Proper internal controls over expenditures are important to ensure purchase orders are created with sufficient funds available, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG), "[p]urchases shall not be made without approval by the judge/executive (or designee), and/or a department head."

In addition, according to the fiscal court's administrative code, "[a]ll purchases of items of like or similar nature in excess of $[2]0,000 in a fiscal year shall be advertised for bids, except otherwise provided in this Administrative Code. Items normally supplied as a unit shall not be artificially divided for the purpose of avoiding the competitive bidding procedure of this Administrative Code." See also KRS 424.260. Furthermore, KRS 65.140 requires invoices to be paid within 30 working days of being received.

We recommend the fiscal court implement policies and procedures to ensure disbursements are in compliance with applicable statutes and regulations. Additionally, we recommend the fiscal court put into place internal controls to monitor that these policies and procedures are operating effectively.

County Judge/Executive's Response: The county has since implemented stronger internal controls to monitor disbursement processes, PO system had been implemented.

The treasurer did not report accurate encumbrances on the fourth quarter report:
The treasurer did include encumbrances totaling $35,024 on the quarterly financial report submitted to the Department for Local Government, but the encumbrance list totaled $140,685. $105,661 of encumbrances were not accounted for on the quarterly financial report.

The county treasurer did not report all encumbrances on the fourth quarter report. The county can not accurately monitor their receipts and disbursements which could result in the mismanaging of finances. The county is also not in compliance with Department for Local Government guidelines.

The fiscal court is required to submit a quarterly report to the state local finance officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all receipts to date, transfers, borrowed money as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. This report should also include encumbrances.

The treasurer should report all encumbrances on the fourth quarter report. This matter will be referred to the Department for Local Government.

County Judge/Executive's Response: The treasurer will include all encumbrances going forward and will discuss with DLG to ensure correct submission.

The Perry County Fiscal Court did not comply with competitive bidding requirements: The Perry County Fiscal Court did not comply with competitive bidding requirements. During fiscal year ended June 30, 2020, the following were noted that did not comply with the bidding requirement:

- Tires, tire services, and contract labor were procured from a company owned by a business partner of the Perry County Judge/Executive totaling $53,190 for the year. The vendor paid for these transactions also constitutes a related party transaction.
- The purchase and installation of a HVAC system in the amount of $244,269.

When the fiscal court can reasonably anticipate spending over $30,000 in a fiscal year for a given contract, lease, or agreement, competitive bids should be solicited to achieve the best price.

Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit.

KRS 45A.365(1) states, in part, "[a]ll contracts or purchases shall be awarded by competitive sealed bidding, which may include the use of a reverse auction[.]" According to the Administrative Code, "[a]ll purchases of items of like or similar nature in excess of $[3]0,000 in a fiscal year shall be advertised for bids[.]"

We recommend that the fiscal court follow the requirements of KRS 45A.365 and the county's administrative code. Purchases of $30,000 or more should be competitively bid.

County Judge/Executive's Response: The county wasn't aware that the products listed required bid as these items have never been included on bidding list in the past. One of the vendors is also on the State Price Contract List and their "Government and State Agency Approval Number" is printed on every invoice. Going forward, the fiscal court will include these items on our competitive bidding list.

The Perry County Fiscal Court has $201,285 of questioned costs for the Coronavirus Relief Fund federal program:

Federal Program: COIVD-19 Coronavirus Relief Fund ALN 21.019
Award Number and Year: Fiscal Year 2020
Name of Federal Agency and Pass-Thru Agency: U.S. Department of Treasury passed through the Kentucky Department for Local Government
Compliance Requirements: Activities Allowed or Unallowed, Allowable Cost/Cost Principles
Type of Finding: Other Matter
Amount of Questioned Costs: $201,285
Opinion Modification: No
COVID Related: Yes

During fiscal year 2020, the Perry County Fiscal Court requested and received reimbursement from the Department for Local Government for Coronavirus Relief Fund (CRF) expenses totaling $508,927 related to coronavirus mitigation activities. Of this amount, $201,285 was for payroll expenses incurred and paid by the Kentucky River Regional Jail, a legally separate entity and a joint venture between Knott and Perry counties as is disclosed in Note 1 in "Notes to Financial Statement."

The payroll expenses for the Kentucky River Regional Jail meet the requirements of allowable costs under the guidance in 86 FR 4182 (January 15, 2021) as correctional and detention officers are specifically noted as presumed to meet the requirements of employees who are substantially dedicated to coronavirus response activities. However, these payroll expenses were incurred and paid by the Kentucky River Regional Jail not Perry County Fiscal Court. In order for costs to be allowable under the fund, the entity must have incurred an eligible expense during the period of performance. The Kentucky River Regional Jail could have been a subrecipient of the reimbursed funds, using the Department for Local Government and the Perry County Fiscal Court as pass-through agencies, but the Perry County Fiscal Court has retained the funds reimbursed for these eligible payroll expenses.

Management believed the payroll expenses incurred by the Kentucky River Regional Jail could be received and retained by the Perry County Fiscal Court as the fiscal court provides operating revenue to the jail via payments for housing inmates and other payments as established in the Interlocal Cooperation Agreement. However, these payments to the jail do not meet the requirements of allowable costs under the guidance provided in 86 FR 4182 as these expenses are an established part of the county's budget and were not expenses in addition to the budget related to coronavirus mitigation efforts.

The Perry County Fiscal Court requested and received reimbursement totaling $201,285 from the Coronavirus Relief Fund (CRF) for expenses that were not incurred. Consequently, the Kentucky River Regional Jail incurred expenses that were reimbursed but have been received and retained by another entity. These costs will be reported as questioned costs for fiscal year ended June 30, 2020.

Due to the unprecedented nature of coronavirus relief efforts, this issue was an isolated incidence in the county's federal award activities. Since Coronavirus Relief Fund (CRF) payments have been deemed high risk by guidance in 2 CFR 200.51(c)(2), we tested all items submitted for reimbursement for the fund. This issue was the only identified area of non-compliance and questioned costs. Known questioned costs total $201,285 and were computed using supporting documentation the entity submitted with the reimbursement request for coronavirus funds.

Guidance for compliance with Coronavirus Relief Fund (CRF) distributions is outlined in 2 CFR Part 200 Appendix XI, which further directs auditees to the Frequently Asked Questions section of the Federal Register as released on January 15, 2021 (89 FR 4182) in order to determine allowability of costs in accordance with the goals and intentions of the federal program. Per the Federal Register guidance, local government costs must meet all three of the following criteria in order to be considered allowable under CRF:

1. Necessary expenditures incurred due to the public health emergency with respect to COVID-19;

2. Costs that were not accounted for in the governments' most recently approved budget as of March 27, 2020; and
3. Costs that were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021.

We recommend the Perry County Fiscal Court consult with the Department for Local Government to determine a satisfactory resolution to address these questioned costs. Further, we recommend the fiscal court ensure compliance with all requirements applicable to federal programs. We will refer this matter to the Department for Local Government.

County Judge/Executive's Response: The court had been pre-approved to use all costs that were submitted for the Coronavirus Relief Fund. The court will submit alternate expenditures to amend the original submission.

The audit report can be found on the auditor's website.

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