



Auditor of Public Accounts
Mike Harmon

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, 2016. 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 115 of 120 fiscal court audits in Kentucky.

In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, we have issued a modified opinion on the compliance requirements that are applicable to the Perry County Fiscal Court's major federal program: Disaster Grants - Public Assistance (CFDA #97.036).

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 lacks adequate oversight over financial management practices: This is a repeat audit finding and was reported in the prior year audit report as Finding 2015-001. Numerous deficiencies were noted in the county's internal control structure over their financial management practices, which resulted in numerous and pervasive audit comments as listed below:

- The Fiscal Court Paid \$605 for Paving On Private Property (Finding 2016-002)

- The County Had A Negative Fund Balance In The General And Local Government Economic Assistance Funds (Finding 2016-003)
- The Fiscal Court Did Not Accurately Report Debt On The Quarterly Financial Statement (Finding 2016-004)
- The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements (Finding 2016-005)
- The Fiscal Court Did Not Follow Proper Procedures For Budget Amendments (Finding 2016-006)
- Disbursements Exceeded Approved Budget Appropriations For The General, Road, And Coal Severance Funds (Finding 2016-007)
- The County Judge/Executive And County Jailer Did Not Receive The Maximum Salary Set By The Department For Local Government (Finding 2016-008)
- The County Did Not Maintain Complete And Accurate Capital Asset Schedules (Finding 2016-009)
- The Fiscal Court Did Not Pay Invoices Timely (Finding 2016-010)
- The Treasurer Did Not Report Encumbrances On The Fourth Quarter Report (Finding 2016-011)
- Funds Received For Coal Severance And Mineral Severance Were Not Used As Required By KRS 42.455 (Finding 2016-012)
- The Treasurer Did Not Establish Adequate Controls Over The Public Properties Corporation Bond Fund And Justice Center Corporation Fund (Finding 2016-013)
- Credit Card Expenditures Could Not Be Appropriately Validated And Were Not Properly Documented (Finding 2016-014)
- The Fiscal Court Did Not Comply With Bidding Requirements (Finding 2016-015)
- The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Programs (Finding 2016-017)
- The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely (Finding 2016-018)
- The Fiscal Court Did Not Comply With Bidding Requirements For Federal Awards (Finding 2016-019)

Management overrode internal controls or did not follow established internal control procedures, administrative code policies, and compliance requirements.

These internal control deficiencies and noncompliance issues affect the entity as a whole and greatly increase the possibilities that the internal control system would not detect financial misstatements, errors, or fraud.

Adherence to internal control procedures and compliance with statutes gives the fiscal court the ability to provide financial information that is complete, accurate, valid, and free of misstatements.

We recommend the fiscal court review the deficiencies and noncompliance issues as noted and take appropriate action to correct each finding.

County Judge/Executive's Response: The Fiscal Court will review the deficiencies and non-compliance issues and take appropriate action to correct each finding.

The fiscal court paid \$605 for paving on private property: At Creekside Bend, the county paid \$605 for paving on private property during the 2015 winter storm. Our review of this project

worksheet shows the county notified the Federal Emergency Management Agency (FEMA) and these funds were de-obligated due to the mistake.

According to the county judge/executive and emergency management director, the county made a mistake in the assessment stage that included an additional section of the road at Creekside Bend that was part of private property.

As a result, the county was in violation of the state constitution and county funds were not expended for the benefit of the public.

Section 171 of the Kentucky Constitution does not permit a county to expend public funds for private purposes. Public funds may not be used for paving on private property. In order for the fiscal court to adopt a private road into the county road system, the court must approve the road by ordinance or resolution.

We recommend the fiscal court provide adequate oversight and monitoring for any road project to ensure work is completed in compliance with applicable laws and regulations and that public resources are not used for private purposes. We also recommend the fiscal court seek guidance from the county attorney to determine if the fiscal court should seek reimbursement from the property owner who received the paving.

County Judge/Executive's Response: The Fiscal Court has made changes to its oversight and monitoring of road projects.

The county had a negative fund balance in the general and Local Government Economic Assistance Funds: The county had a negative fund balance in the general fund and Local Government Economic Assistance (LGEA) fund at year end. On June 30, 2016, the fund balance of the general fund was (\$11,698) and the LGEA Fund was (\$295,770).

The finance officer prepared checks for invoices received and posted the disbursements to the disbursements ledger. The treasurer was given the checks, however, the treasurer did not sign and release them due to lack of funds. According to the treasurer the checks were held in a secure location until funds became available. These checks cleared the bank anywhere from four to five months after the checks were written.

Negative fund balances could be indicative of cash flow problems and inadequate monitoring and could result in improper financial decision making and inaccurate financial reporting.

KRS 68.110(1) says, “[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year[.]” Purchase orders and invoices should not be approved if sufficient funds are not available to cover the expenditure.

We recommend the county maintain positive balances in all funds by monitoring fund balances before checks are written and cease the practice of approving expenditures if funds are not available.

County Judge/Executive's Response: The Fiscal Court experienced a significant decrease in revenue which created cash flow issues and financial strain. The Fiscal Court has worked to decrease expenditures and increase revenue by implementing an occupational license.

The fiscal court did not accurately report debt on the quarterly financial statement: This is a repeat audit finding and was reported in the prior audit report as Finding 2015-004. The debt schedule presented with the fourth quarter report, which serves as the year-end financial statement, inaccurately reported debt obligations. The quarterly report did not include the Perry County Justice Center Bonds, (with an outstanding balance of \$3,045,000), three financing obligations for the purchase of mowers (with a balance of \$103,566), sheriff's vehicles (with a balance of \$63,563), and a backhoe loader (with a balance of \$95,775). In addition, two debts are shown incorrectly: KADD Road financing obligation is understated by \$290,000 and a KACo lease for trucks is overstated by \$594.

The county treasurer knew the requirements but failed to include all county debt. Due to these errors and the omissions, long-term debt was understated on the quarterly financial statement by a total of \$3,597,310.

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 county treasurer ensure the correct amounts are shown on all financial statements presented to the public and the Department for Local Government. We further recommend management review all aspects of the quarterly reports before signing and submitting.

County Judge/Executive's Response: The Perry County Justice Center Bonds are a debt obligation that is paid directly by the Administrative Office of the Courts, although Perry County Fiscal Court is legally obligated to pay the debt in the event of a default. Since this obligation is paid by AOC directly, the Treasurer has not reconciled that account in the normal quarterly reports. The Treasurer will maintain a separate ledger and report that information as part of all quarterly reports in the future.

The fiscal court did not properly budget for and record all debt related disbursements: This is a repeat audit finding and was reported in the prior year audit as Finding 2015-005. The fiscal court entered into lease purchase agreements in the amounts of \$80,000 for the purchase of sheriff's vehicles, and \$129,135 for the purchase of a backhoe loader. The county also entered into a lease agreement for \$2,500,000, and while some of the proceeds were budgeted and expended properly, the following were not: \$247,745 for an excavator and \$89,440 for three trucks for the road department.

According to the county treasurer, she was not aware these transaction should be reflected on the county's financial statement. These transactions did not run through the fiscal court's bank account and were not included in the fiscal court's budget process or reflected on the fiscal court's fourth quarter report. As a result, the fiscal court failed to properly budget and record \$546,320 in debt related receipts and disbursements for the fiscal year.

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." KRS 68.280 states, "[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby."

Because the fiscal court failed to amend the budget, it was not in compliance with applicable statutes. We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all county disbursements and amending the budget as necessary to reflect unanticipated receipts and disbursements, including those handled by a third-party lender.

County Judge/Executive's Response: The Perry County Fiscal Court will make all necessary budget amendments to reflect unanticipated receipts and disbursements including those handled by third party lenders.

The fiscal court did not follow proper procedures for budget amendments: An emergency budget amendment was used in June 2016. In order to approve an emergency amendment, an order must be in place naming and describing the emergency. We could not find documentation of this action.

The county used an emergency budget amendment at the end of the year to ensure they were under budget. According to the county treasurer, the county was unaware that year-end emergency amendments are not proper and valid without proper supporting documentation regarding the emergency. As a result, the county is in violation of KRS 67.078 and KRS 68.280.

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 and State Local Finance Officer Policy Manual* and requires any amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provision of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency must accompany the budget amendment submitted for approval pursuant to KRS 68.280.

KRS 67.078(2) states, “[a] majority of the fiscal court may declare an emergency to exist by naming and describing the emergency, and thereafter may adopt a county ordinance to address that emergency[.]” KRS 68.280 states, “[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby. The amendment shall be submitted to the state local finance officer subject to the same provisions as the original budget[.]”

We recommend the fiscal court adhere to the provisions of KRS 67.078 and KRS 68.280 and use emergency budget amendments only in the appropriate circumstances.

County Judge/Executive's Response: The Fiscal Court will make all necessary budget amendments.

Disbursements exceeded approved budget appropriations for the general, road and coal severance funds: Disbursements exceeded approved budget appropriations for the general fund, road fund, and coal severance fund. The treasurer did not budget debt additions or add them to the fourth quarter report as discussed in Finding 2016-005, causing the general fund and road fund line items listed below to be over budget. An error in coding by the county treasurer when doing line item transfers caused the coal severance line item listed below to be over budget. The fund disbursement line items were overspent as follows:

	Disbursements Exceeded Budget
<u>General Fund</u>	
Protection to Persons and Property	\$ 39,998
<u>Road Fund</u>	
Roads	434,289
<u>Coal Severance Fund</u>	
General Government	131,979

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidance regarding annual budgets adopted on a regulatory basis of accounting. The budget is prepared by fund, and disbursements may not exceed budgeted appropriations. Furthermore, 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."

We recommend the fiscal court review the budget for completeness and limit disbursements to what is budgeted.

County Judge/Executive's Response: This was caused by a coding error on the part of the county treasurer. When coding several thousand items, it is inevitable that an error may occur. The Treasurer will reconcile the monthly reports with the quarterly reports which should reveal any inconsistencies.

The county judge/executive and county jailer did not receive the maximum salary set by the Department for Local Government: The Perry County Fiscal Court did not pay the county judge/executive his maximum salary set by the Department for Local Government (DLG), and it did not pay the county jailer his full salary as set by the fiscal court. When the county judge/executive began his term, his salary was set at \$79,197. In February 2015, the DLG increased his salary when the new Consumer Price Index was released. The adjusted amount was \$79,797. As a result, the county judge/executive was underpaid \$600. The county judge/executive also began his term on January 5, 2015, which falls in the middle of a pay period. Due to this, the county treasurer prorated the county judge/executive's initial check by \$1,959. This resulted in underpayment for the county judge/executive's salary totaling \$2,559.

The county jailer began his term on January 5, 2015, as well, which resulted in the county treasurer prorating his first check. The county jailer was underpaid \$1,715 due to this clerical error.

The issue occurred due to lack of oversight and review of pay rates approved by the DLG for the county judge/executive and the salary schedule set by the fiscal court for the jailer. As a result, the fiscal court is not in compliance with the salary requirements and should pay the county judge/executive \$2,559 and the county jailer \$1,715 for the salary underpayments.

KRS 64.5275(2) states, "[e]ffective on the first Monday in January of 1999, the maximum salary of county judges/executive, county clerks, jailers who operate a full service jail, and sheriffs shall

be fixed by the Department for Local Government according to a salary schedule in accordance with Section 246 of the Kentucky Constitution.” Since Perry County does not have a full service jail, KRS 64.527 also is applicable. KRS 64.527 states in part, “[t]he Department for Local Government shall notify the appropriate governing bodies charged by law to fix the compensation of the above elected officials of the annual rate of compensation to which the elected officials are entitled in accordance with the increase or decrease in the consumer price index. Upon notification from the Department for Local Government, the appropriate governing body may set the annual compensation of the above elected officials at a rate no greater than that stipulated by the Department for Local Government.”

We recommend the Perry County Fiscal Court pay the county judge/executive \$2,559 and the jailer \$1,715 for the 2015 salary underpayments.

County Judge/Executive’s Response: These corrections will be made during the next pay period.

The county did not maintain complete and accurate capital asset schedules: The county did not maintain a complete and accurate capital asset schedule for the fiscal year ended June 30, 2016. While the county maintained a capital asset schedule, some asset purchases made during the fiscal year were not included. During the audit, adjustments/corrections totaling \$421,214 were recommended to management.

The fiscal court lacks adequate controls over reporting and valuation of capital assets. The fiscal court has not adequately monitored and tracked capital assets as required by the Department for Local Government (DLG). Without adequate controls, the risk of asset misappropriation increases. Furthermore, without a complete and accurate capital asset schedule, the county may fail to properly insure all assets and could continue insurance coverage for assets the county no longer owns.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual* provides guidance regarding capital asset documentation. Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, and long range planning for property replacement.

We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for the capital asset schedule to be complete and accurate.

County Judge/Executive’s Response: The Fiscal Court has implemented new procedures to identify and track all capital assets.

The fiscal court did not pay invoices timely: This is a repeat audit finding and was reported in the prior year audit report as Finding 2015-003. Due to cash flow issues and lack of adequate oversight by management, 24 invoices totaling \$348,953, four Natural Resources Conservation Service (NRCS) invoices totaling \$58,328, and two health insurance invoices totaling \$136,804, were not paid within 30 working days. Late payments increase the risk that funds could be misused or invoices lost resulting in late payment fees and accrued interest.

KRS 65.140(2) states “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the

vendor's subcontractor." KRS 65.140(3) states "[a]n interest penalty of one (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser."

We recommend the fiscal court pay invoices within 30 working days as required by statute.

County Judge/Executive's Response: The Fiscal Court experienced a significant decrease in revenue which caused cash flow issues and financial strain. The Fiscal Court has worked to decrease expenditures and increase revenue.

The treasurer did not report encumbrances on the fourth quarter report: The county treasurer did not include a list of encumbrances, totaling \$606,405, on the quarterly financial report submitted to the Department for Local Government (DLG). Encumbrances were reported and entered into the accounting system used by the Perry County Fiscal Court, but not recorded on the fourth quarter financial report.

Failure to report encumbrances reduces the ability of the county to accurately monitor receipts and disbursements, which could result in mismanagement of finances. By failing to report encumbrances, the county is not in compliance with Department for Local Government guidelines.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires quarterly reports to be submitted by each county to the State Local Finance Officer. These reports should include all money received to date in all funds both budgeted and unbudgeted, 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.

We recommend the fiscal court report encumbrances on the fourth quarter report as required by DLG.

County Judge/Executive's Response: The Treasurer will report all encumbrances on the quarterly reports as required.

Funds received for coal severance and mineral severance were not used as required by KRS 42.455: This is a repeat audit finding and was reported in the prior year audit report as Finding 2015-006. The fiscal court did not monitor coal severance or mineral severance receipts to determine what should be used in priority categories as outlined in the applicable statute. The Perry County Fiscal Court used 30 percent of the annual coal severance receipts for coal haul roads but the remaining seventy percent 70 percent of coal severance funds totaling \$316,609 were not used in priority categories as designated by KRS 42.455. The fiscal court transferred \$440,000 from the Local Government Economic Assistance (LGEA) fund to the general fund to be used in priority categories but only \$123,391 of transferred funds was spent in allowable categories. The fiscal court spent \$316,609 in excess of the allowable amount and this amount is due back from the general fund.

The Perry County Fiscal Court did not use LGEA funds properly and is in violation of KRS 42.455. The fiscal court did not sign the certification of compliance for LGEA funds due to these issues. Furthermore, this created a \$316,609 liability due back to the LGEA fund for expenditures in unallowable categories spent from the general fund.

According to KRS 42.455, “[t]hirty percent (30%) of all moneys in the fund shall be spent on the coal haul road system. . . [t]he remaining seventy percent (70%) of the fund shall be spent on priority categories[.]” Also, The Department of Local Government handbook requires that 100 percent of mineral severance should be spent in these priority accounts in the same manner. No funds received from Coal Severance should be used for the purpose of general government. Also, KRS 42.460 states in part, “the audit report shall include a certification that the funds were expended for the purpose intended.”

We recommend that the Perry County Fiscal Court follow guidelines set forth by KRS 42.455 to ensure that coal severance funds are used in accordance with statute. Also, we recommend the fiscal court transfer funds from the general fund to the LGEA fund \$316,609 for Fiscal Year 2016 and \$310,739 from Fiscal Year 2015 for the transfers used in unallowable categories.

County Judge/Executive’s Response: The Fiscal Court will comply with all guidelines set forth in KRS 42.455 and will reimburse the LGEA fund in the appropriate amount to be taken from the General Fund.

The treasurer did not establish adequate controls over the Public Properties Corporation Bond Fund and Justice Center Corporation Fund: This is a repeat audit finding and was reported in the prior year report as Finding 2015-010. The treasurer did not maintain adequate controls over the Public Properties Corporation Bond Fund or the Justice Center Corporation Fund.

The treasurer knew the requirement but did not agree with it and decided not to reconcile bank statements or prepare financial statements for the Public Properties Corporation Bond Fund or the Justice Center Corporation Fund.

As a result, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted funds. This could result in undetected fraud, errors, and misstatements.

These are unbudgeted funds of the fiscal court. The fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation Bond Fund and the Justice Center Corporation Fund. The fiscal court should require that proper records be maintained for these unbudgeted funds.

We recommend the county treasurer reconcile these accounts and prepare a financial statement for the Public Properties Corporation Bond Fund and the Justice Center Corporation Fund.

County Judge/Executive’s Response: The Public Properties Corporation Bond Fund and the Justice Center Corporation Fund obligations is paid by the Administrative Office of the Court, although the Perry County Fiscal Court is legally obligated for the debt. The Treasurer will reconcile these accounts and prepare financial statements for the funds.

Credit card expenditures could not be appropriately validated and were not properly documented: This is a repeat audit finding and was reported in the prior year audit report as Finding 2015-011. The Perry County Fiscal Court had credit card expenditures that could not be properly validated and were not properly documented. The fiscal court had two credit cards. One credit card was for the county judge/executive’s use and the other was for other county personnel use. After noting several charges did not have proper or adequate documentation, auditors expanded testing and reviewed every credit card statement for fiscal year 2016. We did not note

any areas of concern with the credit card used by the other county employees. However, we noted areas of concern with the county judge/executive's credit card use. Of the \$15,087 in credit card expenditures on the county judge/executive's credit card, purchases of \$4,401 were incurred without adequate documentation.

These statements reflected \$626 in general charges, meals totaling \$2,294, gratuities of \$501, and hotel charges totaling \$980 that do not have documentation as to why they were a reasonable and necessary expense. The following is a breakdown of these charges:

General Charges		
8/6/2015 Unknown Purchase at Convenience Store	\$ 69	Invoice does not document what was purchased
9/8/2015 Unknown Purchase at Convenience Store	66	No Invoice
10/23/2015 General Merchandise at Convenience Store	37	Invoice does not document what was purchased
11/22/2015 General Merchandise at Convenience Store	56	Invoice does not document what was purchased
12/7/2015 Groceries at Convenience Store	26	Invoice does not document what was purchased
12/16/2015 Unknown Purchase at Convenience Store	53	Invoice does not document what was purchased
12/22/2015 Groceries at Convenience Store	55	Invoice does not document what was purchased
1/22/2016 General Merchandise at Convenience Store	49	Invoice does not document what was purchased
3/23/2016 Unknown Purchase at Convenience Store	58	Invoice does not document what was purchased
4/28/2016 Unknown Purchase at Convenience Store	61	Invoice does not document what was purchased
5/12/2016 Unknown Purchase at Convenience Store	54	Invoice does not document what was purchased
5/17/2016 Unknown Purchase at Convenience Store	42	Invoice does not document what was purchased
	\$ 626	

Meals Without Adequate Documentation	Meals	Tips/Gratuities
7/10/2015 Meals for 2 Guests	\$ 33	\$
9/3/2015 Meals for 2 Guests	79	
11/2/2015 Meals for 2 Guests	102	
1/13/2016 20 Meals from Convenience Store	106	
1/15/2016 Meals for 2 Guests	24	
2/1/2016 Meals for 3 Guests	94	
2/18/2016 Meals for 3 Guests	101	
3/1/2016 Meals for 9 Guests	145	25 Tips/Gratuities
3/16/2016 55 Buffet Meals	583	150 Tips/Gratuities
3/18/2016 Meals for 2 Guests	45	7 Tips/Gratuities
3/30/2016 17 Meals from Convenience Store	85	
4/1/2016 Meals for 8 Guests	95	
4/11/2016 Meals for 18 Guests	230	119 Tips/Gratuities
5/7/2016 54 Buffet Meals	572	200 Tips/Gratuities
	\$ 2,294	\$ 501

Hotels		
7/10/2015 Hotel	\$ 309	Invoice does not document reason
8/28/2015 Hotel	325	No Invoice
11/19/2015 Hotel Charge	37	No Invoice
12/1/2015 Hotel	129	No Invoice
2/26/2016 Hotel	180	No Invoice
	\$ 980	

As noted in the breakdown of charges, the county judge/executive purchased meals on various occasions without adequate documentation. The meals charged were provided to parties ranging from two people to 55 people. These meals also included tips totaling \$501. None of these meal charges have a public purpose for the county. In addition to the \$4,401 charges in the breakdown, the county judge/executive charged \$3,057 for gas on this credit card. These gas charges were for

the county judge/executive's personal vehicle, which he drove in his elected capacity on the job. We were unable to determine if the charges were for work or personal use because he did not maintain a mileage or work log.

The lack of oversight by the fiscal court over the use of credit cards allowed the county judge/executive to make charges that did not provide a public purpose for the county. As a result, the fiscal court was not in compliance with the county's administrative code. Additionally, due to lack of proper support, taxpayer funds could have been used for purposes other than for the benefit of the public.

Strong internal controls dictate procedures put in place to reconcile monthly credit card receipts submitted by the county judge/executive to the credit card statement. All receipts for credit card transactions should be attached to the statement and filed for preparation of the claims list. Once the statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the fiscal court for approval. A travel voucher/mileage log should be maintained to support gas expenses if a personal vehicle is used for county business. Also, travel vouchers should be maintained to support meal, hotel, and other travel-related expenditures. All receipts for such expenses should be attached to the vouchers with the signature of the county judge/executive to substantiate and provide adequate documentation. In addition Section 5.54(A) of the county's administrative code states that subject to budgetary limitations, any officer or employee of the county incurring expenses for approved travel on behalf of the County shall be reimbursed for allowable out-of-County travel expenses. Subsection 2 of this section states a per diem will be paid at a rate of \$25.00 per day, unless staying out of town overnight or after 7:00 p.m., in which case the rate shall be \$50.00 per day for those days when the employee is required to be out of town overnight or after & 7:00 p.m. Meal costs in excess of allowed per diem may be paid under special circumstances provided receipts are provided. Furthermore, Section 5.54(C) requires the Request for Reimbursement Form must be completed (including required receipts) and submitted to the county judge/executive within 30 thirty days after returning from travel.

We recommend the fiscal court apply best practices when exercising its responsibilities. We recommend all employees of the county abide by the adopted travel policies set forth by the fiscal court. We also recommend the fiscal court have more control of credit card usage and require documentation of the reason the card was used with supporting documentation attached.

County Judge/Executive's Response: The Fiscal Court will ensure that all supporting documentation is present before payment is approved.

The fiscal court did not comply with competitive bidding requirements: This is a repeat audit finding and was reported in the prior year audit report as Finding 2015-002. The Perry County Fiscal Court failed to advertise for bids in compliance with 45A.365 and its Administrative Code for the following purchases:

- \$1,284,285 paid for steel and drilling
- \$28,922 paid to a vendor for contract labor and supplies. The contract labor consisted of courthouse maintenance, grader work, and work at the county garage and park.
- \$137,374 paid for diesel fuel
- \$53,075 paid for plastic pipe
- \$36,318 paid for drilling

- \$35,440 paid for guardrail
- \$32,744 paid for heavy equipment parts and service
- \$64,799 paid for tires, vehicle repairs and maintenance, and contract labor. The vendor paid for these expenditures also constitutes a related party transaction for the Perry County Judge/Executive.
- \$45,828 paid for vehicle parts and service. The vendor paid for these expenditures also constitutes a related party transaction for the Perry County Judge/Executive.

While individual items purchased for some of the vendors did not exceed the \$20,000 bid threshold, they did exceed the threshold in the aggregate. When the fiscal court can reasonably anticipate spending over \$20,000 with a single vendor in a fiscal year, competitive bids should be solicited to achieve the best price.

The Perry County Fiscal Court knew the bidding requirements but decided to proceed. 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 that “[a]ll contracts or purchases shall be awarded by competitive sealed bidding, which include the use of a reverse auction,” unless certain exceptions apply such as purchases less than \$20,000. According to the Administrative Code, “[a]ll purchases of items of like or similar nature in excess of \$20,000 in a fiscal year shall be advertised for bids[.]”

We recommend the fiscal court follow the requirements of KRS 45A.365 and the county’s administrative policy. Purchases of \$20,000 or more should be competitively bid.

County Judge/Executive’s Response: The Fiscal Court will follow the requirements of KRS 424.260 and will implement controls to ensure compliance.

The county judge/executive failed to report related party transactions: This is a repeat audit finding and was reported in the prior year audit report as Finding 2015-012. In an initial related party questionnaire given to the Perry County Judge/Executive (signed by him on October 18, 2016), the county judge/executive did not disclose any related party transactions between the Perry County Fiscal Court and himself or any related parties.

While performing audit procedures, auditors found that he may not have disclosed some related parties and another questionnaire was given to him. When the county judge/executive finished the new questionnaire, he disclosed two related parties that had not been previously disclosed.

According to the county judge/executive, he did not understand that related parties include any business relationships that he may have. Also, the fiscal court does not have adequate controls in place to identify, track, and disclose related parties and related party transactions. Related party transactions can create an opportunity for management to engage in fraudulent activities or fraudulent financial reporting.

Governmental Accounting Standards Board (GASB) Statement No. 56 establishes specific accounting and disclosure requirements for related party relationships, transactions, and balances to ensure users of the financial statement understand their nature and potential effects on the financial statement. Related party transactions involving family, personal, financial, or business

relationships are not necessarily illegal; however, they must be disclosed in the notes to the financial statements.

We recommend that the county judge/executive gain an understanding about related party transactions and ensure that all related parties are fully disclosed.

County Judge/Executive's Response: The county judge/executive did not provide a response.

The fiscal court failed to implement adequate internal controls over compliance for federal programs:

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass Through Agency: Department of Military Affairs

Compliance Area: Cash Management; Procurement and Suspension and Debarment

Questioned Costs: None

Perry County qualified for disaster relief and had expenditures that fell under Federal Emergency Management Agency (FEMA) regulations (Disasters #4216, #4218, and #4239). The county expended \$858,052 for FEMA disasters during the fiscal year ended June 30, 2016. Deficiencies were noted in the design and implementation of internal controls over compliance for federal awards which resulted in the following non-compliance issues:

- The Fiscal Court Did Not Pay Invoices Related To Federal Awards Timely (see Finding 2016-018)
- The Fiscal Court Did Not Comply With Bidding Requirements For Federal Award Projects (see Finding 2016-019)

The fiscal court failed to implement adequate controls to ensure complete understanding of federal awards and compliance with all requirements. According to the Perry County Emergency Management Director, management was not familiar with the requirement that federal awards must follow all state and local procurement laws and regulations, including KRS 45A.365 related to bidding and KRS 65.140 related to paying invoices within 30 days. Additionally, the fiscal court was facing cash flow issues and didn't fully understand the implications of delaying federal payments to contractors/vendors.

These issues resulted in material noncompliance with federal grants in the areas of Cash Management and Procurement and Suspension and Debarment. The audit opinion for federal awards will be modified to reflect this material non-compliance.

The *Code of Federal Regulations, Subpart D, Section 303 (2 CFR 200.303(a))* states “[t]he non-Federal entity must 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.”

We recommend the fiscal court ensure they fully understand all compliance requirements related to federal awards. Furthermore, we recommend the fiscal court review their internal controls over federal awards and design and implement controls that will ensure material compliance with applicable requirements for all federal awards.

County Judge/Executive's Response: The official did not respond.

The fiscal court did not pay invoices related to federal awards timely: Federal Program: CFDA 97.036

Name of Federal Agency: U. S. Department of Homeland Security

Pass-Through Agency: Department of Military Affairs

Compliance Requirement: Cash Management

Type of Finding: Material Non-Compliance; Significant Deficiency

Amount of Questioned Costs: \$91,141

Sixteen invoices totaling \$121,521 were not paid within 30 working days. These invoices were for work charged to public assistance grants received from the Department of Homeland Security for various projects completed in Fiscal Year 2016. Invoice payment dates are as follows:

	Disaster	Project		Date Invoice	Date Check	Date Check	
		Worksheet	Amount	Received	Written	Cleared Bank	
Invoice #1	4216	100	\$ 339	4/25/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #2	4216	132	604	12/5/2015	4/19/2016	5/2/2016	Invoice was held until payment was made.
Invoice #3	4216	117	277	4/26/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #4	4218	275	42,875	4/22/2016	6/1/2016	11/9/2016	Check was held and then released for payment.
Invoice #5	4218	269	43,732	4/22/2016	6/1/2016	11/9/2016	Check was held and then released for payment.
Invoice #6	4218	298	1,446	4/1/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #7	4218	298	294	4/4/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #8	4218	298	276	4/4/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #9	4218	295	2,271	4/13/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #10	4218	295	161	4/14/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #11	4218	295	571	4/14/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #12	4218	295	161	4/15/2016	5/24/2016	9/1/2016	Check was held and then released for payment.
Invoice #13	4218	297	10,290	4/20/2016	6/1/2016	11/1/2016	Check was held and then released for payment.
Invoice #14	4218	296	16,292	4/20/2016	6/1/2016	11/1/2016	Check was held and then released for payment.
Invoice #15	4239	215	116	7/1/2015	9/15/2015	10/13/2015	Invoice was held until payment was made.
Invoice #16	4239	36	1,816	12/5/2015	4/19/2016	5/2/2016	Invoice was held until payment was made.
		Total Invoices					
		Paid Late	<u>\$121,521</u>				

The work on these projects was complete and the reimbursements for these projects had been received from the federal government, but these 16 contractors did not receive payment timely.

Due to cash flow issues and lack of adequate oversight by management, the fiscal court did not pay invoices timely. Untimely payments could lead to misuse of funds or missing invoices, as well as late payment penalties and interest.

The fiscal court is in violation of federal rules and regulations regarding federal grants and this could potentially jeopardize qualifying for or receiving federal grants in the future. Federal guidance for cash management is outlined in *Code of Federal Regulations, Subpart D, Section 305 (2 CFR 200.305(b)(1))* which states, “[t]he non-Federal entity must be paid in advance, provided that it maintains, or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standard for fund control and accountability[.]” In addition, guidance for procurement is outlined at *2 CFR 200.318*, and states, “[t]he non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.” There are also state laws that require invoices to be paid within a certain time frame. KRS 65.140(2) states in part, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is

delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." KRS 65.140(3) states, "[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty working days which followed receipt of vendor's invoice by the purchaser."

We recommend the fiscal court pay invoices within 30 working days as required by state law in order to comply with federal regulations for federal grants.

County Judge/Executive's Response: The county judge/executive did not respond.

The fiscal court did not comply with competitive bidding requirements for federal awards:

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass Through Agency: Department of Military Affairs

Compliance Area: Procurement and Suspension and Debarment

Questioned Costs: \$615,584

During Fiscal Year 2016, the Fiscal Court qualified for disaster relief under Federal Emergency Management Agency (FEMA) regulations (disaster #4216 - February 15 through February 22, 2015, disaster #4218 - March 3 through March 8, 2015, and disaster #4239 - July 11 through July 20, 2015). The fiscal court expended \$820,778 for drilling and railroad steel to repair embankment failures caused by the natural disasters. The fiscal court declared emergencies for these natural disasters and treated these federal projects as emergency work. When work commenced, the county did not solicit competitive bids due to the emergency declaration and the use of a state price contract. However, emergency work defined by FEMA Publication 32, is work that must be performed to reduce or eliminate an immediate threat of life, protect health and safety, and to protect improved property that is threatened in a significant way as a result of the disaster. The work on these projects did not happen within a reasonable timeframe and competitive bids could have been solicited. In addition, the fiscal court relied on a state price contract with two vendors for the disaster work. This state contract price was only for the rental of a drill with an operator. These contractors performed the drilling, provided the steel, and managed the projects. Therefore, the state price contract is not applicable.

The Perry County Fiscal Court knew the bidding requirements but thought the disasters would be covered under the emergency declaration and the vendor's state contract.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available. Also, the county could be out of compliance with federal and state requirements.

Federal grant agreements require applicants to comply with all applicable provisions of federal and state procurement laws and regulations. KRS 45A.380 states that purchase by noncompetitive negotiation is allowed when "a written determination is made that competition is not feasible" and that "[a]n emergency exists which will cause public harm as a result of the delay in competitive procedures[.]" Emergency work should be done immediately and not several months later. In this case, the expenditures were governed by the Administrative Code of the county. According to the Administrative Code, "[a]ll purchases of items of like or similar nature in excess of \$20,000 in a fiscal year shall be advertised for bids[.]"

We recommend the fiscal court implement controls to ensure compliance with federal awards, including provisions that indicate the entity must comply with all state and local regulations, which includes the county's administrative code. We further recommend the fiscal court follow the requirements of KRS 424.260. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met.

County Judge/Executive's Response: The county judge/executive did not respond.

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

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