



Auditor of Public Accounts
Adam H. Edelen

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Contact: Stephenie Hoelscher
stephenie.hoelscher@ky.gov
502.564.5841
513.289.7667

Edelen Releases Audit of Muhlenberg County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Muhlenberg County Fiscal Court for the fiscal year ended June 30, 2014. State law requires annual audits of county fiscal courts.

Recent changes in auditing standards require the auditor’s letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in cash and cash equivalents of the Muhlenberg County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court did not follow this format; however, the Fiscal Court’s financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Fiscal Court does not have adequate controls over decentralized receipts. The Muhlenberg County Fiscal Court does not issue receipts for all monies collected at the Agriculture Expo Center during events. The Agriculture Expo Center collects monies for parking, admissions, concessions, and other miscellaneous items. Additionally, the Muhlenberg County Fiscal Court does not issue receipts for monies collected at garbage drop-off locations or for the sale of garbage bags. The Fiscal Court operates drop-off stations that allow citizens of Muhlenberg County to bring their trash to these localized hubs for a nominal fee.

KRS 64.840(1) states “all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer...”

Implemented internal controls over decentralized receipts at the Expo center and for garbage collection are not adequate and do not meet the criteria required by KRS 64.840.

By not requiring a receipt for each payment, the opportunity for theft of funds or fraudulent recording is increased. The Fiscal Court cannot verify the total amount of money collected from the Agriculture Expo Center or document the total amount of funds collected for garbage collections, since they are not issuing receipts or keeping other documentation to support the collection of all funds received.

We recommend that the Fiscal Court require a receipt for each transaction of the Agriculture Expo Center and garbage collection in accordance with KRS 64.840 and to better determine the actual amount that is collected from each location.

County Judge/Executive Rick Newman's response: This is a tough one. The court will discuss the best options to be in compliance and implement more adequate controls.

County Treasurer Charles R. Lewis' response: The County Treasurer will confer with department heads regarding procedures to issue receipts and/or utilize receipt hardware.

Telephone commissions contracts should be approved by Fiscal Court and all jail disbursements should be budgeted. In April 2011, the Jailer entered into an Inmate Telecommunication Service Agreement with Combined Public Communications (CPC), which allowed CPC to install the inmate telecommunication system that will process collect calls, prepay and direct pay calls, including local and long distance in the Muhlenberg County Detention Center. This agreement stated that the Fiscal Court was to receive monthly a commission of the gross revenue from all collect calls and direct pay calls, made by inmates within the facility. In addition, the agreement stated that CPC would provide the Muhlenberg County Detention Center a \$50,000 equipment allowance to be utilized however deemed appropriate. During the fiscal year ended June 30, 2014, the Jailer made equipment purchases totaling \$2,272 and sent the invoices to CPC. CPC paid the vendors directly.

KRS 441.225 states (1) Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal court shall not withhold approval of payment for jail expenditures, which are within the jail budget and not unlawful.

The Fiscal Court did not approve the contract between the Jail and CPC. Additionally, there was no documentation the expenditures were ever presented to the Fiscal Court prior to payment.

Since the County Treasurer did not receive the equipment allowance, a total of \$2,272 was not included in the county's financial statements as budgeted receipts and budgeted disbursements for fiscal year end June 30, 2014.

We recommend that the Jailer have all future contracts approved by the Fiscal Court to reduce the risk of misappropriation of contract receipts or disbursements and to ensure that the Fiscal Court is aware of any signing bonuses included in the contract. Also, we recommend that all telephone commissions account activity be amended as necessary, into the county's budget. Invoices should be presented to the Fiscal Court for review prior to payment and approved payments should be recorded in the county's appropriation ledger as budgeted disbursements.

County Judge/Executive Rick Newman's response: The Judge Executive and Treasurer will discuss with the Jailer to ensure compliance.

County Treasurer Charles R. Lewis' response: The County Treasurer will confer with the Jailer regarding a change in procedure regarding the handling of the aforementioned procedures.

County Jailer Mark Curry's response: Any future contract will be presented to fiscal court.

Internal controls over disbursements/credit cards should be strengthened. During our testing of disbursements and credit cards, we noted the following deficiencies:

- Thirty-five disbursements/credit card transactions that did not have adequate supporting documentation (itemized invoices).
- One credit card statement did not have original invoices (six of the invoices were copies).
- Invoices were not properly marked paid.
- Credit cards were not always paid in full each month, resulting in finance charges/late fees of \$70.01.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports.

These deficiencies over disbursements and credit card transactions occurred because the Fiscal Court's lack of internal controls and oversight.

Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the County. Invoices should be properly marked paid to prevent duplicate payment. Also, by not paying credit cards in full each month the Fiscal Court could be assessed penalties or finance charges.

We recommend that the County develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

County Judge/Executive Rick Newman's response: A memo will be sent to all those who use the credit cards and ask that all disbursements and credit card transactions are properly supported

County Treasurer Charles R. Lewis' response: The County Treasurer and the County Judge Executive are discussing the possibility of decreasing the number and number of transactions whereby credit cards are utilized. Discussion will also be had regarding of issuing on centralized credit card to restrict the availability of the use of such credit card. The Finance Officer will scrutinize the remittance of transaction receipts to ensure proper documentation had been presented.

The Fiscal Court should advertise for and award bids in accordance with KRS 424.260.

During disbursement testing, we noted one instance where a bid was not obtained as required by KRS 424.260 or items were not purchased from the state contract vendor. Instead of bidding or using the state contract vendor, the Fiscal Court purchased seven Chevrolet Caprices and one Chevrolet Silverado from a local dealership.

KRS 424.260 states “Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000), without first making newspaper advertisement for bids.”

The Fiscal Court was under the assumption that they only had to pay the state contract price.

The Fiscal Court’s failure to properly bid the purchase of the vehicles mentioned above caused the county to purchase from an ineligible vendor and be in violation of KRS 424.60.

We recommend the fiscal court comply with KRS 424.260 and properly advertise and award bids for all purchases over twenty thousand dollars or purchase items from state contract vendors.

County Judge/Executive Rick Newman's response: Judge Executive will ensure proper bid procedures are followed. Also, will have a discussion with DLG concerning procedures.

County Treasurer Charles R. Lewis' response: All future bid procedures will be properly reviewed for proper procedure.

The Fiscal Court failed to implement adequate internal controls over activities allowed or unallowed, allowable costs/cost principles, and cash management and received duplicate reimbursements for the same costs. OMB A-87 Cost Principles For State, Local And Indian Tribal Governments states in the General Principles that to be allowable, costs “ Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.” Additionally, the United States Department of Commerce-Economic Development Administration- Summary of EDA Construction Standards states “Neither cash nor the value of in-kind contributions may count towards satisfying a cost-sharing requirement of a grant agreement if it has been or will be counted towards satisfying a cost-sharing requirement of another federal grant agreement, a federal procurement contract, or any other award of federal funds.”

Costs that were included on Community Development Block Grant (CDBG) draw requests and advanced by CDBG funds were submitted to the Economic Development Administration (EDA) for reimbursement as well. This was done in order to get advancements from the EDA grant rather than pay invoices and wait for reimbursement. This practice is in violation of OMB A-87.

Pennryile Area Development District (PADD) prepared and submitted reimbursement requests (approved by the County Judge Executive) to the EDA that had already been paid for from CDBG funds. PADD had been advised by the Atlanta Regional Office of the EDA that EDA did not consider CDBG funds to be federal funds and that the EDA treated CDBG funds as matching funds. The CDBG grant agreement states that the source of the CDBG funds is federal. Additionally, the CDBG grant stated that the Muhlenberg County Opportunity Center was to obtain the EDA grant.

The Fiscal Court received reimbursements of \$326,285 from EDA. The Fiscal Court had unreimbursed expenses of \$279,078. As a result of submitting costs erroneously, Fiscal Court received \$47,207 in reimbursements when no costs were incurred.

The Fiscal Court should implement internal controls over Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Cash Management to ensure compliance with federal laws and requirements. Costs should be submitted only to one federal award unless specifically specified otherwise. DLG should be notified of EDA misunderstanding of the federal status of CDBG funds. Additionally, the Fiscal Court should not seek advancements of grant funds if the grant specifies reimbursements for allowable costs.

County Judge/Executive Rick Newman's response and Corrective Action Planned: The Fiscal Court will implement controls with the grant agency as well as the agency who is managing the grant. Also internal controls with the treasurer will be implemented.

County Treasurer Charles R. Lewis' response and Corrective Action Planned: The Grant had now been completed. We understand all future Grants cannot be matched with other Federal Grants. We did not know this procedure was a non-compliance. Our Area Development District was contracted to monitor this Grant. No time during the Grant were we made aware that we were not following procedures. The disbursements of this Grant were extensively monitored by the Area Development District before any funds were disbursed by the Fiscal Court. Corrective action plan for this specific Grant would be non-applicable.

The Fiscal Court failed to implement adequate internal controls over federal financial reporting and submitted a materially misstated financial report to the United States Department of Commerce-Economic Development Administration. The United States Department of Commerce-Economic Development Administration- Summary of EDA Construction Standards requires “*Semiannual financial reports*. Any recipient whose Award has not been fully disbursed is required to submit Form SF-425 (Formerly 429), “*Financial Status Report*” to EDA semiannually to report on the status of unreimbursed obligations. This report will provide information on the amount of allowable project expenses that have been incurred, but not claimed for reimbursement by the recipient. The first report shall be as of March 30 of each year and shall be submitted to EDA no later than April 30 of each year, and the second

report shall be of September 30 of each year and shall be submitted to EDA no later than October 30 of each year.”

Auditor inspected a Federal Financial Report submitted to EDA dated May 2, 2014. This report was to list cumulative project expenditures as of March 30, 2014. The report shows zeros for all amounts except cash receipts and cash disbursements which were left blank. The County Judge Executive signed the report. Auditor noted a second report on file at PADD with the same date. That report was an edited copy of the original report on file at the county. The report submitted to EDA shows project expenditures of \$746,992. Actual expenditures as of March 31, 2014 (including those reimbursed with CDBG funds) were \$689,514. The report is materially misstated by \$57,477.

There were no internal controls in place to verify amounts submitted on federal “Financial Status Reports”. Costs of the project were not correctly aggregated and therefore incorrect amounts of costs paid were submitted to the EDA. The report is materially misstated and expenditures are overstated by \$57,477.

The Fiscal Court should implement internal controls over federal financial reporting to ensure compliance with federal laws and requirements. Project costs should be correctly aggregated and submitted to the appropriate federal agency. Additionally, recipient shares of costs should not include amounts already reimbursed by another federal program.

County Judge/Executive Rick Newman’s response and Corrective Action Planned: controls will be implemented.

County Treasurer Charles R. Lewis’ response and Corrective Action Planned: The Area Development District was contracted to prepare progress financial information. The County Judge Executive had been ill and not always available to sign off on the proper financial reports.

The Fiscal Court should document approval/presentation of all expenditures prior to payment. KRS 68.275 requires “The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid”. In addition to KRS 68.275, OMB A-87 Cost Principles for State, Local, and Indian Tribal Governments, Section C, Basic Guidelines, Section 1, “Factor affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (c) Be authorized or not prohibited under State or local laws or regulations. (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.” OMB Circular A-87 establishes principles and standards for determining allowable direct and indirect costs for Federal awards.

Federal expenditures totaling \$230,165 were not presented to, or approved by Fiscal Court. This amount consists of two JAG expenditures totaling \$31,250 and six CDBG/EDA expenditures totaling \$198,915. Additionally, there were 62 non-federal operating expenditures totaling \$333,162 not properly presented or approved.

The internal control of Fiscal Court approval of expenditures was not being documented properly. Nor was there adequate documentation that expenditures had been presented to Fiscal Court by the County Judge Executive.

Failure to present claims could lead to inappropriate payments and does not allow Fiscal Court opportunity to evaluate the claims. Additionally, failure to present federal disbursements could result in unallowable costs.

We recommend the Fiscal Court require all claims be presented in open court and be approved prior to payment.

County Judge/Executive Rick Newman's response and Corrective Action Planned: All claims will be presented in open court prior to payment.

County Treasurer Charles R. Lewis' response and Corrective Action Planned: All bills paid by the Fiscal Court are available for inspection by all court staff before each court meeting. There were instances when listing of these bills were not properly placed in the court minutes. Most of these instances were before the exit conference from the prior audit and were corrected well before the audit of this year. Now, all bills will appear on a computer printout and enclosed in a folder for each court meeting to ensure they become part of the court's minutes. Again all the bills are available for review at each court meeting. This procedure has been totally corrected as of this date. Bill paying for all accounts had been assigned to one location, instead of two, and one listing is prepared to include bills of all funds. Most of the bills in question were a one line item of the budget, closely monitored by construction managers or in the case of the JAG Grant money, by a separate Board.

The Fiscal Court failed to implement adequate internal controls over federal financial reporting for the Edward Byrne Grant and had questioned costs of \$12,832. Office of Justice Programs – Financial Guide – Training Guide referenced in the grant agreement states “In order to monitor the status of funds awarded to a recipient, OJP and OVW require the submission of quarterly financial reports. Recipients are required to submit a Standard Form 425 (SF-425) in the Financial Status Reports (FSR) module in GMS for each grant or cooperative agreement received. The recipient must report summary information on expenditures, unliquidated obligations, recipient share (match), program income, and indirect expenses for each quarter of the project period.”

The Pennyrile Narcotics Task Force did not write checks for the matching requirement of \$11,250 (\$3,750 per agency) to be paid to the three agencies with whom they have contractual agreements. These three agencies considered the matching of \$11,250 as a contribution made back to the Pennyrile Narcotics Task Force. Also, the 3rd quarter federal financial report included \$1,582 of expenditures; which were for the previous quarter and had already been reimbursed. This amount was picked up in error when the quarterly financial report was prepared.

There were no internal controls in place to verify amounts submitted on federal financial reports. The federal financial report is materially misstated and expenditures are overstated by \$12,832.

The Fiscal Court should implement internal controls over federal financial reporting to ensure compliance with federal laws and requirements. There should be expenditures for all items

reported on federal financial reports. Additionally, matching costs for contractual services to agencies should not be netted against contributions from those agencies.

County Judge/Executive Rick Newman's response and Corrective Action Planned: The Fiscal Court will implement the adequate internal controls over federal financial reporting.

County Treasurer Charles R. Lewis' response and Corrective Action Planned: The procedure will be monitored on all future Grants and this non-compliance will not occur. The Grant manager has been made aware of this non-compliance and will be prohibited from handling the transactions in this manner. The County Treasurer will also monitor all future transactions.

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

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