



Auditor of Public Accounts
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Edelen Releases Audit of Union County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Union 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 Union 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:

Union County Fiscal Court failed to implement adequate internal controls over capital asset purchases and capital asset record maintenance. Union County Fiscal Court had the following capital asset internal control weaknesses in FY 2014:

- The County's capital asset schedule was inaccurate. Two bridges, one road repaving, two buildings, and 20 pieces of vehicles and equipment had been omitted from the asset schedule totaling \$1,179,786. Also, two items were disposed of (a van was sold and a

police cruiser was destroyed) and not removed from the capital asset schedule totaling \$7,571. In addition, the County failed to document pertinent information such as serial or vehicle identification number for all assets purchased.

- The County's normal purchasing procedures of acquiring equipment when it is needed and requested by a County department was not followed. Six pieces of equipment totaling \$97,775 were purchased due to the equipment being offered to the County at a good price. These pieces of equipment were later seized by Indiana law enforcement. The County's insurance carrier denied a claim for reimbursement of the seized equipment.
- The County is insuring 13 buildings and 7 vehicles that are not owned by Union County. There is not a contractual agreement for the County to maintain insurance on these items.
- The County's Fiscal Court minutes did not document when the County purchased assets for other governmental entities.
- The County's capitalization threshold revision approved in October 2004 did not clearly state the thresholds for other equipment and infrastructure.

Union County's capital asset policy states "The inventory tracking value is set at \$500." KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual states, "For purposes of internal control, as asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount and have a useful life greater than one year."

There was no management oversight to determine if capital asset records were being accurately maintained. The effects of the lack of adequate internal controls over capital assets has led to the County purchasing stolen equipment, improper reporting of capital assets, and loss of county funds and property.

We recommend the Fiscal Court prepare and maintain adequate capital asset records in accordance with Union County's capital asset policy as well as follow guidance in the County Budget Preparation and State Local Finance Officer Policy Manual. Additionally, the Fiscal Court should purchase assets following the County's procurement policy when assets are needed. The Fiscal Court should determine why assets are being insured that do not belong to Union County. The Fiscal Court should also enter into written agreements when passing assets on to other governmental entities and all such actions should be incorporated into the minutes of the Fiscal Court. We also recommend the Fiscal Court update the capitalization policy and establish capitalization thresholds for all categories of capital assets. This matter will be referred to the Kentucky State Police and the Federal Bureau of Investigations.

County Judge/Executive's response: The capital assets policy and threshold were updated at the first court meeting following our original audit exit. A thorough review of all capital assets will be taking place along with a comparison of those items to our insurance policy. Any and all

discrepancies will be corrected. We also are going to review any assets that have been turned over to other government agencies and make sure they are removed from both our asset and insurance listings. Anytime assets are turned over to other agencies we will make sure that it is documented in court and in the fiscal court meetings the specific items which are being surplused over to other agencies. This review has begun and will be completed by year end.

Union County Fiscal Court did not advertise for bids in accordance with KRS 424.260.

There are four instances where the Fiscal Court did not obtain bids as required by KRS 424.260. The Fiscal Court purchased a portable skating rink that cost \$40,302. This occurred because UC First (formerly Union County Economic Development) informed the County that the shared cost of the skating rink was \$30,000. In actuality, the County's portion of the cost was \$30,000. Additionally two projects (a waterline extension totaling \$54,607 and a ball field renovation totaling \$22,890) performed by a local contractor exceeded bid requirements.

There was one instance where items purchased totaled \$23,700 and were paid through a split purchase. On April 22, 2014, a check was written to a vendor in the amount of \$23,700. This check was voided on April 22, 2014, and a check for \$19,950 was issued to the same vendor on the same day. The County Judge Executive obtained and signed a check from UC First in the amount of \$3,750 written to the same vendor to complete the transaction on May 2, 2014. The County Judge Executive was a check signer for UC First. The Fiscal Court reimbursed UC First \$3,750 on May 9, 2014.

KRS 424.260(1) 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."

Union County's Administrative Code states, "The requirement for advertisement by bid for any single item, contract, lease, or other agreement for materials and/or supplies shall increase from \$2,500 to \$20,000 pursuant to KRS 424.260 and shall read as follows: The Judge/Executive shall make a written determination identifying all purchases authorized by the County budget for which small purchase procedures may be used. The determination shall state no single item or aggregate thereof in any fiscal year shall exceed \$20,000. Small procedures where no quotes are necessary shall increase from \$50.00 to \$500.00."

Since these four transactions were not properly bid, the Fiscal Court is in violation KRS 424.260 and the Union County Administrative code. We recommend all purchases where a single vendor is to be paid more than \$20,000 be bid in accordance with KRS 424.260. Additionally, we recommend purchases not be split in order to avoid bid requirements.

County Judge/Executive's response: All purchases will follow Union County's purchase policy, procurement policy as well as KRS 424.260.

The Fiscal Court failed to follow proper purchasing procedures for small contracts and purchases. Union County Fiscal Court failed to follow procurement procedures outlined in the County's Administrative Code. There was no documentation of quotes being obtained for small purchase expenditures and there were four instances where items were not properly bid. (See finding 2014-002)

The County allowed projects to exceed original cost expectations because there were no internal controls in place that required the monitoring and accumulating costs for individual projects. Purchase orders were not being properly utilized and did not provide enough information to ascertain project costs. Additionally, there was no documentation of quotes being obtained. As a result of the lack of monitoring, two projects (a waterline extension totaling \$54,607 and a ball field renovation totaling \$22,890) performed by a local contractor exceeded original cost expectations and also exceeded bid requirements. (See finding 2014-002)

The Union County Administrative Code states, "The Judge/Executive shall make a written determination identifying all purchases authorized by the County budget for which small purchase procedures may be used. The determination shall state no single item or aggregate thereof in any fiscal year shall exceed \$20,000. Small procedures where no quotes are necessary shall increase from \$50 to \$500."

We recommend the Fiscal Court improve internal controls over procurement to ensure purchases are in accordance with the County's administrative code, monitor projects including equipment rental costs, and maintain documentation of price quotes.

County Judge/Executive's response: We are doing a review and update of the County's administrative code and purchase policy which will include in writing updated internal controls.

The Fiscal Court circumvented internal controls by paying Union County Fiscal Court expenses from a Union County First checking account and later reimbursing UC First. Union County Fiscal Court made twelve disbursements to UC First (formerly Union County Economic Development) totaling \$80,099 during fiscal year 2014. Documentation for the amounts paid to UC First shows that \$24,000 was for the budgeted contribution to UC First, \$36,722 was a reimbursement for assets acquired by UC First on behalf of the Fiscal Court, \$9,953 was a reimbursement to UC First for waterline project overruns paid by the County, and \$9,424 described as "reimbursements" were bills of the Union County Fiscal Court.

Union County Fiscal Court expenses were co-mingled with those of UC First. Per the County Judge Executive, the reimbursements were paid from the UC First account because he was a check signer and the invoices were requested to be paid before Fiscal Court met. One of the expenditures described as a "reimbursement" was for a piece of equipment paid from a split purchase. (See finding 2014-002) The handling of the transaction circumvents normal internal controls for procurement. In addition, the Fiscal Court was not given the opportunity to review or question the disbursement, since it was now being presented as a reimbursement to UC First.

KRS 68.275(2) states, “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.”

We recommend that all claims be presented to fiscal court prior to payment in accordance with KRS 68.275, that UC First checking accounts not be used to pay Union County Fiscal Court expenses, and that operating procedures described in the Union County Administrative Code be followed for all disbursements of Union County.

County Judge/Executive’s response: All payments will be made in compliance with KRS 68.725 and all operating procedures in the county administrative code will be followed. The County Judge Executive has been removed as an authorized signer on all Union County First bank accounts.

The Union County Jail lacks adequate segregation of duties over the accounting functions.

A lack of segregation of duties exists over the accounting functions at the Union County Jail. One employee collected inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports along with inmate fees to the county treasurer, reconciled the bank account and made payments from the bank account. There were some compensating controls implemented that would offset the lack of segregation of duties. The compensating controls implemented were all claims have to be approved by Fiscal Court prior to payment and the Treasurer reviews all bank reconciliations. However, we recommend the Jailer segregate duties or implement the following compensating controls:

- The Jailer should periodically compare the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The Jailer could document this by initialing the bank deposit, daily deposit, and receipts ledger for the day checked.
- The Jailer should compare the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Jailer could document this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.
- The Jailer should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The Jailer could document this by initialing the bank reconciliation and the balance in the checkbook.

Jailer’s response: As Jailer I will make sure that I check the daily deposits to the daily checkout sheet & also the monthly, quarterly, & annual financial reports. I will sign off on all documents.

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

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