



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Hopkins County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statements of the Hopkins County Fiscal Court for the fiscal year ended June 30, 2015. 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 cash and cash equivalents of the Hopkins 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.

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 Hopkins County Fiscal Court did not follow The Local Government Economic Assistance Disbursement Requirements per KRS 42.455.** The fiscal court did not spend 30% of the Coal Producing Local Government Economic Assistance (LGEA) receipts for the maintenance of coal haul roads. This noncompliance was caused by a lack of oversight by the Hopkins County officials. The fiscal court budgeted disbursements of the appropriate amounts to be spent on coal haul road maintenance, but the funds available in this budgeted account were never spent. The fiscal court spent \$220,361 from the road fund on the maintenance of coal haul roads, but the 30% that should have been spent was \$518,588, leaving a shortage of \$298,227. Additionally, since the fiscal court spent more out of the LGEA Fund for the other priority

categories, there is only \$269,526 left in the LGEA Fund as of June 30, 2015. By not using LGEA Coal Producing Funds in the manner in which they are meant to be used, adequate infrastructure may not be available for the coal industry, and it could reduce future revenues for the county. LGEA Coal Producing Funds play a fundamental part in maintaining roads that are used for the transportation of coal. This money is set aside by statute to ensure certain roads are in good condition to provide an efficient mode of transportation for the coal industry and to promote new industry in the affected area. KRS 42.455(2) specifically prohibits the expenditure of LGEA Funds for the administration of government. Grants obtained under this program shall be used for priority expenditures. Of the coal producing funds received by the fiscal court, KRS 42.455(2) requires that 30% of the money “shall be spent on the coal haul road system....” We recommend the fiscal court follow the guidelines set forth in KRS 42.455 when spending LGEA program funds and ensure that appropriate actions are taken to budget and record these disbursements correctly.

*County Judge/Executive Donald Carroll's response: Failed to transfer funds from General Fund to increase LGEA balance.*

**The Hopkins County Fiscal Court failed to properly advertise for bids per bid requirements.** The Hopkins County Fiscal Court failed to properly advertise for bids prior to purchasing a 2015 Link-Belt Excavator and a 2014 GMC Savana. The 2015 Link-Belt Excavator was purchased from a company at the state contract price, but the company was not a state contract vendor. The 2014 GMC Savana was purchased to replace a vehicle at the jail. The original price of the GMC Savana was \$26,500, but the fiscal court traded-in a 2006 Ford Econoline with a trade-in value of \$6,700 to bring the sale price of the GMC Savana to \$19,999 after license and processing fees. Since the sale price after trade-in was \$19,999, the fiscal court incorrectly thought that this item did not need to be bid. The fiscal court's failure to properly bid the items mentioned above caused the county to be in violation of KRS 424.260. Per KRS 424.260, “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 of 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 advertisements for bids.” We recommend that 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 Donald Carroll's response: Bid procedure has been changed to comply with policy.*

**The Hopkins County Fiscal Court failed to implement adequate internal controls over Procurement, Suspension, and Debarment; Real Property Acquisition and Relocation Assistance; and Special Tests and Provisions.**

*Federal Program: CFDA # 14.228*

*Award Number and Year: 12-013*

*Name of Federal Agency: U.S. Department of Housing and Urban Development*

*Pass-Through Agency:* Kentucky Department for Local Government

*Compliance Requirements:* Procurement, Suspension and Debarment; Real Property Acquisition and Relocation Assistance; and Special Tests and Provisions

*Type of Finding:* Internal Control Deficiency and Non-Compliance

*Amount of Questioned Costs:* \$9,305

The Hopkins County Fiscal Court has a lack of adequate internal controls over federal compliance requirements. The fiscal court hired the Pennryle Area Development District (PADD) to act as grant administrator and placed complete reliance upon PADD for ensuring compliance with federal requirements.

OMB A-133 section 300 (b) states that it is the Auditee's responsibility to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

The fiscal court relied solely on PADD to monitor compliance requirements over Procurement, Suspension and Debarment, Real Property Acquisition and Relocation Assistance, and Special Tests and Provisions. The fiscal court had no controls in place to ensure compliance requirements were met and had little to no knowledge of what was being done by PADD to ensure compliance.

The following non-compliances occurred because of no internal controls or oversight by the fiscal court:

- There is \$9,305 of questioned costs. There was no documentation that change orders were approved by the inspector or were necessary to meet building code as required by the grant.
- Bids were improperly awarded. The DLG CDBG manual Section 4-F Step 6 requires that "After review of the bids, the grantee must award the contract to the lowest responsible and responsive bidder if his/her bid is within the budgeted amount, preferably within 30 days of the opening." Three of six projects bid were not awarded to the lowest qualified bidder. PADD allowed the fiscal court to use a bid pool and award bids at will. PADD stated there were issues with the vendor who had placed most of the low bids; however, PADD recommended that vendor be awarded another contract at a later date.
- A search for debarred or suspended vendors was not documented until after the start of the project.

We recommend that the fiscal court implement adequate internal controls to ensure federal compliance requirements are met.

*County Judge/Executive Donald Carroll's response:* PADD will be contacted to implement a monitoring system with county oversight.

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

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