



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Union County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the single audit of the Union 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 fund balances of the Union 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, we have issued modified opinions on the compliance requirements that are applicable to Union County Fiscal Court's major federal programs.

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 lacks segregation of duties over cash receipts, disbursements, transaction posting, and bank reconciliations. There is a lack of segregation of duties over cash receipts and disbursements and financial statements. The treasurer performs all accounting functions over cash (with the exception of occupational tax) and receives, posts, and reconciles revenues as well as prepares the quarterly financial statements. The treasurer also performs the monthly bank reconciliations. The treasurer is statutorily required to perform the duties listed above, and there

is no oversight of these duties. The lack of internal controls allowed errors to go undetected and uncorrected, such as:

- The fiscal court's payroll revolving account had a June 30, 2015 reconciled balance of \$33,074.
- The investment journal did not agree with the analysis of investments.
- The treasurer deposited federal loan funds into the road fund that should have been segregated into the federal grant fund.

Segregation of duties over these tasks is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Proper segregation of duties also protects employees in the normal course of performing their daily responsibilities. When proper segregation of duties cannot be achieved, compensating controls can be implemented to provide an effective alternative. Additionally, due to the nature of revolving accounts, the payroll fund should reconcile to zero.

To prevent the deficiencies noted above, we recommend the fiscal court implement stronger internal controls. Controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document their review and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can strengthen its internal control system.

County Judge/Executive Jody Jenkins' response: The Treasurer will prepare deposits and another employee from the Judge/Executive's office or the Treasurer's office will take the deposits to the bank, and then will initial the deposit slip once deposited. The deposit books will then be brought back to the treasurer where she will post the completed deposits in the system. A total deposit register showing the account numbers where the deposits were posted will be printed and then given to the finance officer for review and signature.

Internal controls over disbursements and credit cards were weak. The fiscal court did not maintain proper supporting documentation for all disbursements. In the sample tested, the following issues were noted:

- Supporting documentation was missing for two travel vouchers; one voucher did not match the amount paid.
- Documentation for three other disbursements and one individually significant item was missing.
- One credit card disbursement was missing an itemized invoice; two others had no invoice.
- The fiscal court paid two other credit card disbursements with no invoice, but was able to obtain them later by contacting the vendor.

- The fiscal court failed to approve five disbursements prior to payment.

The lack of management oversight resulted in the Union County Fiscal Court being unable to provide the supporting documentation for these disbursements; therefore, auditors could not determine the allowability of the disbursements. By not having the appropriate documentation for disbursements, funds could be misappropriated or made for unallowable items. It may also result in payment of invoices for goods or services that were not provided to the fiscal court.

KRS 68.275(2) states “[t]he 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.” Also, good internal controls dictate itemized invoices should be maintained for all purchases. We recommend the fiscal court require all disbursements be properly supported and invoices be maintained to validate the allowability of the disbursement prior to payment. We further recommend the fiscal court ensure all disbursements are approved and documented in the minutes before payment.

County Judge/Executive Jody Jenkins’ response: Internal controls have already been established and implemented. All invoices are verified and signed off on by the department supervisor prior to submission for payment from fiscal court. Once all the claims are prepared, a finance committee made up of two Magistrates and the Judge that rotate quarterly. This committee reviews every claim invoice and receipt prior to court approval.

The fiscal court failed to follow proper purchasing procedures for small contracts and purchases. The fiscal court failed to follow procurement procedures outlined in the county’s administrative code. There was no documentation of quotes being obtained for four small purchase disbursements. There was also no documentation that the county had not exceeded the bid price for the construction contractor on the Levee Project. However, the auditor was able to recompute the construction contractor’s contract amount.

No documentation of quotes was being maintained due to a lack of internal controls and monitoring by management. By not obtaining quotes, the county is in violation of their administrative code, and could overpay or obtain inferior assets for the county.

The Union County Administrative Code states “[t]he 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 and maintain documentation of price quotes.

County Judge/Executive Jody Jenkins’ response: All claims over the threshold must be accompanied by three quotes for record.

The fiscal court failed to spend coal severance funds properly. The fiscal court failed to expend 30 percent of coal severance money on their county coal haul road system. This occurred

because the county believed all coal haul roads in the county were state maintained, and were unaware that a county coal haul road existed. By not expending 30 percent of coal severance money on the county coal haul road system, state funds intended to maintain the road system were misspent.

KRS 42.455(2) requires that funds received under the Local Government Economic Assistance Program for the coal road system must expend thirty percent (30%) of all coal severance funds on the county coal haul road system. We recommend the fiscal court ensure that coal severance funds are expended appropriately.

County Judge/Executive Jody Jenkins' response: Due to the fact, all coal haul roads in the county are state maintained the county did not believe the funds could be spent elsewhere. Now we have been informed by the auditor's office that the funds can be spent on any road operation, equipment, supply etc. The county will continue to work closely with the Department for Local Government on any new allowable expenses.

Auditor's Reply: Union County has at least one local coal haul road according to the Kentucky Transportation Cabinet's 2015 Coal Haul Highway System map for Union County. Pursuant to KRS 42.455(2), thirty percent of coal severance funds must be spent on the county coal haul road system.

The fiscal court did not implement internal controls over payroll, properly compensate employees for overtime, and properly account for hours worked. Internal controls over payroll are insufficient. While time records are maintained by the finance office, the treasurer prepares payroll checks without anyone verifying payments against time records. The following errors and non-compliances were noted:

- FICA withholdings were not calculated properly.
- Gross wages for two employees were not calculated using the rates approved by the fiscal court.
- Timesheets for two employees were not signed by the employees or the supervisor. Timesheets are not maintained for the senior citizens coordinator.
- The manual time card for one employee was not signed by the supervisor, and it did not indicate an applicable pay period.
- Health insurance invoices did not agree with contributions stated by the fiscal court.
- Two employees were not properly compensated for hours worked in excess of 40 hours per week according to their timesheets.
- There were 20 instances where the treasurer did not clock in, but was paid the full salary without the use of leave time.

There was no review that compares time records to payments to employees independent of the treasurer. Payments to employees were not independently reviewed. Employees had too much FICA tax withheld from their paychecks each pay period, employee gross wages were calculated improperly, and health invoices did not agree with contribution noted by the fiscal court. Additionally, because the county was neither paying its employees at a rate of one and one-half

times their hourly wage rate nor allowing them to accrue compensatory time in lieu of overtime pay, the county was not in compliance with KRS 337.285.

KRS 337.285(1) states “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1- ½) times the hourly wage rate at which he is employed.” KRS 337.285(4) further states “[u]pon the written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is not exempt from the provisions of the Federal Fair Labor Standards Act of 1938, as amended, 29 U.S.C secs. 201 et seq., may be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1- ½) hours for each hour the county or city employee is authorized to work in excess of forty (40) hours in a work week.” Additionally, adequate internal controls over these tasks are essential for ensuring that gross wages and deductions are calculated properly, providing protection from asset misappropriation, and helping prevent inaccurate financial reporting.

We recommend the fiscal court:

- Strengthen internal controls over payroll, including independent review of payroll records to payroll payment.
- Comply with KRS 337.285 by paying overtime or accruing compensatory time for time worked over 40 hours per week.
- Require all employees to sign records of time worked and supervisors to review and sign employee time records.
- Ensure accurate calculations of gross wages and FICA.
- Require the treasurer to accurately record time worked and to use leave time appropriately.

County Judge/Executive Jody Jenkins' response: Payroll records are maintained by electronic time clock and in offsite locations paper sheets as well that are signed by employee and supervisor. The finance officer reviews all time sheets prior to processing for accurate time off and comparisons to the computer. If there are any discrepancies correction are made prior to submission. The treasurer returns all timesheets to the supervisor on any sheet found with missing signatures before payroll can be processed. All changes to pay rates with in a fiscal year will be documented in court minutes and in personnel files. All pay rates have been checked and verified for accuracy in the system for overtime and holiday pay rates. Also, the finance officer and treasurer jointly are going to make sure all work days missed for holidays, trainings, medical leave etc. are documented in the system so no appearance of unworked days is made. The County Judge will sign off on his office's time sheets, and the treasurer's office time sheets.

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

Duties were not segregated nor were there sufficient compensating controls that would offset the lack of segregation of duties. The lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected errors or fraud.

The segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. 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 compare the daily checkout sheet to the receipts ledger. Any differences should be 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 be reconciled. The jailer could document this by initialing the bank reconciliation and the balance in the checkbook.

Current County Jailer Shawn Elder's response: Current Jailer has already established procedures to eliminate the problem. Current Jailer's procedures are the same as the recommendations.

The Union County Jail did not make daily deposits. The jail does not make daily deposits. There is no management oversight in place over commissary accounting functions to ensure receipts are deposited daily. By not making deposits on a daily basis, the opportunity for the misappropriation and theft of receipts is increased.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government *County Budget Preparation & State Local Finance Officer Policy Manual* requires daily deposits and a daily check out sheet where receipts are batched and categorized as part of the minimum accounting requirements for the jail commissary. We recommend the jailer ensure deposits be made daily in order to be in compliance with the minimum accounting standards as promulgated pursuant to KRS 68.210.

Current County Jailer Shawn Elder's response: Jailer established procedures to ensure deposits are made when up to \$500 cash is on hand.

Auditor's Reply: We would like to reiterate that the jailer is required to make deposits daily, regardless of the amount of money collected.

The jailer did not submit an accurate year-end commissary report to the county treasurer. The jailer's annual commissary report was submitted to the county treasurer in enough detail to meet the requirements of a financial statement. However, the annual report does not agree to the ledgers. We noted that outstanding checks in the amount of \$1,064 were not properly accounted for on the year-end report.

The bookkeeper prepared the annual commissary report based on the amounts reported on the bank statements each month. The report does not accurately portray the activity that occurred in the jail commissary for the fiscal year. It only shows the activity that cleared the bank. Inaccurate reporting could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

KRS 441.135(2) states that the jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account. We recommend the jailer ensure the jail is in compliance with KRS 441.135(2) by ensuring all receipts and disbursement from the canteen are accounted for properly and reported on the annual report to the county treasurer.

Current County Jailer Shawn Elder's response: Jailer has instructed (Jail) finance officer to turn in report at the end of every year.

The fiscal court failed to maintain adequate internal controls over capital asset record maintenance. The fiscal court's capital asset schedule was inaccurate. Construction in progress recorded on the prior year schedule was completed, but the completed building was not added to the fiscal court's asset schedule. One bridge was also left off the current year asset schedule. The total amount of unrecorded assets was \$206,627. There were also two vehicles that were disposed of in FY 2014 that were not removed from the current asset listing. Additionally, the fiscal court is insuring 13 buildings and seven vehicles that are not owned by the fiscal court. There were no contractual agreements in place for the fiscal court to maintain insurance on any building or equipment owned by other entities.

There was no management oversight to determine if capital asset records were being accurately maintained. The lack of adequate internal controls over capital assets led to improper reporting of capital assets and could lead to improper purchases of equipment and misappropriation of assets. The Department For Local Government *County Budget Preparation and State Local Finance Officer Policy Manual* states "[f]or purposes of internal control, a fixed 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." Additionally, good internal controls are essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

We recommend the fiscal court prepare and maintain adequate capital asset records in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*. Additionally, the fiscal court should review the insurance policy to ensure the county only insures county owned buildings and equipment and vehicles that are in working condition.

Furthermore, if the county chooses to insure buildings and equipment for other entities, the fiscal court should enter into written agreements with those entities.

County Judge/Executive Jody Jenkins' response: A new capital asset records program has been implemented, and the 13 buildings and 7 vehicles have either been removed from the fiscal court's insurance policy or an agreement has been established to insure said vehicles and/or buildings.

The fiscal court lacks adequate controls over the off-site receipt collections and deposits.

The fiscal court does not monitor off-site collections. Receipts were not issued to customers at the Senior Citizens Center; therefore batched receipts were not attached to the checkout sheets. Detailed checkout sheets are not prepared daily. Receipts are not turned over to the treasurer on a daily basis, and deposits are not made daily. The fiscal court has not required all off-site collections to issue receipts to all customers, batch receipts and attach to a detailed daily check-out sheet, or make deposits daily. A lack of adequate internal controls over receipts at off-site locations increases the risk that cash could be misappropriated. Undeposited funds were left vulnerable to misappropriation.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits. Additionally, strong internal controls are essential for providing protection against fraud and errors. We recommend internal controls be strengthened for decentralized receipts by monitoring receipts, daily check out sheets and requiring deposits be made daily.

County Judge/Executive Jody Jenkins' response: All off site locations will be instructed to make sure all customers receive a receipt, and daily deposits of any amount will be submitted along with receipts regardless of how small. The senior citizens will keep their number records for their weekly reports but the money will be turned in daily with receipts. Daily deposits from all locations will be submitted to the judge's office by 4:00 pm or by 8:30 am the following morning.

The fiscal court failed to implement internal controls that are adequate to ensure the schedule of expenditures of federal awards is accurately prepared.

Federal Program: 10.760 Water & Waste Disposal System and 90.201 Delta Area Economic Development

Supplemental and Direct Grants

Award Number and Year: 11215 2015 and KY12109

Name of Federal Agency: U. S. Department of Agriculture (USDA) and Delta Regional Authority (DRA)

Compliance Requirements: Reporting

Type of Finding: Material Weakness and Material Non-compliance

Amount of Questioned Costs: None

The fiscal court's internal controls are not adequate to ensure the Schedule of Expenditures of Federal Awards (SEFA) accurately reports all federal assistance received. The county treasurer

has overall responsibility for final preparation of the SEFA. No one reviews her work for accuracy. The SEFA for Fiscal Year 2015 was materially misstated. Additionally, the federal expenditures were not properly accounted for in the supporting accounting records. This is a material weakness in internal controls over the SEFA's preparation and reporting.

The treasurer's original SEFA total was \$716,850. The USDA loan in the amount of \$3,000,000 and the DRA grant in the amount of \$164,001 were omitted from the fiscal court's SEFA. Additionally, the CDBG amount was overstated by a payment of \$7,220 that was deposited into the fiscal court's bank account in error, and the emergency management reimbursement was overstated by \$62,532.

The fiscal court has not put internal controls in place to ensure the SEFA is accurate and complete. It relies on the treasurer to provide accurate information, and no one reconciled that information before submitting the SEFA to the Department For Local Government. The errors identified were provided to the fiscal court for correction prior to it submitting the SEFA to the federal government. The deadline of March 30, 2016 was not met because of the errors in the SEFA noted above. Failure to meet the deadline could affect the fiscal court's ability to receive future federal assistance. Additionally, the same expenditures were submitted to multiple federal programs for reimbursement. However, there were sufficient unreimbursed expenses that could be used in place of those that had already been submitted to federal awarding agencies. The fiscal court has had to resubmit reports to DRA and USDA in order to properly substantiate grant reimbursements.

OMB Circular A-133, Section .300(b) states "[t]he auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § __.310."

We recommend the fiscal court provide knowledgeable and independent oversight of SEFA preparation and ensure staff responsible for it do an effective job, perform a detailed reconciliation of the federal assistance reported by the treasurer, and establish reporting guidance and assistance to the treasurer to ensure timely, accurate, and consistent information, and periodically assess the effectiveness of the treasurer's records to ensure accurate reporting.

County Judge Executive Jody Jenkins' response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required

to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants.

The Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Records Of Federal Programs.

Federal Program: 10.760 Water & Waste Disposal System and 90.201 Delta Area Economic Development

Supplemental and Direct Grants

Award Number and Year: 11215 2015 and KY12109

Name of Federal Agency: U. S. Department of Agriculture (USDA) and Delta Regional Authority (DRA)

Compliance Requirements: Reporting

Type of Finding: Material Weakness and Material Non-compliance

Amount of Questioned Costs: \$287,541

Opinion: Qualified

Significant issues were noted with grants management accounting records, including the following:

- Records did not support amounts remitted to the USDA for reimbursement.
- Vendor payments were submitted to the USDA and then also submitted to DRA for reimbursement.
- There was one expense paid at 100 percent from coal severance funds that was submitted to USDA for reimbursement.
- There is \$526,703 in federal funds not yet released to Union County.
- The treasurer failed to properly maintain federal funds separately from other fiscal court funds.
- There are questioned costs of \$287,541.

The questioned costs represent duplicate reimbursements received by the fiscal court because payments were incorrectly submitted to multiple funding sources. There were 67 levee project transactions totaling \$5,551,684. Of these transactions, there were five over-reimbursements totaling \$287,541. The USDA Loan was for \$3,000,000 and the DRA grant was in the amount of \$164,001.

The fiscal court has not put internal controls in place to ensure the accounting records accurately reported all program activity. There was no central compilation of grant expenses and reimbursements to prevent duplicate reimbursements and ensure all disbursements were submitted for reimbursement. Additionally, the treasurer failed to notify the fiscal court that the full balance of the loan proceeds had been received. The same expenditures were submitted to multiple federal programs for reimbursement. The fiscal court has had to resubmit reports to DRA and USDA in order to properly substantiate grant reimbursements. The fiscal court has \$526,703 of federal funds not yet released due to the breakdown in communication. Therefore, the fiscal court has been denied resources and decreased the amount of funds available for use for necessary operations.

OMB Circular A-133, Section .300(b) states “[t]he auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § ____.310.”

We recommend the fiscal court implement internal controls over federal programs, institute a central accounting system for all federal program activity, and properly account for all grant expenditures, and resubmit all incorrect reimbursement requests. Additionally, we recommend staff working on federal programs receive training in order to prevent errors such as those noted above.

County Judge Executive Jody Jenkins’ response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants. When available the treasurer and/or finance officer will be required to attend trainings over grant procurement.

The fiscal court failed to implement adequate internal controls over procurement, suspension, and debarment.

Federal Program: CFDA #10.760 Water and Waste Disposal Systems for Rural Communities

Award Number and Year: 11215- 2015

Name of Federal Agency: U. S. Department of Agriculture (USDA)

Compliance Requirements: Procurement, Suspension, And Debarment

Type of Finding: Material Weakness

Amount of Questioned Costs: None

The fiscal court failed to verify that contractors or vendors that worked on federal programs were not suspended or debarred. All contractors/vendors/subcontractors should have been verified as eligible on the System For Award Management (SAM.gov). The fiscal court had no documentation that the vendors were eligible to work on the federal program. The contractor did sign a verification that he was not debarred or suspended. Auditors verified that vendor was not debarred or suspended on SAM.gov after the contractor had been utilized and paid. Of the \$3,791,538 dollars tested, \$3,739,863 represented payments to unverified vendors.

The fiscal court thought the engineer was performing the duties of grant administrator, and internal controls over the federal program were not implemented to ensure compliance with applicable laws and regulations. Neither was able to produce documentation of verification of vendors. In turn, when grantees do not follow federal requirements for procurement, suspension, and debarment, grantors cannot ensure charges to federal grants are accurate. Since the fiscal court was not in compliance with grant requirements, the costs could be disallowed by the federal awarding agency.

OMB Circular A-133, Section .310(b) states “[t]he auditee shall:

- (b) 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.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.”

The compliance supplement states “[n]on-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. ‘Covered transactions’ include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220.”

We recommend the fiscal court implement adequate internal controls over federal programs and utilize effective grant administrators in order to be in compliance with applicable federal, state, and local laws.

County Judge Executive Jody Jenkins’ response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants.

The fiscal court failed to implement adequate internal controls over Davis Bacon requirements and had \$57,202 of questioned labor costs.

Federal Program: 14.228 Community Development Block Grants/State's Program

Award Number and Year: 11D-035

Name of Federal Agency and Pass-Through Agency: U. S. Department of Housing and Urban Development,

Passed-Through State Department for Local Government

Compliance Requirements: Davis Bacon

Type of Finding: Material Noncompliance and Material Weakness

Amount of Questioned Costs: \$57,202

Opinion: Qualified

The fiscal court's grant administrator failed to obtain certified payrolls signed by the contractor. There was no documentation of authorization from the contractor that allowed the contractor's office manager to sign certified payrolls. Additionally, when the grant administrator performed onsite interviews verifying job classes of contractor employees, the only documented interviews were with two electricians. The fiscal court failed to monitor the work of the grant administrator.

Questioned costs were based on the percentage of labor costs. The federal grant expenditures were \$630,000, which represents 90 percent of the total cost of the project. Total labor costs were \$63,558. Total labor costs multiplied by 90 percent equals \$57,202. The labor costs of \$57,202 represent nine percent of the total costs.

The fiscal court has a lack of internal controls over federal programs. The fiscal court contracted with a third party to provide grant administration. This work was subcontracted by the third party to a former employee. The subcontracted grant administrator failed to provide a signed agreement for grant administration. The grant was monitored by the Kentucky Department For Local Government, Office of Federal Grants. The subcontracted grant administrator had 16 monitoring findings, four of which were related to Davis Bacon activities. Two of the Davis Bacon findings related to ineligible signatures on certified payrolls which had not been corrected as of the date of the audit report. The fiscal court failed to monitor the work of the grant administrator. When grantees do not follow federal requirements for documentation of salaries, grantors cannot ensure charges to federal grants are accurate. Since the fiscal court was not in compliance with grant requirements, the costs could be disallowed by the federal awarding agency.

OMB Circular A-133, Section .300(b) states "[t]he auditee shall:

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

Additionally, 29 CFR 5.5(a)(3)(ii)(B) states "[e]ach payroll submitted shall be accompanied by a 'Statement of Compliance,' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract..." Internal controls over monitoring of Davis Bacon requirements also would dictate certified payrolls be signed by the contractor or designee and interviews should be conducted on a representative sample of contractor employees.

We recommend the fiscal court implement adequate internal controls over federal programs and utilize effective grant administrators in order to be in compliance with applicable federal, state, and local laws.

County Judge Executive Jody Jenkins' response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or

future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants.

The fiscal court failed to implement adequate internal controls over procurement, suspension, and debarment.

Federal Program: 14.228 Community Development Block Grants/State's Program

Award Number and Year: 11D-035

Name of Federal Agency and Pass-Through Agency: U. S. Department of Housing and Urban Development,

Passed-Through State Department for Local Government

Compliance Requirements: Procurement, Suspension, and Debarment

Type of Finding: Material Noncompliance and Material Weakness

Amount of Questioned Costs: None

Opinion: Qualified

The fiscal court's grant administrator failed to submit the CDBG draw request timely and the fiscal court failed to pay the contractor within 30 days. The contractor's invoice was dated November 26, 2014. The contractor was paid \$630,000 (the federal portion) on February 27, 2015, three months after date of billing. The final inspection was dated October 23, 2015. The contractor was paid the remaining \$66,420 on June 18, 2015, four months prior to inspection. Additionally, there was no documentation to determine if the vendor used was debarred or suspended. Program activity consists of two transactions. One payment was for the federal portion of the project and one was for the county portion of the federal project.

There is a lack of internal controls over federal programs. The fiscal court contracted with a third party to provide grant administration. This work was subcontracted by the third party to a former employee. The subcontracted grant administrator failed to provide a signed agreement for grant administration. The grant was monitored by the Kentucky Department For Local Government, Office of Federal Grants. The subcontracted grant administrator had 16 monitoring findings, twelve of which were related to procurement, suspension, and debarment activities. It is the fiscal court's responsibility to monitor activities of grant administrators to ensure that compliance requirements are being met. When grantees do not follow federal requirements for procurement, suspension, and debarment, grantors cannot ensure charges to federal grants are accurate. Since the fiscal court was not in compliance with grant requirements, the costs could be disallowed by the federal awarding agency. Additionally, interest may be due to the vendor for late payment.

OMB Circular A-133, Section .300(b) states "[t]he auditee shall:

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

Additionally, KRS 65.140 states “(2) Unless the purchaser and vendor otherwise contract, 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. (3) An 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 (30) working days which followed receipt of vendor's invoice by the purchaser.” Per the OMB Circular A-133 Compliance Supplement, Part 3, I “Non-Federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred. ‘Covered transactions’ include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220.”

We recommend the fiscal court implement adequate internal controls over federal programs, and monitor the work performed by grant administrators, and receive training over compliance with federal awards in order to be in compliance with applicable federal, state, and local laws.

County Judge/Executive Jody Jenkins’ response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants. When available the treasurer and/or finance officer will be required to attend trainings over grant procurement.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

