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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Carlisle County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Carlisle County Fiscal Court for the fiscal year ended June 30, 2019. 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 Carlisle 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 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 Carlisle County Fiscal Court did not approve cash transfers prior to making them: Throughout Fiscal Year 2019, cash transfers were made prior to being approved by the fiscal court. The transfers were typically approved by the fiscal court a few days after they had cleared the bank. According to the county treasurer, cash transfers often occur before being approved due to the timing of receipt and disbursement transactions and the timing of fiscal court meetings. Rather than estimate the amounts that will need to be transferred, and subsequently transferring more funds than necessary, the county treasurer waits to present transfers to the fiscal court until the exact amount needing to be transferred between funds is known. Because cash transfers occurred before being approved by the fiscal court, the county’s funds were at an increased risk of being misappropriated.

Strong internal controls dictate that the fiscal court oversee the movement of funds in order to decrease the risk of misappropriation. It is also the responsibility of the fiscal court to make financial decisions, such as transferring cash between funds.

We recommend that all cash transfers be presented to, and approved by, the Carlisle County Fiscal Court before the transactions occur.

County Judge/Executive's Response: On January 14, 2020, the county treasurer explained to Fiscal Court that the transfer process was unknowingly incorrect. After discussion with the State Auditors, the Fiscal Court agreed that all transfers needed to be approved by Fiscal Court before the transfer takes place. The only reason transfers were taking place before approval in court was for payroll purposes and in preparation for bills to be paid after Fiscal Court approval.

The Carlisle County Fiscal Court failed to comply with bidding requirements: The county did not advertise for bids for the purchase of a backhoe for \$107,712. Instead, the county obtained three quotes from various dealers. The county also entered into a service contract for ambulance services without first advertising for bids. Additionally, the county purchased a two-way radio from a company that uses a state contract distributor; however the county did not maintain the agreements to accompany this purchase. When purchasing the backhoe, the county misunderstood that the item needed to be advertised for bids and believed that obtaining quotes would be sufficient. The county was not aware that the agreements should be maintained for the radio purchase. As for the ambulance service contract, there is a disagreement as to whether or not the ambulance service is considered a professional service in the context of the bid requirements.

Because the county failed to follow proper bidding requirements for items purchased, the county is not in compliance with KRS 424.260. Also, by not advertising for bids, the county was at risk of not receiving the best price for the items acquired. KRS 424.260(1) states, “[e]xcept 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 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.” Furthermore, KRS 424.260(2) states, “[i]f the fiscal court requires that the sheriff or county clerk advertise for bids on expenditures of less than twenty thousand dollars (\$20,000), the fiscal court requirement shall prevail.” The county administrative code states any purchase greater than \$10,000 shall be advertised for bid.

Also, strong internal controls dictate that procedures be implemented to ensure that all purchases above the threshold are advertised for bids and that sufficient documentation be maintained to support state contract price purchases.

We recommend that the Carlisle County Fiscal Court comply with KRS 424.260, as well as its own administrative code, by properly following bidding requirements for all expenditures above \$10,000. We further recommend the fiscal court implement internal control procedures to ensure

that the county is in compliance with bidding requirements and all supporting documentation is maintained.

County Judge/Executive's Response: In previous years, the bidding threshold was \$10,000.00 and when the state increased the threshold to \$30,000.00, we, as Fiscal Court, thought this threshold was changed in our Administrative Code. In the midst of this audit, it was made aware that we did not change the threshold. On 12/03/2019, the Fiscal Court approved to change the threshold to \$30,000.00 so that we would be compliant with the State. With new office administration, additional research has been done and the staff is more aware of how the bidding process works, therefore we are better prepared for this action.

In response to the Ambulance services not being bid out annually, the county believes this service is a professional service due to our requirements for the director's position and our level 3 licensing. The Kentucky Board of Emergency Services requires an advanced life support level personnel on every shift. Due to the lack of ALS providers in our area, we require our director to hold that certification to ensure that we are able to always meet that requirement, which deems this service a professional service. Even though our County Attorney is of the opinion that this bid falls under the personal service contract, and/or, sole source exceptions, the Fiscal court did let the latest (FY 19/20) contract out for bid.

The Carlisle County Fiscal Court lacks internal controls over the ambulance service contract: The Carlisle County Fiscal Court lacks internal controls over transactions associated with the ambulance service contract. In Fiscal Year 2019, the Carlisle County Fiscal Court had a service contract with a vendor to serve as the ambulance director and to provide ambulance runs and billing services for the county. The verbiage of the contract is vague, and supporting documentation does not provide sufficient evidence that the contract was being adhered to.

According to the contract, the county was to pay the vendor a flat fee for acting as the ambulance director, and the vendor was also to be paid forty dollars per EMT per ambulance run and/or guaranteed runs. The county paid \$57,869 for ambulance runs made by EMT's without clear support to determine the number of EMT's on each run. While the contract did not specify amounts to be paid for paramedics, nevertheless, the county paid \$124,273 for ambulance runs made by paramedics. The county also paid \$2,340 for backup runs even though backup runs are not defined in the contract.

While there was review of the ambulance service invoices, the invoices did not breakdown the number of runs being charged for each EMT and paramedic. Those invoices did provide the total number of runs and the names of the EMT's and paramedics whose services were being billed to the county, but they did not include the individual number of runs and number of EMT's on each run in order for the county to ensure they are only paying the amounts owed per the contract. Furthermore, ambulance service billings paid by the county included charges for an individual who was paid a lump sum rather than by the number of runs as specified in the ambulance contract. The county could have verified the names of the EMT's and paramedics agreed with the Computer Aided Dispatch System (CAD) records to ensure that those specific individuals actually made ambulance runs for which the county was being charged, but did not.

Additionally, the county did not have internal control procedures in place to verify payments of ambulance runs from insurance and individuals. No one reconciled the ambulance runs with amounts that were billed to patients. Neither were ambulance receipts verified against ambulance service billings.

Rather than verify amounts being charged to the county for ambulance services were correct, the county relied on its trust in the ambulance director/vendor.

Because the Carlisle County Fiscal Court did not implement internal controls over the transactions associated with the ambulance service contract, there is an increased risk of misappropriation of public funds.

Strong internal controls dictate that oversight be provided over transactions associated with the ambulance service contract to ensure that amounts charged are valid obligations of the county.

We recommend the Carlisle County Fiscal Court strengthen internal controls over the ambulance service contract to determine that the contract is being followed. The fiscal court should review the contract and determine if any clarifications and revisions are necessary to ensure the fiscal court is only paying for what they have agreed to under the contract. The fiscal court should ensure that the number of ambulance runs and number of EMT's/paramedics being charged is accurate. We further recommend the fiscal court verify that the names of the EMTs and paramedics shown on the invoices agree with the CAD system as an internal control to determine if those individuals actually conducted ambulance runs during the period. We also recommend the fiscal court verify that ambulance runs being charged to the county are subsequently billed to the patients. The fiscal court should also implement controls to determine that all amounts billed for ambulance runs are paid to the fiscal court.

County Judge/Executive's Response: At our next meeting, Carlisle County Fiscal Court will be discussing the revision of the Ambulance contract, making necessary changes, such as amount paid per guaranteed run, back up runs and paramedic pay. The Fiscal Court will also strengthen internal controls when it comes to reviewing contract labor invoices and statements that are submitted by the Ambulance service. It is recommended by the auditors to review the CAD system, but we disagree with this recommendation due to the fact that they are paid on "guaranteed runs", not actual runs. The invoices and statements that are received for contract laborers will be checked with a monthly schedule that is provided by the ambulance director. We agree that this process will be successful in determining the personnel that is guaranteed compensation for that shift. We are also going to be working with the director to track backup runs that cannot be projected due to the uncertainty of a need.

Failure to account for some receipts and disbursements resulted in overspent line items: The Carlisle County Fiscal Court excluded some transactions from its budget process which resulted in the failure to report all receipts and disbursements of the county, as well as, an overspent budget of some line items. The county failed to account for receipts and disbursements associated with the food bank, library and museum, and veterans' memorial accounts. Additionally, the fiscal court failed to account for receipts and disbursements associated with debt service payments for the ambulance building.

For several years, the county has maintained bank accounts for and as part of the county's involvement with the food bank, library and museum, and veterans' memorial. According to the county treasurer, the county was unaware that these accounts should have been included in the general fund. Therefore, they have never been included in the budget process, and thus, the receipts and disbursements of these accounts have never been reported on the county's financial statements.

The receipts and disbursements associated with debt service payments for the ambulance building were not included in the budget process nor subsequently reported on the county's financial statements because the debt service payments were paid by the extension office. Since these payments were made by a third party, the county was not aware that these transactions should be reported as activity of the ambulance fund.

Because the fiscal court failed to account for the aforementioned receipts and disbursements, audit adjustments were necessary. As a result of these adjustments, some line items of the approved budget were overspent. Thus, the fiscal court is not in compliance with KRS 68.240 nor KRS 68.300.

KRS 68.240(1) states, "[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year... [i]n addition to preparing a reasonable estimate of the funds actually needed for both general and special purposes, the county judge/executive shall prepare an estimated statement of receipts to be anticipated from local, state and federal sources."

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 budget appropriation, shall be void."

We recommend the Carlisle County Fiscal Court account for receipts and disbursements of the food bank, library and museum, and veterans' memorial accounts by including them in the budget of the general fund and reporting them on the financial statement. Likewise, we recommend the fiscal court include all receipts and disbursements from local sources, such as debt service payments from the extension office, in the county's budgeting and reporting process as well. We further recommend the fiscal court amend its budget for Fiscal Year 2020 to include such transactions as necessary.

County Judge/Executive's Response: The bank accounts for Food Bank, Library and Museum and Veterans Memorial will be amended into our budget for FY 19/20.

The receipts and disbursements associated with debt service payments for the Ambulance building was completed 07/01/2019. Due to the timeline of this particular finding for the 17/18 audit, it could not be corrected until FY 19/20, in which it was.

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

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