



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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### **Harmon Releases Audit of Knott County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Knott 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 Knott 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 Knott County Fiscal Court did not have adequate accounting procedures in place to prepare a complete and accurate schedule of expenditures of federal awards.** The Schedule of Expenditures of Federal Awards (SEFA) prepared by the fiscal court did not accurately represent amounts expended for federal programs. The fiscal court's disbursements ledger does not separate federal expenditures from other expenditures, which makes it difficult for the county treasurer to identify amounts expended for federal programs in order to prepare an accurate SEFA. Failing to prepare a complete and accurate SEFA increases the risk of misstating the county's financial statements. Management is responsible for identifying government award programs and understanding and complying with the compliance requirements, and for

preparation of the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133. A SEFA should have the following elements:

- A listing of individual federal programs by federal agency.
- Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total federal awards expended for each individual federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.
- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.

We recommend that the fiscal court implement accounting procedures that specifically identify federal expenditures in order to ensure that a complete and accurate Schedule of Expenditures of Federal Awards is prepared.

*County Judge/Executive Zachary Weinberg's Response: We are working to correct the issue indicated.*

**The Knott County Fiscal Court did not maintain adequate debt service records.** The Knott County Fiscal Court did not have debt service records available for a new lease totaling \$6,853,333. The county treasurer did not maintain a copy of the General Obligation Lease Agreement signed by the county judge/executive. The county treasurer and the county judge/executive were not able to give the auditors general information about the refunding lease in order to audit the new lease proceeds. The county treasurer did not maintain a financial statement detailing the sources and uses of the lease proceeds. Internal controls have not been implemented to ensure debt service records are being adequately maintained and that financial statements are prepared to account for all debt service activity. As a result the auditors had to contact outside sources in order obtain the information needed to audit the lease proceeds. The fiscal court is financially accountable and legally obligated to maintain debt service records for all lease or bond proceeds the county receives and disburses. We recommend the county establish a uniform system of recordkeeping for all debt service activity.

*County Judge/Executive Zachary Weinberg's Response: Not sure what auditors are referring to. Information is attached.*

Auditor's Response: Debt service documentation for the new lease obligation was not provided during the audit. Auditors contacted outside sources to obtain debt service record.

**The Knott County Fiscal Court did not comply with bidding requirements.** The Knott County Fiscal Court entered into a contract in the amount of \$47,550 for repairs on the Knott County swimming pool. The repairs included labor, pumps, a pool vacuum, paint and other miscellaneous items. The Knott County Fiscal Court appeared to be aware of the bidding requirements per KRS 424.260; however, since the project was an insurance reimbursement and

the county judge/executive stated the project was not bid because only one contractor in the area was qualified to perform the work. Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit.

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."

We recommend that the fiscal court follow the requirements of KRS 424.260 and the county's administrative policy. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement has been met.

*County Judge/Executive Zachary Weinberg's Response: We were directed by the Insurance Company to submit an estimate to our choosing. Since [company name] were the ones to originally install the pool equipment, and service the equipment, we told them to submit an estimate. After the estimate was submitted, we received a parcel payment of \$32,785.00 at this point we directed [company name] to repair the pool so we could be open for summer season. After completion we received an additional \$14,265 and close the file. It would have not be feasible or make sense to bid this job at the time. This was a negotiated procurement by the insurance company and was paid by the insurance company.*

Auditor's Response: Auditors received a letter from the insurance company that detailed the process of this claim. The claim was received by the insurance company on September 11<sup>th</sup>, 2014. On September 15<sup>th</sup>, 2014 an appraiser was assigned. One estimate was received on January 12, 2015 and the letter stated that the appraiser was not involved with choosing or recommending a contractor. There was adequate time for the Knott County Fiscal Court to advertise for bids for this project from September 2014 through January 2015. The Knott County Fiscal Court's administrative code states that any project or purchase of materials totaling at least \$20,000 requires that the Judge/Executive or his designee solicit bids.

### **The Knott County Fiscal Court does not have adequate controls over payroll.**

We noted the following control deficiencies during our test of payroll:

- One timesheet was not signed by a supervisor.
- One timesheet was missing.
- Personnel files did not have documentation verifying deductions from employees payroll check.

Since the county failed to maintain signed timesheets, employee hours worked could not be substantiated. In addition, the auditors were unable to verify that proper deductions were withheld from employee paychecks because the county did not maintain written authorization from employees. KRS 337.320 states that every employer shall keep a record of the amount paid

each pay period to each employee and the hours worked each day and each week by every employee. Good internal controls dictate that personnel files contain documentation verifying any deductions from an employee's payroll check. We recommend the fiscal court strengthen controls over payroll to ensure timecards are prepared each pay period for all employees. All timesheets should be signed by employees and their supervisor. We also recommend that personnel files be updated with any authorized deductions signed by employees and include their position and pay rate.

*County Judge/Executive Zachary Weinberg's Response: We will update personnel files more often.*

**The Knott County Fiscal Court lacks adequate internal controls at the Knott County Sportsplex.** Our review of the receipts and disbursement process for the Knott County Sportsplex revealed weaknesses in internal controls that should be addressed. The Sportsplex collects money for rental fees, membership fees, concessions, front door ticket sales, driving range, arcades, advertisements, and vending machines. The Sportsplex maintains cash registers at the front desk, the inside concession stand and the outside concession stand. Change funds are maintained at the driving range and at the front door during ticket sales. During basketball season, referees are paid out of the front door cash receipts. Receipts are not issued for collections at the concession stand, driving range and arcade. The Sportsplex director and another employee count the cash each morning and prepare a daily checkout sheet, and the Sportsplex director faxes the daily checkout sheet to the county treasurer and makes the daily deposit. If referees are paid out of the cash drawer, the amount is listed on the daily checkout sheet to reduce cash receipts from the day's business. The fiscal court did not implement good internal controls over receipts. Because internal controls are not in place for receipts, money could be misappropriated and go undetected. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process.

Due to the high volume of cash transactions and not accounting for significant amounts of revenue, we recommend the county implement the following procedures:

- Pre-numbered receipts should be maintained for all monies collected, including the front desk, concession stand, and the driving range.
- All checks should be copied and detailed on the deposit ticket with a name to identify collections.
- All daily checkout sheets and deposit tickets should be signed or initialed with a supervisor's approval to verify correct amounts were collected.
- All disbursements paid to referees should be made by check only.

*County Judge/Executive Zachary Weinberg's Response: The county has implemented a point of sale system at the Sportsplex.*

**The Knott County Fiscal Court did not properly handle disbursement transactions.**

During the course of our audit we found several weaknesses and noncompliances with disbursements. The following issues were noted:

- Four invoices totaling \$495 were paid without approval from the fiscal court prior to the payment.
- Six invoices totaling \$462,905 were not paid within 30 working days. Specifically, KACo insurance premiums were not fully paid until five months after the due date costing the county \$10,604 in finance charges.
- One invoice totaling \$2,654 for FEMA materials was missing.

The county used credit cards for a variety of purposes during Fiscal Year 2014, including conferences, gasoline and meal purchases. Credit card use is allowable, however all purchases must be evidenced by original, detailed invoices to determine if those purchases are allowable and for county business. Our test of credit card purchases found the following:

- Of the total \$5,072 of credit card charges tested \$150 did not have detailed invoices.
- Accrued and paid interest charges totaling \$157.
- Two out of the six credit card invoices tested were not paid within 30 business days.
- One invoice attached showed no evidence of being paid.

Weak controls over disbursements allowed for invoices not to be approved by the fiscal court, invoices to not be paid within 30 days, interest charges to accrue, detailed invoices missing, and an invoice attached to the credit card statement to not be paid.

If the fiscal court does not approve payments for invoices prior to payments it increases the risk that misstatements of financial activity and/or payments could be paid to vendors that may not be a true liability to the fiscal court. Since the county did not require all purchases to have detailed original invoices attached, we could not determine that payments made for the expenditures were appropriate. Also, since the fiscal court did not pay invoices within 30 days interest accrued on those invoices.

KRS 68.275 states that all claims should be presented to the fiscal court for review prior to payment. KRS 65.140(2) states that “all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor’s subcontractor.” The statute also states that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added.

We recommend that the fiscal court implement controls over disbursements that ensure invoices are paid within 30 days, detailed invoices are kept, all invoices are paid, and prevent payment of invoices not approved by the fiscal court.

*County Judge/Executive Zachary Weinberg’s Response: The election officers were paid under an old standing order. We were unable to locate this old order so we have approved a new standing order. All other invoices were approved in the correct manner.*

*Federal Program: CFDA # 97.036*

*Name of Federal Agency:* US Department of Homeland Security  
*Pass-Through Agency:* Department of Military Affairs  
*Compliance Requirements:* Cash Management  
*Type of Finding:* Significant Deficiency in Internal Control Over Compliance  
*Amount of Questioned Costs:* \$0

See Section II, Comment 2015-006.

*County Judge Executive Zachary Weinberg's Response and Corrective Action Planned:* See Response at Comment 2015-006.

*Planned Implementation Date of Corrective Action:* None.

*Person Responsible for Corrective Action:* NA.

**The Knott County Fiscal Court did not follow procurement procedures for non-emergency work.**

*Federal Program:* CFDA # 97.036  
*Name of Federal Agency:* US Department of Homeland Security  
*Pass-Through Agency:* Department of Military Affairs  
*Compliance Requirements:* Activities Allowed or Unallowed and Allowable Cost/Cost Principles  
*Type of Finding:* Material Weakness in Internal Control Over Compliance  
*Amount of Questioned Costs:* Federal Questioned Costs \$105,398.

Between August 18 and August 23, 2014, severe storms, flooding, mudslides and landslides impacted Knott County, resulting in embankment failures, loss of asphalt, excessive rock and sediment in ditches, shoulder damage, and culvert damage. The county qualified for disaster relief under Federal Emergency Management Agency (FEMA) regulations (disaster #4196). The county expended \$231,668 repairing embankment failures, replacing asphalt, clearing ditches, and repairing shoulder and culvert damage. FEMA classified this project as category C, which is permanent repair work.

Federal grant agreements require applicants to comply with all applicable provisions of federal and state procurement laws and regulations. According to the county's Administrative Code, the county adopted, in its entirety, KRS Chapter 45A, the Kentucky "The Model Procurement Code" (KMPC). Knott County also adopted in their administrative code that any project or purchase of materials totaling at least \$20,000 requires that the judge/executive or his designee solicit bids. According to the KMPC, the county, as a local public agency, may dispense with the requirement of competitive bidding and contract or purchase through noncompetitive negotiation only when 1) a written determination is made that competition is not feasible and 2) it is determined, in writing, by a designee of the county that an emergency exists which will cause public harm as a result of the delay in competitive procedures. Auditors could not confirm there was written determination that competition was not feasible, nor documentation that the fiscal court declared an emergency for the disaster. Thus, the county did not comply with the KMPC in the payment of these expenditures.

A category C project is classified as permanent work. Permanent work defined by FEMA Publication 32 is work that is required to restore damaged facility, through repair and restoration, to its pre-disaster design, function, and capacity in accordance with applicable codes or standards.

During testing we noted that bids were not solicited for any contract work performed. After reviewing the county's administrative code and FEMA handbook, the auditors have questioned costs totaling \$140,531. The total questioned cost is the amount expended for all contract labor performed for this disaster.

The Knott County Fiscal Court treated this federal project as emergency work. However, emergency work defined by FEMA Publication 32 is work that must be performed to reduce or eliminate an immediate threat of life, protect health and safety, and to protect improved property that is threatened in a significant way as a result of the disaster.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available.

We recommend the fiscal court implement controls to ensure compliance with federal awards, including provisions that indicate the entity must comply with all state and local regulations, including the county's administrative code. We further recommend the fiscal court participate in competitive bidding in order to ensure the most efficient use of federal awards.

*County Judge Executive Zachary Weinberg's Response and Corrective Action Planned: This was considered emergency work. We were under a state of emergency by the county, state and Federal Government. Furthermore it was competitive bidding because we used six contractors in the county all using hourly wages approved by the judge's office. This was the most efficient legal way to get the emergency work done.*

*Planned Implementation Date of Corrective Action: None.*

*Person Responsible for Corrective Action: NA.*

Auditor's Response: When the flood occurred August 18, 2014 through August 23, 2014 Federal Emergency Management Agency classified this disaster was a category C project which is for permanent work. The only work that should have been performed without bidding was emergency work, which must be performed to reduce or eliminate an immediate threat of life, protect health and safety, and to protect improved property that is threatened in a significant way as a result of the disaster. According to invoices from contractors that were charged to this project, work was performed through October 17, 2014, which would have been past the initial emergency period and there would have been adequate enough time to solicit bids for permanent work to be performed. Using different contractors does not constitute competitive bidding according to the Knott County Administrative Code.

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

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