



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Montgomery County Fiscal Court for the fiscal year ended June 30, 2017. 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 Montgomery 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 Montgomery County Fiscal Court did not approve all transfers timely:** During our review of transfers, we noted there were instances where the transfer was not properly approved and all transfers were approved the month following the approval of the claims list payments. Of 11 cash transfers tested, two transfers were not documented in the fiscal court orders and all 11 were approved after the payment of the claims list.

The fiscal court was not aware that claims could not be paid prior to transferring funds. If transfers are not submitted to fiscal court for approval prior to the transfer being made or made in a timely manner, magistrates are not fully informed to make appropriate financial decisions for the county.

The Department for Local Government (DLG)'s *County Budget and State Local Finance Officer Policy Manual* states that all transfers require a court order. Furthermore, the manual states, “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.”

We recommend the county ensures all transfers receive proper fiscal court approval and that they are approved in a timely manner as required by DLG.

*County Judge/Executive's Response: Upon the appointment of the County Treasurer in 2014, the treasurer was advised by the prior County Treasurer on how to prepare the monthly financial statements, interfund transfers, and budget transfers. I did have Fiscal Court approval for all transfers, but the approval for the transfers were included in my prior month financial report. My understanding of this procedure was not accurate. I will ensure that all transfers are approved in advance by the Fiscal Court.*

**The Montgomery County Fiscal Court did not properly handle disbursements:** The auditor noted numerous issues when testing disbursements:

- Seven instances where adequate supporting documentation was not available for a disbursement. Therefore, the auditor was unable to determine if it was properly recorded and a valid obligation of the county.
- Nine instances where evidence was not available to show that the disbursement was presented to fiscal court.
- Seven disbursements were not paid timely.
- Twenty-five instances where a purchase order was not prepared in accordance with the Department for Local Government (DLG) requirements. Of these 25 instances, six were issued without proper funding available for that account code, two were lump sum expense allowance payments made to employees, and four were for utilities.

The fiscal court was not aware that they were not following the DLG budget manual. Failure to receive adequate documentation for the disbursement could result in paying a bill that is not actually owed by the county or allow an unauthorized transaction to be posted to their account without detection. Furthermore, incurring expenses prior to fiscal court approval and without ensuring adequate funding is available could lead to financial strains on the county due to overspending. Without this information, management is unable to determine potential issues with spending before the expense is already incurred, creating the opportunity for waste, fraud, or abuse.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling public funds, including required purchasing procedures for counties. These requirements prescribe that, “[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.”

Good internal controls for purchase requests exceeding budget appropriations would lead to discussion with both the county treasurer and county judge/executive as to whether the purchase

order will be issued, the necessity and appropriateness of a budget transfer to cover the expense, and if other issues need to be address related to spending. Purchase orders should be issued for all goods and services utilized by the fiscal court. DLG issued a memorandum on August 4, 2016, in which it “highly recommends” implementation of issuing purchase orders for payroll and utilities. This control allows for fiscal court to ensure that sufficient budget allocation is available for all expenses.

Per KRS 68.300, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable.”

KRS 64.710, “[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly.”

KRS 65.140(2) states, “[u]nless 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.” Without invoices with adequate information, there is not proper justification for the disbursement.

We recommend the fiscal court work to ensure they adhere with DLG’s requirements and guidance for the purchase order procedures according to the *County Budget Preparation and State Local Finance Officer Policy Manual*. Furthermore, we recommend the county strengthen controls over the disbursements process to ensure compliance with applicable statutes and to provide better oversight to ensure funds are available prior to issuing purchase orders.

*County Judge/Executive’s Response: The Fiscal Court office staff has implemented and follows a strict procedure for purchasing and disbursement of funds. The following will address each issue as noted:*

- *Seven instances where adequate supporting documentation was not available for a disbursement. These disbursements where for program support given to each school's family resource center to help with the needs of disadvantage students. We did not have an invoice because it was program support. In the future, we will document any such support and attach documentation to the claim.*
- *Nine instances where evidence was not available to show that the disbursement was presented to the fiscal court. On two instances the claims list was not attached to the July 2016 minutes. They were reviewed and approved at the Fiscal court meeting in July. The others where pre-approved recurring expenses. I will ensure that the Fiscal Court secretary has the claims list.*

- *Seven disbursements were not paid timely. There are times when an invoice due date comes between Fiscal Court Meetings. Most of our vendors understand our billing and payment process, that we can only pay once a month on the date of our Fiscal Court meeting. We do not have to pay late fees or any penalty.*
- *25 instances where a purchase order was not prepared in accordance with DLG requirements. \*The six instances where PO was issued without proper funding in the account code is in direct result of the budget transfer issue. The procedure for making and receiving approval for budget transfers has been corrected. \*Two employees received payment for a uniform allowance and the allowance is calculated as a fringe on their payroll check. We feel this followed the proper procedures. \*Four PO where processed for utilities. A PO is processed for a utility on the date we receive the bill not the beginning date of service. We receive utilities bill for multiple county buildings each month, it would be unnecessary to process the PO based on the beginning date of service on each bill. \*Some of the other instances where based on PO's for Payroll. Our payroll system and accounting software are linked, and the payroll automatically post. I checked with my software support and was advised how to connect a PO to a payroll post. Other issues included processing monthly PO's instead of on the date of purchase.*

*A memo was sent on April 26, 2018, to all departments and supervisors, to remind them of our purchasing procedure. Monthly PO's will only be given for contracted services. Co. Treasurer will insure that the Finance Officer and her secretary have necessary budget information to see that funds are available before a PO is issued. All departments have been notified that if funds are not available that a PO will not be issued, and the purchase cannot be made until Fiscal Court approves a budget transfer. Documentation for non-budgeted program support will be attached to a claim.*

**The jailer did not obtain fiscal court approval for all contracts:** In September 2011, the Montgomery County Jailer, without fiscal court approval, executed a food service contract with a provider for the provision of food service for the inmates at the jail.

The jailer was not aware of the dual responsibility over jail contracts and expenditures.

By doing this, the jailer is, in effect, expending county funds without them being budgeted and approved by the fiscal court as part of the jail fund.

Jailers do not have the authority to expend county funds from the jail fund without approval of the fiscal court according to KRS 441.225. Both the county and the jailer have a joint responsibility for jail purchases. Per KRS 441.225(1), the jailer “shall have authority to authorize expenditures from the jail budget[,]” but “[s]uch expenditure shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county.”

We recommend the jailer acquire fiscal court approval of all contracts as required by statute.

*County Jailer's Response: [The jailer] has implemented procedures where the Montgomery County Fiscal Court will approve all contracts. This process has been discussed with the Montgomery County Fiscal Court and is an active process as of this date, July 27, 2018.*

**The jailer's annual commissary report contained inaccuracies:** The jailer's annual report of the commissary fund provided to fiscal court contained inaccuracies. The beginning balance utilized was not the reconciled balance. The jailer failed to remove prior year outstanding check amounts from the balance and overstated this amount by \$33,411. Then the jailer utilized the incorrect amount when reconciling the bank balance to the book balance. The book balance was overstated by \$97,209.

The official made an error in the report preparation that went undetected. As a result of the errors, the annual report submitted to the fiscal court contained immaterial inaccuracies that overstated beginning and ending balances. These errors prevent the county from receiving a complete picture of the financial standing of the commissary fund.

Good internal controls dictate that strong review and oversight helps detect errors and omissions that could be material to the county.

We recommend the jailer strengthen oversight by reviewing all reports for accuracy prior to submission to the fiscal court.

*County Jailer's Response: The auditing team recommended that the Jail's Commissary Report begin with the jail's book balance vs the bank balance. This recommendation would improve the clarity of the report. The Commissary Report for the 2016-2017 Fiscal Year was correct and submitted on April 20, 2018.*

**The jailer lacked adequate controls over disbursements:** The jailer failed to pay three invoices timely, and one invoice did not have adequate supporting documentation. The three invoices were paid five to six business days past the due date on the bill. The other exception was for meals paid for inmates working with the road crew. Receipts were maintained but there was no documentation of how many inmates were fed, or the project/assignment they were working on.

The invoices received were not given to the bookkeeper timely and multiple invoices were paid at one time. The jailer did not require the food purchasers to provide detailed information.

Bills not being paid on time can be an indication of a cash flow issue or can result in late fees being charged to the county. In addition, without adequate support for expenditures, undetected disallowed purchases could be made.

Good internal controls dictate that invoices be paid timely and all purchases be properly supported to ensure allowability.

We recommend the jailer pay all invoices timely and ensure adequate supporting documentation is provided to ensure purchases are allowable.

*County Jailer's Response: Due to multiple orders in a short amount of time for E-cigarettes from the [vendor], one of the invoices was left out of the shipping box. The missing invoice wasn't detected until several weeks later, the vendor sent us another invoice, but we were already past the 30-day time to pay promptly. The [vendor] now sends the invoices by email which has resolved this issue.*

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

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