Auditor of Public Accounts Allison Ball

Madison County Fiscal Court

Audit

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Madison County Fiscal Court for the fiscal year ended June 30, 2024. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Madison 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 116 of 120 fiscal court audits in Kentucky.

Finding: The Madison County Fiscal Court Reported Inaccurate Budget Figures On The Fourth Quarter Financial Statement

The Madison County Fiscal Court reported budgeted receipts and appropriations on its fourth quarter financial statement that did not match the original budget and approved amendments. Specifically, the quarterly report overstated the budget for the General Fund receipts by approximately $466,201, Road Fund receipts by $135,973, General Fund appropriations by $5,046,810, and Jail Fund appropriations by $1,711. None of these differences were supported by approved budget amendments.

Recommendations

The Madison County Fiscal Court should implement a review procedure to ensure that quarterly financial statements accurately reflect the budget as adopted and amended by the fiscal court. Staff responsible for financial reporting should receive training on budget controls, the use of system features such as the budget lock, and applicable reporting requirements.

County Officials Response

County Judge/Executive's Response: The Treasurer's Office identified that budget amounts reported in the third-quarter FY24 submission dated May 15, 2024, differed from the amount contained in the originally adopted budget. Upon review, it was determined that the discrepancy resulted in insufficient training regarding the software's budget-locking functionality.

The issue was administrative and reporting-related in nature and did not result in misappropriation of funds, unauthorized expenditures, or changes to approved appropriations. All expenditures remained within the budget as adopted by the Fiscal Court and no financial loss or fund discrepancy occurred.

Corrective action was immediately implemented.

Finding: The Madison County Fiscal Court Did Not Properly Classify And Report Receipts On Its Fourth Quarter Financial Report

The Madison County Fiscal Court did not properly classify and report receipts in the receipts ledger and fourth quarter financial statement. Audit testing identified multiple posting errors of operating receipts that resulted in overstatements totaling $877,052 and understatements totaling $792,398.

Recommendations

The fiscal court should ensure staff are trained in the proper accounting treatment of receipts, interfund transfers, and third-party payments in accordance with DLG guidance.

County Officials Response

County Judge/Executive's Response: The County respectfully disagrees with the recommendation to process transfers between funds in place of payments. The County believes such a process would reduce transparency, as transfer entries do not allow for sufficient detail regarding the purpose of individual transactions and would be more difficult to trace during review.

Similar processes are utilized at the state level through invoicing and issuance of checks between divisions. As such, the County has concerns regarding inconsistent standards between state and local government practices. During the exit conference, members of the audit team acknowledged the County's process appeared to reflect best practices.

The issue regarding negative receipts was identified early in the audit process and corrective action was implemented immediately. The audit team acknowledged there had been a misunderstanding regarding the process by both the former Finance Officer and the audit team. The auditors also indicated they had limited prior experience auditing investments and sought outside guidance during the review process.

The audit team acknowledged this issue was not unique to the County and involved reporting requirements that affect multiple counties. The County respectfully disagrees with the finding and maintains concerns regarding recording receipts and expenditures that do not represent actual cash transactions. The County believes this activity is appropriately reflected within the Liabilities Journal included in the quarterly reporting process.

Auditor's Reply: The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* requires counties to report interfund activity, receipts, disbursements, and transfers in accordance with the DLG reporting requirements and the reporting method used by the county did not comply with these reporting requirements.

Finding: The Madison County Fiscal Court Failed To Implement Effective Internal Controls Over Expenditures

The Madison County Fiscal Court did not maintain adequate internal controls to ensure that expenditures were properly authorized, supported, and compliant with statutory purchasing requirements.

Recommendations

The fiscal court should strengthen its internal controls over disbursements by:

1. Requiring that purchase orders be prepared and approved before the obligation of funds and linked to supporting invoices before payment.
2. Ensuring all claims are included on a claims list and formally approved by the fiscal court prior to payment.
3. Establishing a review process to verify ledger coding accuracy and timeliness of payments.
4. Reviewing credit card controls to prevent late payments and finance charges and to ensure all charges are properly supported and approved.

County Officials Response

County Judge/Executive's Response: A check was issued without dual signatures. Of 3,093 checks approved during Fiscal Year 2024, one check lacked dual signatures and was not identified at the banking center level prior to processing. The missing signature was discovered after the check had cleared. Although the check did not contain the required dual signatures, the payment had been properly approved by Fiscal Court through the claims approval process prior to issuance.

The Fiscal Court approved payment to the Sheriff in FY24 Resolution 2023-03 (lines 27–28 of the Sheriff's budget) and FY24 Budget Resolution 2023-07 (Page 6, Budget Line #01-5015-348). Accordingly, the Fiscal Court respectfully disagrees with the statement that the expenditure was "not presented to Fiscal Court for approval," as it was formally presented and approved through multiple Fiscal Court actions. The payment was made pursuant to previously approved budget authority established by the Fiscal Court. Consistent with prior years, Sheriff support *payments were processed under that approved authority without additional Fiscal Court action at the time of payment.*

The County respectfully disagrees with the finding that the expenditure was improperly classified. Account code 8099-730 was utilized as an "Other Capital Projects – Road" classification based on the capital nature of the purchase and its intended use in road-related operations and projects. Based on the available chart of accounts, the County determined the capital project classification to be the most appropriate option. This matter relates solely to classification and did not result in any unauthorized expenditure, inaccurate financial reporting, or any loss of public funds. The County will continue to review and refine its account coding practices to ensure consistency and accuracy.
Payment was not made within 30 days because the related goods and/or services had not yet been fully received or completed at the time of invoicing. It is a prudent financial practice to verify that goods and services have been fully received, completed, and accepted prior to issuing payment. Accordingly, payment was withheld until completion and verification of the goods and/or services could be confirmed.

Expenditures were processed under Fiscal Court pre-approved standing orders and based on Department for Local Government (DLG) guidance, did not require individual purchase orders at the time of payment. These obligations were previously authorized and established as recurring service agreements, and payments were made in accordance with those approvals and established procedures. The County respectfully disagrees with this finding.

This practice had been utilized under prior finance team procedures and had not been identified as an audit
finding in the seven previous audits under this administration. Upon notification from the audit team, the County immediately reviewed the process and implemented revised procedures to ensure compliance and prevent recurrence.

Auditor's Reply: While the sheriff support payment was included in the approved budget, the budget approval is separate from the requirement in KRS 68.275(2), that claims be presented to the fiscal court for review prior to payment..

The DLG *County Budget Preparation and State Local Finance Officer Policy Manual* states account codes used must identify the expenditure being made for proper classification.

KRS 65.140(2) requires all bills for goods or services to be paid within thirty (30) working days of receipt of an invoice.

Standing orders authorized under KRS 68.275(3) permit certain recurring claims to be paid prior to fiscal court review but do not eliminate the requirement to maintain and follow a purchase order system as prescribed by DLG.

Finding: The Madison County Fiscal Court Did Not Comply With Bidding Requirements

During testing of 31 disbursements subject to state bidding requirements, we found that the fiscal court did not consistently comply with procurement statutes governing competitive bidding and public advertisement.

Recommendations

We recommend the fiscal court ensure all purchases exceeding the applicable threshold are publicly advertised and competitively bid in accordance with KRS 424.260, unless a valid statutory exemption applies. We further recommend the fiscal court implement written policies and internal controls to require documentation of bidding compliance, supervisory review, and legal verification before contracts are approved.

County Officials Response

County Judge/Executive's Response: The County respectfully disagrees with this finding. The vendor is *the only licensed and authorized [name redacted] vendor serving Central Kentucky.*

Following identification of this matter during the audit, the County issued a bid for the maintenance agreement in FY26. [Vendor name redacted] was the only respondent to the solicitation, further supporting its status as the sole qualified vendor capable of servicing the system. The County has maintained a 13-year working relationship with [vendor name redacted] for this system, and this matter has not previously been identified as an audit finding.

Documentation of the original bid opening is available from October 22, 2013 Fiscal Court meeting where the products were public bid and followed all applicable procurement procedures. No unauthorized award occurred.

The County utilizes Kentucky state price contracts for vehicle purchases in accordance with KRS 45A.690, which permits local public agencies to use competitively established Commonwealth contracts in lieu of conducting separate local procurement processes.

Based on longstanding practice and interpretation of this statute, the County understood that purchasing from an awarded vendor under the Commonwealth's Master Agreement at contract pricing satisfied competitive procurement requirements, as the underlying competitive solicitation had already been conducted at the state level. The County was not aware of subsequent changes in state-level purchasing procedures related to supply chain adjustments during the COVID-19 period.

Upon identification of this issue, the County will review and update its procedures to ensure continued compliance with current state procurement requirements.

The County provided bid documentation and public notices related to this project to the audit team for review.

The County interpreted the new KRS law as it relates to public advertising to place an advertisement.

The County utilized alternative statutory advertising procedures and published required notices in accordance with applicable law. While the County understood that publication in one newspaper satisfied the requirement, notices were published in two newspapers to ensure broader public notice and transparency. The audit team acknowledged that this approach provided enhanced transparency. This interpretation was consistent with practices utilized by other jurisdictions.

This interpretation was based on the County's understanding of applicable requirements at the time of publication.

This matter relates to the Wilgreen Lake State Grant Project managed by the Division of Fish and Wildlife. The County utilized annual bid pricing established under the applicable state formula and pricing. The State requires a special asphalt product for these projects, and the vendor initially charged the applicable special asphalt pricing. Upon identification of the discrepancy, the vendor issued a credit to correct the billing. The County's role in the project was performed in coordination with the Commonwealth in support of the State of Kentucky's project requirements.

Auditor's Reply: The county has not adopted the Model Procurement Code and therefore could not utilize the sole-source procurement provisions of KRS 45A.380.

The fiscal court purchased vehicles through a state agency price contract. However, the fiscal court did not obtain three vendor quotations as the applicable master agreement required.

The general trades package was not publicly advertised for bids as required.

The vendor providing asphalt for the Wilgreen Lake State Grant Project was not a party to a state agency price contract.

Finding: The Madison County Fiscal Court Did Not Comply With Year-End Reporting and Approval Requirements

The Madison County Fiscal Court did not report any encumbrances on its fourth quarter financial statement submitted to the DLG, despite having outstanding purchase orders at year-end. Instead of reporting these as encumbrances, the fiscal court approved Resolution 2024-67 to "pre-approve" all year-end claims and interfund transfers, and processed payments totaling $483,241 prior to June 30 without presenting them to the fiscal court for review. This process allowed the county to pay outstanding obligations early and avoid reporting encumbrances, while also bypassing the statutory requirement for claim approval.

Recommendations

We recommend the fiscal court implement internal controls to ensure that all unpaid purchase orders at year-end are properly reported as encumbrances in accordance with DLG requirements. The county should discontinue the use of unauthorized pre-approval resolutions and ensure that all claims and transfers are formally approved by the fiscal court prior to disbursement unless otherwise authorized through a DLG-approved standing order.

County Officials Response

County Judge/Executive's Response: This practice has been utilized by the County for more than 20 years under prior finance administration. To the County's knowledge, it had not previously been identified as an audit finding or formally cited in prior audit reports.

Following discussion with the Audit Team, the County has implemented updated year-end procedures, including the establishment of a final Fiscal Court meeting on June 30 to ensure all year-end payments are reviewed and approved prior to fiscal year close.

Finding: The Madison County Fiscal Court Did Not Report Investments At Cost Basis On The Fourth Quarter Financial Report

The Madison County Fiscal Court did not accurately report investment balances on its fourth quarter financial report. Investments were presented at market value, which included unrealized gains and losses, rather than on a cost basis as required under the regulatory basis of accounting. To correct the reporting, investment interest was increased by $320,846 in the General Fund, decreased by $120,773 in the ARPA Fund, and decreased by $20,575 in the Opioid Settlement Fund. These error corrections were made to align the quarterly report with cost basis values reflected on the investment statements and required by the DLG's reporting standards.

Recommendations

We recommend Madison County Fiscal Court ensure all investments are reported on a cost basis on quarterly financial reports in accordance with DLG's regulatory reporting standards. The fiscal court should review investment statements each quarter and reconcile reported balances to cost basis amounts prior to submission.

County Officials Response

County Judge/Executive's Response: The issue was administrative and reporting-related in nature only and did not result in misappropriation of funds or expenditures. There was no discrepancy in funds.

The audit team assigned to this engagement identified they had no prior experience of auditing investment accounts and investment-related activity.

Following the former Finance Officer's separation from Fiscal Court, the County identified deficiencies in understanding and communication related to certain accounting and reporting procedures.

Auditor's Reply: The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires counties operating under the regulatory basis of accounting to report investments on a cost basis.

Finding: The Madison County Fiscal Court Misstated Debt Balances On The Fourth Quarter Financial Report

The errors occurred because the fiscal court did not have adequate internal control procedures in place to ensure the accuracy of reported debt balances on the fourth quarter financial report before submitting it to DLG. Specifically, management did not perform a documented review or reconciliation of the liability section to supporting bond schedules, amortization tables, or payment records.

Recommendations

We recommend the fiscal court implement procedures to verify the accuracy of all debt obligations reported on financial statements submitted to the DLG. In addition, the fiscal court should ensure a thorough management review of all sections of the quarterly report before signing and submission.

County Officials Response

County Judge/Executive's Response: The prior Finance Officer and Treasurer were both independently updating and reporting bond payment information, which resulted in inconsistencies in the reporting process. While prior training was provided regarding bond payment updates, a formal reconciliation or secondary review process was not in place to independently verify reported amounts. In addition, payment information was updated separately as transactions were processed.

Following identification of these issues, the current County Treasurer implemented revised reporting and reconciliation procedures to ensure bond payments are consistently recorded, reviewed, and verified for accuracy moving forward.

Regarding the Judicial Center Project, the former Finance Officer reported only the payment amount rather than the total project obligation, resulting in incomplete reporting of the project balance. This issue related to reporting methodology has since been addressed and improved.

The issue was administrative and reporting-related in nature only and did not result in misappropriation of funds or unauthorized expenditures. There was no discrepancy in funds.

Finding: The Madison County Fiscal Court Failed To Prepare And Submit A Timely Schedule Of Expenditures Of Federal Awards (SEFA) To The Department For Local Government

The Madison County Fiscal Court did not prepare and submit a Schedule of Expenditures of Federal Awards (SEFA) to the DLG with the county's fourth-quarter report. The SEFA was only prepared and provided to the auditors upon request during the audit.

Recommendations

To ensure compliance with federal and state requirements, we recommend that the fiscal court implement the following measures:

- Develop and document formal procedures for preparing the SEFA, including detailed steps for identifying, compiling, and reporting all federal expenditures.
- Designate staff responsible for overseeing the preparation and review of the SEFA.
- Conduct regular training on federal reporting requirements and internal controls.
- Establish a process for timely submission of the SEFA to DLG, including a schedule for preparing the SEFA in advance of the fourth-quarter reporting deadline.

County Officials Response

County Judge/Executive's Response: The Schedule of Expenditures of Federal Awards (SEFA) was not included with the FY24 Q4 reporting submission. In prior years, the SEFA had been prepared and submitted by the former Finance Officer; however, responsibility for the process was not formally transitioned during staffing changes within the Finance Department. As a result, the required submission was inadvertently omitted from the FY24 reporting package.

Upon identification of the issue, the County reviewed and updated its year-end reporting procedures to ensure the SEFA is included with all future Q4 submissions. The FY25 reporting has since been amended to include the SEFA, and additional internal review procedures have been implemented to strengthen compliance and reporting oversight going forward.

Finding: The Madison County Detention Center Did Not Have Adequate Internal Controls Over Commissary Fund Accounting And Financial Reporting

The Madison County Detention Center did not maintain adequate internal controls over the recording, classification, and reporting of commissary fund receipts, disbursements, and inmate custodial funds.

Recommendations

We recommend the Madison County Jailer:

1. Strengthen internal controls over financial reporting to ensure that the year-end commissary report accurately reflects receipts and disbursements by account category and separately report inmate custodial fund activity as a fiduciary fund in accordance with GASB 84.
2. Strengthen controls over receipts processing to ensure receipts are batched intact daily, recorded by category on a daily check-out sheet that agrees to the deposit, and deposited timely.
3. Strengthen controls over disbursements to ensure all expenditures are recorded to the correct account categories, and that commissary profits are used only for to enhance inmate well-being or security withing the jail and not for basic jail operational expense.
4. Have the fiscal court reimburse the Commissary Fund $24,604 from the Jail Fund for indigent inmate medical and supply expenditures improperly paid using commissary funds.
5. Provide ongoing training and supervisory review of detention center bookkeeping staff to ensure compliance with statutory reporting and accounting requirements.

County Officials Response

Jailer's Response:
• All receipts are consolidated daily and then verified by both Finance Officers. After reviewing the daily receipt totals both officers sign off on the reports to verify review. The corresponding bank deposit receipt is then attached to the daily reports. This process provides for daily verification and reconciliation of receipts to the amount deposited.
• Kiosks are emptied and deposited daily.
• At this time the commissary profit account will have to continue to pay medical bills for the detention center. The budget for this fiscal year has been approved. We will discuss medical bills being paid from the jail fund when preparing the budget for the 27-28 fiscal year.
• As of October 2025, the detention center now has separate accounts for the inmate custodial balances and commissary profits.

We recognize the importance of maintaining adequate internal controls of the inmate commissary account and the profit account. We are committed to maintaining accurate financial records and ensuring that all funds are handled accordingly.

Finding: The Madison County Detention Center Did Not Have Adequate Internal Controls Over Commissary Fund Accounting And Financial Reporting

The Madison County Fiscal Court receives funding as a part of the Chemical Stockpile Emergency Preparedness Program (CSEPP). As a part of this program, the fiscal court makes expenditures for various goods and services. The fiscal court did not consistently comply with procurement statutes governing competitive bidding and public advertisement as required by the grant.

Recommendations

We recommend the fiscal court ensure procurements made with CSEPP funds comply with applicable federal, state, and local procurement requirements. The fiscal court should ensure purchases are competitively procured and properly advertised when required and that any exceptions to competitive procurement are applicable and adequately documented.

County Officials Response

County Judge/Executive's Response: The County respectfully disagrees with this finding. The vendor is the only licensed and authorized [name redacted] vendor serving Central Kentucky.

Following identification of this matter during the audit, the County issued a bid for the maintenance agreement in FY26. [Vendor name redacted] was the only respondent to the solicitation, further supporting its status as the sole qualified vendor capable of servicing the system. The County has maintained a 13-year working relationship with [vendor name redacted] for this system, and this matter has not previously been identified as an audit finding.

Documentation of the original bid opening is available from October 22, 2013 Fiscal Court meeting where the products were public bid and followed all applicable procurement procedures. No unauthorized award occurred.

The County utilized alternative statutory advertising procedures and published required notices in accordance with applicable law. While the County understood that publication in one newspaper satisfied the requirement, notices were published in two newspapers to ensure broader public notice and transparency. The audit team acknowledged that this approach provided enhanced transparency. This interpretation was consistent with practices utilized by other jurisdictions.

This interpretation was based on the County's understanding of applicable requirements at the time of publication.

Auditor's Reply: The county has not adopted the Model Procurement Code and therefore could not utilize the sole-source procurement provisions of KRS 45A.380.

The general trades package was not publicly advertised for bids as required.

The audit report can be found on the auditor's website.

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