

**REPORT OF THE AUDIT OF THE
CLAY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
CLAY COUNTY FISCAL COURT

June 30, 2016

The Auditor of Public Accounts has completed the audit of the Clay County Fiscal Court for the fiscal year ended June 30, 2016.

We have issued an unmodified opinion, based on our audit of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Clay County Fiscal Court. In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have issued an unmodified opinion on the compliance requirements that are applicable to Clay County Fiscal Court's major federal programs: Emergency Watershed Protection Program (CFDA #10.923), Appalachian Area Development (CFDA #23.002), and Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036).

Financial Condition:

The Clay County Fiscal Court had total receipts of \$12,170,611 and disbursements of \$13,279,751 in fiscal year 2016. This resulted in a total ending fund balance of \$1,991,377, which is a decrease of \$1,109,140 from the prior year.

Findings:

- 2016-001 The Clay County Fiscal Court Lacks Internal Controls Over The Environment Of The County Road Department
- 2016-002 The Clay County Fiscal Court Lacks Internal Controls Ensuring That Federal Emergency Management Agency (FEMA) Requirements Are Met When Bidding FEMA Projects
- 2016-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2016-004 The Clay County Fiscal Court Lacks Internal Controls Over Community Center Receipts
- 2016-005 The Clay County Fiscal Court Did Not Properly Collect Past Due Ambulance Service Bills
- 2016-006 The Clay County Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements
- 2016-007 The Clay County Fiscal Court Paid Additional Compensation To The County Attorney For Performance Of Regular Job Duties
- 2016-008 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System
- 2016-009 The Clay County Fiscal Court Did Not Obtain Bids When Required
- 2016-010 The Clay County Fiscal Court Paid The County Treasurer As A Salaried And Hourly Employee
- 2016-011 The Clay County Fiscal Court Lacks Internal Controls Over Payroll
- 2016-012 A Clay County Employee Was Paid For Hours Not Worked And Time Not Accrued
- 2016-013 The Clay County Fiscal Court Incorrectly Amended The Budget Of The Road And Local Government Economic Assistance Fund
- 2016-014 The Clay County Jail Commissary Does Not Have Adequate Internal Controls Over Jail Commissary Inventory
- 2016-015 The Clay County Jail Commissary Uses A Debit Card For Purchases
- 2016-016 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)
- 2016-017 The Clay County Fiscal Court Did Not Properly Declare An Emergency

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities. However, on June 30, 2016, the jail commissary fund's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$131,889

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Johnny W. Johnson, Clay County Judge/Executive
Members of the Clay County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court, for the year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Clay County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Clay County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Clay County Fiscal Court as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Clay County Fiscal Court as of June 30, 2016, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Clay County Fiscal Court. The Budgetary Comparison Schedules, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Johnny W. Johnson, Clay County Judge/Executive
 Members of the Clay County Fiscal Court

Other Matters (Continued)

Supplementary Information (Continued)

The accompanying Budgetary Comparison Schedules, Capital Asset Schedule, and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the Clay County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clay County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Questioned Costs included herein, which discusses the following report findings:

- 2016-001 The Clay County Fiscal Court Lacks Internal Controls Over The Environment Of The County Road Department
- 2016-002 The Clay County Fiscal Court Lacks Internal Controls Ensuring That Federal Emergency Management Agency (FEMA) Requirements Are Met When Bidding FEMA Projects
- 2016-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2016-004 The Clay County Fiscal Court Lacks Internal Controls Over Community Center Receipts
- 2016-005 The Clay County Fiscal Court Did Not Properly Collect Past Due Ambulance Service Bills
- 2016-006 The Clay County Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements
- 2016-007 The Clay County Fiscal Court Paid Additional Compensation To The County Attorney For Performance Of Regular Job Duties
- 2016-008 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System
- 2016-009 The Clay County Fiscal Court Did Not Obtain Bids When Required
- 2016-010 The Clay County Fiscal Court Paid The County Treasurer As A Salaried And Hourly Employee
- 2016-011 The Clay County Fiscal Court Lacks Internal Controls Over Payroll
- 2016-012 A Clay County Employee Was Paid For Hours Not Worked And Time Not Accrued
- 2016-013 The Clay County Fiscal Court Incorrectly Amended The Budget Of The Road And Local Government Economic Assistance Fund

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Members of the Clay County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

- 2016-014 The Clay County Jail Commissary Does Not Have Adequate Internal Controls Over Jail Commissary Inventory
- 2016-015 The Clay County Jail Commissary Uses A Debit Card For Purchases
- 2016-016 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)
- 2016-017 The Clay County Fiscal Court Did Not Properly Declare An Emergency

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H.", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 29, 2017

CLAY COUNTY OFFICIALS

For The Year Ended June 30, 2016

Fiscal Court Members:

Johnny W. Johnson	County Judge/Executive
Harrison Pennington	Magistrate
P.C. Hoskins	Magistrate
Sonny Gay	Magistrate
Randall Wagers	Magistrate
Ray Brown	Magistrate
Allan E. Robinson	Magistrate

Other Elected Officials:

Clay M. Bishop, Jr	County Attorney
Linda Smallwood	Jailer
Michael Baker	County Clerk
James Phillips	Circuit Court Clerk
Kevin Johnson	Sheriff
Phillip Mobley	Property Valuation Administrator
Danny Finley	Coroner

Appointed Personnel:

Debra Parks	County Treasurer
Ted Woods	Occupational Tax Collector
Diana Roberts	Finance Officer

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CLAY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

CLAY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2016

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 562,277	\$	\$	\$
In Lieu Tax Payments	133,219	151,426		
Excess Fees	113,133			
Licenses and Permits	20,933			100
Intergovernmental	457,060	2,704,906	2,264,546	322,313
Charges for Services	1,321,867	5,310	37,661	
Miscellaneous	339,766	28,985	220,052	
Interest	914	793	345	213
Total Receipts	<u>2,949,169</u>	<u>2,891,420</u>	<u>2,522,604</u>	<u>322,626</u>
DISBURSEMENTS				
General Government	1,397,314	21,600		
Protection to Persons and Property	5,958		2,164,715	41,945
General Health and Sanitation				
Social Services				
Recreation and Culture	24,190			
Roads		2,816,445		145,706
Debt Service		31,276	562,743	
Administration	1,411,933	371,124	738,263	
Total Disbursements	<u>2,839,395</u>	<u>3,240,445</u>	<u>3,465,721</u>	<u>187,651</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>109,774</u>	<u>(349,025)</u>	<u>(943,117)</u>	<u>134,975</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	350,000	567,700	954,418	
Transfers To Other Funds	<u>(1,172,118)</u>	<u>(350,000)</u>	<u>(50,000)</u>	<u>(200,000)</u>
Total Other Adjustments to Cash (Uses)	<u>(822,118)</u>	<u>217,700</u>	<u>904,418</u>	<u>(200,000)</u>
Net Change in Fund Balance	(712,344)	(131,325)	(38,699)	(65,025)
Fund Balance - Beginning (Restated)	992,610	260,985	175,052	92,021
Fund Balance - Ending	<u>\$ 280,266</u>	<u>\$ 129,660</u>	<u>\$ 136,353</u>	<u>\$ 26,996</u>
Composition of Fund Balance				
Bank Balance	\$ 312,302	\$ 140,984	\$ 163,945	\$ 26,996
Less: Outstanding Checks	<u>(32,036)</u>	<u>(11,324)</u>	<u>(27,592)</u>	
Fund Balance - Ending	<u>\$ 280,266</u>	<u>\$ 129,660</u>	<u>\$ 136,353</u>	<u>\$ 26,996</u>

The accompanying notes are an integral part of the financial statement.

CLAY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

		Budgeted Funds			Unbudgeted Funds	
Forest Fire Fund	Occupational Tax Fund	Special Water Line Extension Fund	Special Insurance Fund	Special Reserve Fund	Public Facilities Construction Corporation Fund	Jail Commissary Fund
\$ 3,344	\$ 1,529,016	\$	\$	\$	\$	\$
		667,149			582,562	
		1,100	26,600			668,752
	661			5,303	24	281
<u>3,344</u>	<u>1,529,677</u>	<u>668,249</u>	<u>26,600</u>	<u>5,303</u>	<u>582,586</u>	<u>669,033</u>
3,700	1,140,230					
	157,758					
	8,000	660,324				466,198
					582,562	
	527,767					
<u>3,700</u>	<u>1,833,755</u>	<u>660,324</u>			<u>582,562</u>	<u>466,198</u>
(356)	(304,078)	7,925	26,600	5,303	24	202,835
	50,000					
	(150,000)					
	(100,000)					
(356)	(404,078)	7,925	26,600	5,303	24	202,835
481	477,656	6,676		848,224	71,542	175,270
<u>\$ 125</u>	<u>\$ 73,578</u>	<u>\$ 14,601</u>	<u>\$ 26,600</u>	<u>\$ 853,527</u>	<u>\$ 71,566</u>	<u>\$ 378,105</u>
\$ 125	\$ 90,313	\$ 30,655	\$ 26,600	\$ 853,527	\$ 71,566	\$ 381,889
	(16,735)	(16,054)				(3,784)
<u>\$ 125</u>	<u>\$ 73,578</u>	<u>\$ 14,601</u>	<u>\$ 26,600</u>	<u>\$ 853,527</u>	<u>\$ 71,566</u>	<u>\$ 378,105</u>

The accompanying notes are an integral part of the financial statement.

CLAY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2016
(Continued)

	Total Funds
RECEIPTS	
Taxes	\$ 2,094,637
In Lieu Tax Payments	284,645
Excess Fees	113,133
Licenses and Permits	21,033
Intergovernmental	6,998,536
Charges for Services	1,364,838
Miscellaneous	1,285,255
Interest	8,534
Total Receipts	<u>12,170,611</u>
DISBURSEMENTS	
General Government	1,418,914
Protection to Persons and Property	3,356,548
General Health and Sanitation	157,758
Social Services	668,324
Recreation and Culture	490,388
Roads	2,962,151
Debt Service	1,176,581
Administration	3,049,087
Total Disbursements	<u>13,279,751</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,109,140)</u>
Other Adjustments to Cash (Uses)	
Transfers From Other Funds	1,922,118
Transfers To Other Funds	<u>(1,922,118)</u>
Total Other Adjustments to Cash (Uses)	<u> </u>
Net Change in Fund Balance	(1,109,140)
Fund Balance - Beginning (Restated)	<u>3,100,517</u>
Fund Balance - Ending	<u>\$ 1,991,377</u>
Composition of Fund Balance	
Bank Balance	\$ 2,098,902
Less: Outstanding Checks	<u>(107,525)</u>
Fund Balance - Ending	<u>\$ 1,991,377</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2016

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Clay County includes all budgeted and unbudgeted funds under the control of the Clay County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forest Fire Fund - The primary purpose of this fund is to account for funds received and expended for the prevention of forest fires.

Occupational Tax Fund - The primary purpose of this fund is to account for the collection of occupational taxes. The primary sources of receipts for this fund are occupational employment tax and net profit tax.

Special Water Line Extension Fund - The primary purpose of this fund is to account for grant revenues and disbursements related to the construction of water lines in conjunction with the city of Manchester, Kentucky.

Special Insurance Fund - The primary purpose of this fund is to account for the unexpended health insurance benefits for county employees.

Special Reserve Fund - The primary purpose of this fund is to account for investment earnings on a certificate of deposit.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Facilities Construction Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The State Local Finance Officer does not require the public facilities construction corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Clay County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Clay County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Clay County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met for the fiscal court's deposits. However, these requirements were not met for the jail commissary fund as the jailer did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2016, the fiscal court deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on June 30, 2016, the jail commissary fund's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$131,889

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2016.

	General Fund	Road Fund	Jail Fund	LGEA Fund	Occupational Tax Fund	Total Transfers In
General Fund	\$	\$ 350,000	\$	\$	\$	\$ 350,000
Road Fund	567,700					567,700
Jail Fund	604,418			200,000	150,000	954,418
Occupational Tax Fund			50,000			50,000
Total Transfers Out	\$ 1,172,118	\$ 350,000	\$ 50,000	\$ 200,000	\$ 150,000	\$ 1,922,118

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 3. Transfers (Continued)

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Long-term Debt

A. KIA Loan

In 1996, the Clay County Fiscal Court obtained a water resources loan from the Kentucky Infrastructure Authority (KIA) on behalf of the North Manchester Water Association. As part of the KIA loan agreement, the Clay County Fiscal Court executed a lease agreement with the North Manchester Water Association over the same 30 year term as the loan agreement.

The North Manchester Water Association remitted total payments of \$153,714 directly to KIA during fiscal year ended June 30, 2016. At the end of the term of the lease, the county will convey title of the assets to North Manchester Water Association. As of June 30, 2016, principal balance is \$1,306,115. Future lease principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 113,985	\$ 39,506
2018	117,393	35,866
2019	120,903	32,118
2020	124,519	28,258
2021	128,242	24,282
2022-2026	701,073	53,834
Totals	<u>\$ 1,306,115</u>	<u>\$ 213,864</u>

B. Justice Center Refunding Bonds Series 2012

On November 1, 2012, the Clay County Justice Center consolidated Justice Center Bonds 2003 and KADD Leases - Justice Center as part of an advance refunding financing plan. The principal amounts at the time of refunding were \$4,860,000 and \$450,000 respectively. The original debt was issued in order to construct the Clay County Justice Center. Total bond proceeds were \$5,415,000 with \$114,597 in reoffering premium, and \$3,148 of accrued interest. Distribution of funds was \$5,413,708 paid to advance escrow, \$115,889 in bond issuance cost, and \$3,148 accrued interest deposited to the sinking fund.

On the same day of the original bond issue, the Clay County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Clay County Justice Center. The financing plan for the project is as follows:

The Clay County Fiscal Court and the Clay County Justice Center Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Clay County Justice Center. The Clay County Justice Center Corporation and the county expect annual rentals for the use of the building to be in the amount of the annual principal and interest requirements of the bonds.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

B. Justice Center Refunding Bonds Series 2012 (Continued)

Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable on July 1 of each year for another biennial period of two years. The county and the Clay County Justice Center are dependent upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commenced with occupancy of the Justice Center Building by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until November 1, 2023, but the lease does not legally obligate the AOC to do so. As of June 30, 2016, after the advance refunding, the principal balance remaining was \$4,285,000. Future bond payments are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 490,000	\$ 82,815
2018	505,000	75,863
2019	515,000	65,662
2020	530,000	55,216
2021	545,000	44,463
2022-2024	<u>1,700,000</u>	<u>61,331</u>
Totals	<u>\$ 4,285,000</u>	<u>\$ 385,350</u>

C. Detention Center Bonds, Series 2006

During January 2006, the Clay County Fiscal Court issued Public Project Refunding Bonds totaling \$5,575,000 to advance refund certain bonded lease obligations totaling \$4,840,000 which were used to purchase U.S. Government securities, and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called. The advance refunding met the requirements of an in-substance defeasance and the refunded bonds were removed from the county's long-term debt obligations. The advance refunding was undertaken to reduce total debt service payments to \$383,942 and to obtain an economic gain of \$138,154. As of June 30, 2016, the principal balance is \$2,915,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 445,000	\$ 111,865
2018	465,000	95,400
2019	480,000	77,963
2020	505,000	59,722
2021	520,000	40,280
2022	<u>500,000</u>	<u>20,000</u>
Totals	<u>\$ 2,915,000</u>	<u>\$ 405,230</u>

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 4. Long-term Debt (Continued)

D. Roller

On August 22, 2014 the Clay County Fiscal Court entered into a 60 month financing obligation for the purchase of a compaction roller. Total principal amount was \$37,372 with an interest rate of 7.40 percent. In fiscal year ended June 30, 2015, the county applied an additional \$20,000 to the obligation resulting in an expedited payoff schedule. As of June 30, 2016, \$2,446 of principal and \$151 of interest was remaining. Future principal and interest requirements are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2017	\$ 2,446	\$ 151
Totals	<u>\$ 2,446</u>	<u>\$ 151</u>

E. Tractor and Boom

On May 11, 2012, the Clay County Fiscal Court entered into a five-year financing obligation for the purchase of a Caterpillar Tractor and Boom. The original principal amount of the lease was \$92,339, with an interest rate of 3.2 percent. The agreement requires monthly principal and interest payments. During fiscal year ending June 30, 2016, the fiscal court made principal payments of \$22,192 and interest payments of \$357 which satisfied the obligations of the debt. As of June 30, 2016, the principal balance is zero.

F. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 8,120,000	\$	\$ 920,000	\$ 7,200,000	\$ 935,000
Financing Obligations	1,450,155		141,594	1,308,561	116,431
Total Long-term Debt	<u>\$ 9,570,155</u>	<u>\$ 0</u>	<u>\$ 1,061,594</u>	<u>\$ 8,508,561</u>	<u>\$ 1,051,431</u>

Note 5. Employee Retirement System

Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous duty positions in the county. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2014 was \$660,411, FY 2015 was \$647,769, and FY 2016 was \$637,980.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2016
(Continued)

Note 5. Employee Retirement System (Continued)

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 6. Insurance

For the fiscal year ended June 30, 2016, the Clay County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Health Reimbursement Account

The Clay County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,000 each year to pay for qualified medical expenses.

Note 8. Deferred Compensation

The Clay County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Prior Period Adjustments

The treasurer voided prior year outstanding checks for being outstanding for more than one year. This resulted in an increase to the beginning balance of the general fund by \$1,530 and the occupational tax fund by \$37.

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 546,000	\$ 581,561	\$ 562,277	\$ (19,284)
In Lieu Tax Payments	31,230	31,230	133,219	101,989
Excess Fees	126,400	130,792	113,133	(17,659)
Licenses and Permits	20,350	20,350	20,933	583
Intergovernmental	275,300	431,007	457,060	26,053
Charges for Services	1,400,100	1,420,166	1,321,867	(98,299)
Miscellaneous	111,250	326,810	339,766	12,956
Interest	2,500	2,500	914	(1,586)
Total Receipts	<u>2,513,130</u>	<u>2,944,416</u>	<u>2,949,169</u>	<u>4,753</u>
DISBURSEMENTS				
General Government	1,378,720	1,619,290	1,397,314	221,976
Protection to Persons and Property	2,700	6,800	5,958	842
Recreation and Culture	61,353	61,353	24,190	37,163
Administration	1,406,928	1,745,165	1,411,933	333,232
Total Disbursements	<u>2,849,701</u>	<u>3,432,608</u>	<u>2,839,395</u>	<u>593,213</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(336,571)</u>	<u>(488,192)</u>	<u>109,774</u>	<u>597,966</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			350,000	350,000
Transfers To Other Funds	(504,418)	(504,418)	(1,172,118)	(667,700)
Total Other Adjustments to Cash (Uses)	<u>(504,418)</u>	<u>(504,418)</u>	<u>(822,118)</u>	<u>(317,700)</u>
Net Change in Fund Balance	(840,989)	(992,610)	(712,344)	280,266
Fund Balance - Beginning (Restated)	<u>840,989</u>	<u>992,610</u>	<u>992,610</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 280,266</u>	<u>\$ 280,266</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 20,000	\$ 151,426	\$ 151,426	\$
Intergovernmental	2,520,938	2,624,245	2,704,906	80,661
Charges for Services		5,310	5,310	
Miscellaneous	2,100	28,975	28,985	10
Interest	1,300	1,300	793	(507)
Total Receipts	<u>2,544,338</u>	<u>2,811,256</u>	<u>2,891,420</u>	<u>80,164</u>
DISBURSEMENTS				
General Government	22,000	22,000	21,600	400
Roads	2,814,478	3,081,396	2,816,445	264,951
Debt Service	50,000	50,000	31,276	18,724
Administration	448,800	(81,155)	371,124	(452,279)
Total Disbursements	<u>3,335,278</u>	<u>3,072,241</u>	<u>3,240,445</u>	<u>(168,204)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(790,940)</u>	<u>(260,985)</u>	<u>(349,025)</u>	<u>(88,040)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			567,700	567,700
Transfers To Other Funds			(350,000)	(350,000)
Total Other Adjustments to Cash (Uses)			<u>217,700</u>	<u>217,700</u>
Net Change in Fund Balance	(790,940)	(260,985)	(131,325)	129,660
Fund Balance - Beginning	<u>790,940</u>	<u>260,985</u>	<u>260,985</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 129,660</u>	<u>\$ 129,660</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,043,800	\$ 2,074,800	\$ 2,264,546	\$ 189,746
Charges for Services	35,000	35,000	37,661	2,661
Miscellaneous	153,600	224,026	220,052	(3,974)
Interest	300	300	345	45
Total Receipts	<u>2,232,700</u>	<u>2,334,126</u>	<u>2,522,604</u>	<u>188,478</u>
DISBURSEMENTS				
Protection to Persons and Property	1,874,200	2,186,850	2,164,715	22,135
Debt Service	562,800	562,800	562,743	57
Administration	804,535	768,363	738,263	30,100
Total Disbursements	<u>3,241,535</u>	<u>3,518,013</u>	<u>3,465,721</u>	<u>52,292</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,008,835)</u>	<u>(1,183,887)</u>	<u>(943,117)</u>	<u>240,770</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,008,835	1,008,835	954,418	(54,417)
Transfers To Other Funds			(50,000)	(50,000)
Total Other Adjustments to Cash (Uses)	<u>1,008,835</u>	<u>1,008,835</u>	<u>904,418</u>	<u>(104,417)</u>
Net Change in Fund Balance		(175,052)	(38,699)	136,353
Fund Balance - Beginning		<u>175,052</u>	<u>175,052</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 136,353</u>	<u>\$ 136,353</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 100	\$ 100	\$ 100	\$ 0
Intergovernmental	450,000	450,000	322,313	(127,687)
Interest	500	500	213	(287)
Total Receipts	<u>450,600</u>	<u>450,600</u>	<u>322,626</u>	<u>(127,974)</u>
DISBURSEMENTS				
Protection to Persons and Property	38,500	42,037	41,945	92
Roads	150,000	146,463	145,706	757
Administration	300	(150,296)		(150,296)
Total Disbursements	<u>188,800</u>	<u>38,204</u>	<u>187,651</u>	<u>(149,447)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>261,800</u>	<u>412,396</u>	<u>134,975</u>	<u>(277,421)</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(504,417)</u>	<u>(504,417)</u>	<u>(200,000)</u>	<u>304,417</u>
Total Other Adjustments to Cash (Uses)	<u>(504,417)</u>	<u>(504,417)</u>	<u>(200,000)</u>	<u>304,417</u>
Net Change in Fund Balance	(242,617)	(92,021)	(65,025)	26,996
Fund Balance - Beginning	<u>242,617</u>	<u>92,021</u>	<u>92,021</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 26,996</u>	<u>\$ 26,996</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

FOREST FIRE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 5,000	\$ 5,000	\$ 3,344	\$ (1,656)
Total Receipts	<u>5,000</u>	<u>5,000</u>	<u>3,344</u>	<u>(1,656)</u>
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,481	3,700	1,781
Total Disbursements	<u>5,000</u>	<u>5,481</u>	<u>3,700</u>	<u>1,781</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(481)</u>	<u>(356)</u>	<u>125</u>
Net Change in Fund Balance		(481)	(356)	125
Fund Balance - Beginning		<u>481</u>	<u>481</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 125</u>	<u>\$ 125</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,300,000	\$ 1,401,056	\$ 1,529,016	\$ 127,960
Interest	1,500	1,500	661	(839)
Total Receipts	<u>1,301,500</u>	<u>1,402,556</u>	<u>1,529,677</u>	<u>127,121</u>
DISBURSEMENTS				
General Government	2,500	2,500		2,500
Protection to Persons and Property	1,278,300	1,397,556	1,140,230	257,326
General Health and Sanitation	189,700	189,700	157,758	31,942
Social Services	8,000	8,000	8,000	
Administration	596,500	282,456	527,767	(245,311)
Total Disbursements	<u>2,075,000</u>	<u>1,880,212</u>	<u>1,833,755</u>	<u>46,457</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(773,500)</u>	<u>(477,656)</u>	<u>(304,078)</u>	<u>173,578</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds			(150,000)	(150,000)
Total Other Adjustments to Cash (Uses)			<u>(100,000)</u>	<u>(100,000)</u>
Net Change in Fund Balance	(773,500)	(477,656)	(404,078)	73,578
Fund Balance - Beginning (Restated)	<u>773,500</u>	<u>477,656</u>	<u>477,656</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,578</u>	<u>\$ 73,578</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

SPECIAL WATER LINE EXTENSION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 50,000	\$ 786,978	\$ 667,149	\$ (119,829)
Miscellaneous		1,100	1,100	
Total Receipts	50,000	788,078	668,249	(119,829)
DISBURSEMENTS				
General Health and Sanitation	56,676	794,754	660,324	134,430
Total Disbursements	56,676	794,754	660,324	134,430
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(6,676)	(6,676)	7,925	14,601
Net Change in Fund Balance	(6,676)	(6,676)	7,925	14,601
Fund Balance - Beginning	6,676	6,676	6,676	
Fund Balance - Ending	\$ 0	\$ 0	\$ 14,601	\$ 14,601

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

SPECIAL INSURANCE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Miscellaneous	\$ -	\$ -	\$ 26,600	\$ 26,600
Total Receipts			<u>26,600</u>	<u>26,600</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>26,600</u>	<u>26,600</u>
Net Change in Fund Balance			26,600	26,600
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 26,600</u>	<u>\$ 26,600</u>

CLAY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016
(Continued)

SPECIAL RESERVE FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Interest	\$ 3,500	\$ 5,303	\$ 5,303	\$ 0
Total Receipts	<u>3,500</u>	<u>5,303</u>	<u>5,303</u>	
DISBURSEMENTS				
Administration	<u>851,724</u>	<u>853,527</u>		<u>853,527</u>
Total Disbursements	<u>851,724</u>	<u>853,527</u>		<u>853,527</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(848,224)</u>	<u>(848,224)</u>	<u>5,303</u>	<u>853,527</u>
Net Change in Fund Balance	(848,224)	(848,224)	5,303	853,527
Fund Balance - Beginning	<u>848,224</u>	<u>848,224</u>	<u>848,224</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 853,527</u>	<u>\$ 853,527</u>

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2016

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

Road fund administration disbursements exceeded budgeted appropriations by \$452,279.

LGEA fund administration disbursements exceeded budgeted appropriations by \$150,296.

Occupational tax fund administration disbursements exceeded budgeted appropriations by \$245,311.

CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2016

CLAY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2016

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,041,727	\$	\$	\$ 1,041,727
Buildings	18,732,378			18,732,378
Vehicles and Equipment	4,376,554	56,000		4,432,554
Infrastructure	7,889,931	762,850		8,652,781
Total Capital Assets	<u>\$ 32,040,590</u>	<u>\$ 818,850</u>	<u>\$ 0</u>	<u>\$ 32,859,440</u>

CLAY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2016

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 50,000	10-20 years
Buildings and Building Improvements	\$ 50,000	25-40 years
Equipment	\$ 5,000	5-20 years
Vehicles	\$ 5,000	5-10 years
Infrastructure	\$ 50,000	5-50 years

**CLAY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2016

CLAY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity's Identifying Number</u>	<u>Total Federal Expenditures</u>
<u>U. S. Department of Homeland Security</u>			
<i>Passed-Through Kentucky Division of Emergency Management</i>			
Disaster Grants - Public Assistance ** (Presidentially Declared Disasters)	97.036	P02-095-1600000757-1	\$ 448,911
Emergency Management Performance Grant	97.042	Not Available	<u>9,968</u>
Total U.S. Department of Homeland Security			<u><u>458,879</u></u>
<u>U. S. Department of Agriculture</u>			
<i>Passed-Through Natural Resources Conservation Service</i>			
Emergency Watershed Protection Program **	10.923	68-5C16-15 / 68-5C16-16	<u>90,092</u>
Total U.S. Department of Agriculture			<u><u>90,092</u></u>
<u>Appalachian Regional Commission</u>			
<i>Passed-Through Rural Utilities Service Department Of Agriculture</i>			
Appalachian Area Development **	23.002	1780 - 12	<u>342,037</u>
Total Appalachian Regional Commission			<u><u>342,037</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 891,008</u></u>

** Tested as major program

CLAY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Clay County Fiscal Court under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Clay County Fiscal Court, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Clay County Fiscal Court.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Clay County Fiscal Court has not adopted an indirect cost rate.

Note 4. Non-Cash Expenditures

There were no noncash expenditures for federal awards for fiscal year 2016.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Johnny W. Johnson, Clay County Judge/Executive
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clay County Fiscal Court for the fiscal year ended June 30, 2016, and the related notes to the financial statement which collectively comprise the Clay County Fiscal Court's financial statement and have issued our report thereon dated June 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Clay County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clay County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clay County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-003, 2016-004, 2016-006, and 2016-016 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002, 2016-007, 2016-008, 2016-011, 2012-012, 2016-014, and 2012-017 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-011, 2016-012, 2016-013, 2016-015, 2016-016, and 2016-017.

Views of Responsible Officials and Planned Corrective Action

Clay County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 29, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH UNIFORM GUIDANCE**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Johnny W. Johnson, Clay County Judge/Executive
Members of the Clay County Fiscal Court

**Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance**

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Clay County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Clay County Fiscal Court's major federal programs for the year ended June 30, 2016. The Clay County Fiscal Court's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Clay County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Clay County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Clay County Fiscal Court's compliance.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Opinion on Each Major Federal Program

In our opinion, the Clay County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Cost as items 2016-002 and 2016-016. Our opinion on each federal program is not modified with respect to these matters. The Clay County Fiscal Court's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Clay County Fiscal Court's responses were not subject to the auditing procedures applied in the audit of compliance and accordingly we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Clay County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Clay County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Clay County Fiscal Court's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-016 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002 to be a significant deficiency.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With Uniform Guidance
(Continued)

Clay County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Clay County's responses were not subjected to the auditing procedures applied in the audit of compliance and accordingly we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 29, 2017

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CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2016

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2016

Section I: Summary of Auditor's Results

Financial Statements

Type of report auditor issued: Adverse on GAAP and Unmodified on Regulatory Basis

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any noncompliances material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major federal programs: <i>Unmodified</i>		
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.923	Emergency Watershed Protection Program
23.002	Appalachian Area Development
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings

2016-001 The Clay County Fiscal Court Lacks Internal Controls Over The Environment Of The County Road Department

The Clay County Fiscal Court lacks internal controls over the environment of the county road department. During the fiscal year ending June 30, 2016, the fiscal court did not have internal controls in place to mitigate risks in several areas of the road department including labor, the use of equipment and vehicles, the use of fuel, and the use of materials such as gravel, steel, and pipe. Road department employees were not required to maintain documentation for the type of work performed, location of projects, where work was performed, or materials used in completing projects. Additionally, fuel logs were not maintained to document the use and addition of fuel.

The fiscal court did not require those charged with management of the road department to implement internal controls.

By not having proper controls in place, the county is at risk for the misuse and misappropriation over the use of labor, equipment and vehicles, fuel, and materials at the road department.

Strong internal controls would mitigate the risk associated with the use of fiscal court labor and assets.

We recommend the Clay County Fiscal Court implement internal controls at the road department over the use of equipment, vehicles, fuel, and materials such as gravel, steel, and pipe.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Related information is now being documented by the County Road Foreman.

2016-002 The Clay County Fiscal Court Lacks Internal Controls Ensuring That Federal Emergency Management Agency (FEMA) Requirements Are Met When Bidding FEMA Projects

The Clay County Fiscal Court followed their normal bidding procedures when FEMA projects were bid. Compliance with 2 CFR 200 was not documented in the bidding process and multiple bid amounts were noted for the same work to be performed.

The fiscal court had two separate advertisements. One advertisement was for routine county work and the other advertisement was for FEMA work. On June 11, 2015, the fiscal court approved annual bids for routine county work to be completed for steel drilling, cribbing (guard rails), and backfill. On June 30, 2015, the fiscal court accepted and awarded additional bids for FEMA work to be performed on several roads and bridges in the county. The fiscal court minutes stated that FEMA projects must be bid separately. The new FEMA bids were for steel drilling, cribbing (guard rails), and backfill.

Auditors expanded testing on three FEMA invoices for two different companies. When comparing the bid amount the company submitted for the FEMA work with the bid the company submitted for routine work the county needed, the bid amount for the FEMA work was higher. Based on the three invoices, the fiscal court paid \$115,138 more than they would have if original bid amounts were used for FEMA projects.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-002 The Clay County Fiscal Court Lacks Internal Controls Ensuring That Federal Emergency Management Agency (FEMA) Requirements Are Met When Bidding FEMA Projects (Continued)

Management did not have knowledge of the FEMA bid requirements.

Lack of internal controls over the bidding process resulted in the fiscal court bidding FEMA projects without ensuring they were in compliance with FEMA bidding standards required in 2 CFR 200. FEMA bids were significantly higher than the original bids the fiscal court accepted for the same work.

Lack of internal controls also resulted in bids being awarded at a significantly higher price when compared to original bids the fiscal court accepted and awarded on June 11, 2015.

Per 2 CFR 200.321:

- (a) The non-Federal entity must take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible.
- (b) Affirmative steps must include:
 - (1) Placing qualified small and minority businesses, and women's business enterprises on solicitation lists;
 - (2) Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources;
 - (3) Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women's business enterprises;
 - (4) Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority businesses, and women's business enterprises;
 - (5) Using the services and assistance, as appropriate, of such organization as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
 - (6) Requiring the prime contractor if subcontracts are to be let, to take the affirmative steps listed in paragraphs (1) through (5) of this section.

We recommend the Clay County Fiscal Court implement internal controls to ensure the county complies with FEMA bidding requirements as noted in 2 CFR 200.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: DES Coordinator was advised incorrectly by FEMA representative on past projects concerning the bidding. Future projects will use the current County bids, unless informed differently by FEMA.

2016-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

The Clay County Fiscal Court does not have adequate segregation of duties over receipts. The county treasurer opens mail, prepares all deposits, posts to receipt ledgers, and prepares bank reconciliations.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-003 The Clay County Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts (Continued)

Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

Segregation of duties over various accounting functions, such as opening mail, collecting receipts, preparing bank deposits, preparing reports and reconciliations, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving the opening of mail, collecting and depositing of receipts, and preparation of reports and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Two office staff are now recording receipts.

2016-004 The Clay County Fiscal Court Lacks Internal Controls Over Community Center Receipts

The Clay County Fiscal Court lacks internal controls over community center receipts. No supporting documentation was available for money collected for the reservation of the community center during fiscal year ended June 30, 2016. Money was either collected in the judge/executive's office or by an employee at the community center. Citizens who paid for reservation of the community center at the judge/executive's office were issued a receipt. However, no receipts were issued to citizens who paid directly to an employee at the community center. Daily checkout sheets were not maintained at either the judge/executive's office or the community center. Per the receipts ledger, the recorded community center reservation receipts totaled \$13,825 for fiscal year ending June 30, 2016.

A former county employee was responsible for the collection of funds and scheduling reservations of the community center. The fiscal court did not require supporting documentation to be maintained.

Without supporting documentation, the fiscal court cannot determine if the proper amount of receipts were collected from the use of the community center. This could result in the undetected misappropriation of assets or incorrect reporting.

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 and State Local Finance Officer Policy Manual* establishes several procedures to institute a strong internal control environment, including issuing pre-numbered three-part receipts, utilization of daily check-out sheets, and ensuring that deposits are made intact daily.

KRS 64.840(1) states, "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer[.]"

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-004 The Clay County Fiscal Court Lacks Internal Controls Over Community Center Receipts
 (Continued)

We recommend the Clay County Fiscal Court issue a receipt for all money collected for use of the community center.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All receipts for the Community Building now come thru the County Judges Office.

2016-005 The Clay County Fiscal Court Did Not Properly Collect Past Due Ambulance Service Bills

The Clay County Fiscal Court did not attempt to collect past due ambulance service accounts. After six billing statements the county no longer attempts to collect receivables for the ambulance service. The following amounts have been written off as "adjustments" to receivables:

- Fiscal Year Ending June 30, 2013: \$698,531
- Fiscal Year Ending June 30, 2014: \$671,092
- Fiscal Year Ending June 30, 2015: \$394,749
- Fiscal Year Ending June 30, 2016: \$221,721

The total amount of ambulance service receivables that have been written off from fiscal year 2013 to fiscal year 2016 is \$1,986,093.

When an ambulance service bill becomes delinquent, the fiscal court sends a letter to the patient stating that the account will be turned over to collections. However, after six billing statements, the patient is not rebilled and the fiscal court does not turn over any accounts to collections.

The practice of forgiving delinquent ambulance bills not only results in lost revenue for the ambulance service but results in preferential management of those accounts.

Section 52 of the Kentucky Constitution prohibits the fiscal court from forgiving debt in which the amount can be precisely determined and which is not in dispute, as is the case with these ambulance bills.

We recommend the Clay County Fiscal Court implement procedures in order to collect past due ambulance service billings and discontinue the practice of forgiving debts owed.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: The Clay County Fiscal Court is in the process of contacting a collection agency. The Court to approve contracting with an agency at the June 2017 court meeting.

**CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)**

Section II: Financial Statement Findings (Continued))

2016-006 The Clay County Fiscal Court Did Not Have Sufficient Internal Controls Over Credit Card Disbursements

The Clay County Fiscal Court has not implemented proper internal control procedures over credit card disbursements, which resulted in the following:

- Invoices were not paid timely and late fees were paid in the amount of \$109
- Twenty-five instances where the original receipt was not attached to the credit card statement

Lack of internal controls over credit card disbursements allowed for the deficiencies noted above to occur.

The fiscal court paid late charges and disbursed funds without supporting documentation which supports the disbursement as a valid expense of the county and a proper use of county funds.

KRS 65.140(2) states, in part, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” Furthermore, good internal controls require proper supporting documentation be maintained to support disbursements.

We recommend the Clay County Fiscal Court strengthen internal controls over credit card disbursements to ensure that late fees are not incurred. All credit card purchases should be supported by original receipts to ensure that disbursements are proper.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Notified all department heads and Jailer they are required to turn in all receipts.

2016-007 The Clay County Fiscal Court Paid Additional Compensation To The County Attorney For Performance Of Regular Job Duties

The Clay County Fiscal Court paid the county attorney additional compensation for performance of regular job duties. The Clay County Attorney received \$2,994 in additional compensation related to the Clay County Water Line Extension, a project authorized by the Clay County Fiscal Court pursuant to a grant agreement with the Kentucky Infrastructure Authority. The project budgeted \$10,000 in legal expenses, of which the county paid \$2,994 to the county attorney.

The fiscal court was unaware that legal work performed in relation to the Clay County Water Line Extension project was within the normal scope of duties for the county attorney and that additional compensation was not necessary or allowable.

The Clay County Attorney was paid additional compensation for performance of regular job duties resulting in the misappropriation of county funds.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-007 The Clay County Fiscal Court Paid Additional Compensation To The County Attorney For Performance Of Regular Job Duties (Continued)

The salary of county attorneys is set by the fiscal court in the year of the county attorney's election pursuant to KRS 64.530. That compensation "shall not be changed during the term[.]" According to the Kentucky Court of Appeals in James v. Duffy, 131 S.W. 489 (1910), "[i]f the compensation is a salary, the salary must remain the same throughout that official's term, whether or not the scope of his official duties have been increased or lessened." Id. at 490; see also Ky. Const. § 161. The duties of the county attorney include attending the fiscal court, advising it on all matters, and "conduct[ing] all business touching the rights or interest of the county[.]" KRS 69.210. The county attorney may not contract with the fiscal court to determine his duties or salary, the former being set by statute and the latter being set by the fiscal court. KY OAG 78-13 (1978).

We recommend the Clay County Fiscal Court not pay additional compensation for work that is within the normal scope of job duties for employees or officials.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: This was on a special water project. We will advise the engineers, no additional compensation may be given to the County Attorney for his work, on these projects.

2016-008 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System

The Clay County Fiscal Court is not properly utilizing a purchase order system. The purchasing procedures in place do not comply with the required purchase order system required by the state local finance officer. In addition, the internal controls over the purchase order system allowed the system to be circumvented. As a result, the following occurred:

- One disbursement caused a line item to be over budget when the check was issued
- Forty-five disbursements were paid without a purchase order
- Six disbursements had a purchase order issued after the date of the invoice
- The encumbrance list was misstated because a list of outstanding purchase orders was not available to compile an accurate listing of encumbered monies.

Internal controls over purchase orders were not operating as intended during fiscal year 2016.

As a result of not monitoring controls, the deficiencies above occurred. In addition, encumbrances were misstated. These deficiencies could result in inaccurate financial reporting and misappropriation of assets.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government, "purchases shall not be made without approval by

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-008 The Clay County Fiscal Court Does Not Have Adequate Internal Controls Over The Purchase Order System (Continued)

the judge/executive (or designee) and/or department head. Purchase 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 Clay County Fiscal Court strengthen internal controls by ensuring that purchase orders are issued for all disbursements and sufficient funds are available prior to issuing a purchase order.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Current County Judge has advised all Department heads and Jailer to call for purchase orders.

2016-009 The Clay County Fiscal Court Did Not Obtain Bids When Required

The Clay County Fiscal Court failed to acquire bids for all purchases in excess of \$20,000. The fiscal court expended over \$20,000 for fuel and a used ambulance and failed to advertise for bids. This is a repeat finding. The prior year audit noted the county did not advertise for bids on all items over \$20,000.

The fiscal court did not follow the bidding requirements for purchases in excess of \$20,000 as stated in the prior-year audit. Without bidding, the fiscal court is not aware of all price options available, and the process of awarding contracts lacks transparency.

KRS 424.260(1) states, in part, “[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.” In addition, fiscal court’s own administrative code requires that purchases over \$20,000 be bid.

We recommend the Clay County Fiscal Court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Additional bidding will be done for FY 2017-2018.

2016-010 The Clay County Fiscal Court Paid The County Treasurer As A Salaried And Hourly Employee

The county treasurer is receiving wages as a salaried employee for her position as executive secretary while also receiving hourly and overtime pay as the county treasurer; however, the time sheet only reflects hours for her position as county treasurer.

The Clay County Fiscal Court is paying this employee under the same budgeted line item titled county treasurer’s salary. This line item has the budget to pay for both positions.

The Clay County Fiscal Court is not in compliance with U.S. Department of Labor regulation 29 CFR Part 541.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-010 The Clay County Fiscal Court Paid The County Treasurer As A Salaried And Hourly Employee
 (Continued)

U.S. Department of Labor Fact Sheet #17G states “[b]eing paid on a ‘salary basis’ means an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee’s work. Subject to exceptions listed, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked.”

Section 13(a)(1) of the Fair Labor Standards Act provides an exemption from both the minimum wage and overtime pay requirements for employees employed as bona fide executive, administrative, and professional employees (including teachers and academic administrative personnel in elementary and secondary schools), outside sales employees, and certain skilled computer professionals (as defined in the Department of Labor’s regulations).

U.S. Department of Labor Fact Sheet #17C states:

- To qualify for the administrative employee exemption, all of the following tests must be met:
- The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than \$455 per week;
 - The employee’s primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer’s customers; and
 - The employee’s primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.

We recommend the Clay County Fiscal Court seek guidance from the Clay County Attorney to determine if the employee is qualified as an hourly or salaried employee. In addition, we recommend the timesheet reflect actual hours worked in each position.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Additional compensation was given, monthly, when the employee took on additional duties of the County Treasurer. Change to be made.

2016-011 The Clay County Fiscal Court Lacks Internal Controls Over Payroll

The Clay County Fiscal Court does not have proper internal controls over the payroll process. During fiscal year ending June 30, 2016, the following issues were noted:

- One employee listed additional hours for on-call work without specification of when hours were worked.
- Three full-time employee timecards did not reflect a 40-hour work week.
- Seven timecards were approved without employee signatures.
- Thirteen timecards were processed without supervisor approval.
- Five employees were paid without timecard documentation.
- Employees do not clock in and out for lunch, which has allowed for extended lunch periods.
- Ten employees were paid as salary regardless of the hours worked.
- Four of the salaried employees did not submit a time sheet to the fiscal court.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-011 The Clay County Fiscal Court Lacks Internal Controls Over Payroll (Continued)

- Pre-taxed items were not being properly exempted prior to calculating individual withholding taxes.

Weak internal controls over payroll have allowed these issues to go undetected.

The fiscal court is not in compliance with federal and state labor regulations or the county's administrative code.

KRS 337.320(1) requires every employer to "keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires."

Clay County Administrative Code Section XII: Personnel Policies and Procedures (1)(a) states, "Hours of Work (a) The work day shall consist of not less than eight (8) consecutive hours, and the work week shall consist of at least forty (40) hours in five (5) consecutive days."

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

The United States Department Of Labor - Wage and Hour Division defines Kentucky's "Minimum Length of Meal Period Required under State Law for Adult Employees in Private Sector" as "[r]easonable off-duty period, ordinarily ½ hour but shorter period permitted under special conditions, between 3rd and 5th hour of work. Not counted as time worked. Coffee breaks and snack time not to be included in meal period."

Section 213(a)(1) of the Fair Labor Standards Act exempts bona fide executive, administrative, and professional employees, outside sales employees, and certain skilled computer professionals from both the minimum wage and overtime pay requirements.

Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and the employee in which the employee agrees to contribute a portion of his or her salary on a pre-tax basis to pay for the qualified benefits. Salary reduction contributions are not actually or constructively received by the participant. Therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to FICA and FUTA. See 26 U.S. Code Sections 3121(a)(5)(G) and 3306(b)(5)(G) of the Internal Revenue Code.

The above discussion provides only the most basic rules governing a cafeteria plan. For a complete understanding of the rules, see the proposed regulations under 26 U.S. Code § 125 – Cafeteria plans.

We recommend the Clay County Fiscal Court strengthen internal controls over payroll by requiring employees and supervisors to sign timecards, ensure timecards reflect actual hours worked, require all employees to maintain timecards, and require employees to document lunch periods on timecards. We recommend the payroll officer ensure all cafeteria plan items are taxed appropriately. We further recommend the Clay County Fiscal Court obtain a legal opinion from the Clay County Attorney as to whether county employees considered salaried qualify as such under labor laws.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-011 The Clay County Fiscal Court Lacks Internal Controls Over Payroll (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Have required three of the salaried employees to change their time card documentation. We will notify department heads and the Jailer to make sure all time cards are signed. Will document additional called-out hours. Will try to watch discrepancies on time cards.

2016-012 A Clay County Employee Was Paid For Hours Not Worked And Time Not Accrued

During the fiscal year 2016 audit, information came to the auditors' attention regarding a payroll issue in the prior fiscal year. An employee logged a total of 80.5 hours for the pay period of February 9, 2015 to February 22, 2015. Of the time logged during that pay period, eight hours were listed as a holiday, 11 hours listed as a personal day, two hours listed as an additional personal day, and a total of 59.5 hours of actual hours worked. Per Section XII of the Clay County Fiscal Court Administrative Code, new employees must first complete a six month probationary period of employment before earning personal time. Additionally, the employee may not meet the federal requirements for a salaried employee.

The supervisor did not properly review the supporting documentation for payroll and approved the timecard that indicated two personal days. In addition, internal controls were overridden by the former county judge/executive who signed and issued the payroll check for the employee because the employee was salaried.

Disregarding county policy and overriding internal controls has resulted in the preferential treatment of an employee and the county paying for services that were not owed.

According to the Clay County Administrative Code Section XII: Personnel Policies and Procedures, "(10)(c) All new employees will be on a six months probationary period[.]" and "(8) (b) Probationary and part-time employees do not accumulate vacation leave."

We recommend the Clay County Fiscal Court pay employees for time worked or for leave time earned in accordance with the Clay County Administrative Code.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Advised the Employee's Supervisor of this error and, in the future, pay could not be given, if no time is accumulated.

2016-013 The Clay County Fiscal Court Incorrectly Amended The Budget Of The Road And Local Government Economic Assistance Fund

The budget line items should not show a negative balance. Since the amendment created a negative line item it created the impression that the county did not have funds to transfer although transfers had been made within the available funds. The fiscal court nor the Department for Local Government should approve an amendment indicating a negative line item budget.

The fiscal court followed usual protocol and used the account to balance its budget. There was a transfer account also budgeted; however, there were not sufficient funds to make the budgeted transfers and they were

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-013 The Clay County Fiscal Court Incorrectly Amended The Budget Of The Road And Local Government Economic Assistance Fund (Continued)

not made. Both the fiscal court and the Department for Local Government approved the budget amendments. No funds were transferred beyond those available and there was no ending deficit in the fund balance. Although the overall budget variance was not affected, the amendment did affect line items.

The negative budget line item gives the impression that no funds were available for transfer and that the transferred funds were not actually available and the budget was exceeded. The county made the actual cash transfers properly.

The *County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government, states, “the fiscal court should be constantly monitoring receipts and expenditures.”

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 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.”

We recommend that Clay County Fiscal Court not approve budget amendments that create negative line items.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: Department of Local Government approved the amendment. The negative number resulted from an over estimate of income, not due to over spending of the budget. Will try to estimate more closely, if possible.

2016-014 The Clay County Jail Commissary Does Not Have Adequate Internal Controls Over Jail Commissary Inventory

The Clay County jail commissary does not have adequate internal controls over inventory. Commissary inventory consists of food, hygiene products, and other various items useful to inmates. The jail commissary uses a vendor to supply the jail commissary and the vendor delivers ordered items to the jail. When inventory is received at the jail, there are no procedures in place to verify that goods purchased are received by the jail commissary.

The Clay County Jailer failed to implement adequate internal controls over the receipt of jail commissary inventory.

As a result, the inventory levels could be misstated or goods purchased could not be received by the jail.

Effective internal control requires that processes be in place to ensure that inventory purchased by the jail commissary agrees to the inventory actually received.

We recommend the Clay County Jailer ensure that all invoices for items purchased agree to items added to the commissary inventory. Also, periodic physical inventory counts should occur by an individual with no other commissary duties.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-014 The Clay County Jail Commissary Does Not Have Adequate Internal Controls Over Jail Commissary Inventory (Continued)

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: Monthly Inventory will continue to be done. All incoming inventory will be signed by two employees and checked off accordingly and added to jail inventory on computer.

2016-015 The Clay County Jail Commissary Uses A Debit Card For Purchases

The Clay County Jail uses a debit card to make some purchases for the jail commissary. During fiscal year 2016, disbursements totaling \$1,220 were made using a debit card.

Jail management was unaware that use of a debit card which allows immediate electronic payment of expenses was an unacceptable form of disbursement.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements are to be made by check only.

We recommend the Clay County Jailer ensure that disbursements are made by check only, in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Views of Responsible Official and Planned Corrective Action:

County Jailer's Response: I was not aware we could not have debit card. My plan of corrective action is we will no longer use debit card. We will find another resource to purchase needed items.

2016-016 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)

The Clay County Fiscal Court did not adequately identify federal grants or accurately maintain a Schedule of Expenditures of Federal Awards. The original SEFA provided to auditors was materially incorrect. Several adjustments totaling \$527,755 were made to correctly document federal expenditures for fiscal year 2016.

The accounting personnel do not appear to have been properly trained to maintain an accurate SEFA with the required information such as the Catalog of Federal Domestic Assistance (CFDA) numbers.

Failure to maintain an accurate SEFA could result in a failure to properly obtain a single audit in accordance with Uniform Guidance. This could endanger future federal funding.

Per 2 CFR 200.501(a), “[a] non-Federal entity that expends \$750,000 or more during the non-Federal entity’s fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

The Clay County Fiscal Court should implement internal controls to immediately recognize all federal awards and keep track of the federal grant information including the identifying CFDA number. An employee should be assigned to track federal expenditures while maintaining an accurate SEFA.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section II: Financial Statement Findings (Continued)

2016-016 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA) (Continued)

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: DES Coordinator and Co. Treasurer will try to record all FEMA expenditures.

2016-017 The Clay County Fiscal Court Did Not Properly Declare An Emergency

During fiscal year 2015, the Clay County Judicial Center flooded. The flooding happened over a weekend and when discovered was treated as an emergency. The work performed was not bid or declared an emergency in accordance with state procurement laws, which would have allowed the county to waive competitive bid requirements. During fiscal year 2016, the fiscal court paid vendors for work to repair the damage. This work was performed without the fiscal court advertising and accepting bids.

The fiscal court failed to ensure that an emergency declaration was officially declared and documented in writing.

The fiscal court performed work that was not in accordance with normal procurement procedures, but would have been appropriate had an emergency been properly declared.

According to KRS 424.260(4), competitive bids do not apply in an emergency if the county judge/executive certifies that an emergency exists and has filed a copy of the declaration in his office.

We recommend the Clay County Fiscal Court ensure that emergency declarations are properly documented.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Will strive to document all emergencies correctly in the future.

Section III: Findings and Questioned Costs - Major Federal Awards Program Audit

2016-002 The Clay County Fiscal Court Lacks Internal Controls Ensuring That Federal Emergency Management Agency (FEMA) Requirements Are Met When Bidding FEMA Projects

Federal Program: CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
 Federal Department: U.S. Department of Homeland Security
 Passed-Through Agency: Kentucky Division of Emergency Management
 Compliance Area: Procurement and Suspension and Debarment
 Questioned Cost: \$0

See comment in Section II.

CLAY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2016
(Continued)

Section III: Findings and Questioned Costs - Major Federal Awards Program Audit (Continued)

2016-016 The Clay County Fiscal Court Did Not Adequately Identify Federal Grants Or Maintain An Accurate Schedule Of Expenditures Of Federal Awards (SEFA)

Federal Program: CFDA 97.036 – Disaster Grants-Public Assistance (Presidentially Declared Disasters)
 CFDA 97.042 – Emergency Management Performance Grants
 CFDA 10.923 – Emergency Watershed Protection Program
 CFDA 23.002 – Appalachian Area Development

Federal Department: U.S. Department of Homeland Security
 U.S. Department of Agriculture
 Appalachian Regional Commission

Passed-Through Agency: Kentucky Division of Emergency Management
 Natural Resources Conservation Service
 Rural Utilities Service Department of Agriculture

Compliance Area: Reporting

Questioned Cost: \$0

See comment in Section II.

Section IV: Summary Schedule of Prior Year Findings:

2015-001 The County Incorrectly Amended The Budget Of The LGEA Fund - Unresolved
 2015-002 The County Lacks Adequate Controls Over Disbursements - Unresolved
 2015-003 The County Did Not Provide Adequate Oversight for Fuel Purchases Made With Credit Card - Unresolved
 2015-004 The County Lacks Controls Over The Overall Financial Environment As Well As Proper Segregation Of Duties For Revenues And Expenditures - Unresolved
 2015-005 The County Lacks Controls Over Supplies And Maintenance Inventory - Unresolved
 2015-006 The County Does Not Adequately Identify And Maintain A Schedule Of Federal Funds Expended - Unresolved
 2015-007 The Jail Commissary Does Not Have Adequate Control Over Disbursements - Resolved
 2015-008 The Jail Commissary Does Not Have Adequate Controls Over Canteen Inventory - Unresolved
 2015-009 The County Did Not Pay All Invoices Within Thirty (30) Days As Required - Resolved
 2016-010 The County Did Not Advertise For Bids On All Purchases That Exceed \$20,000 - Unresolved

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CLAY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2016**

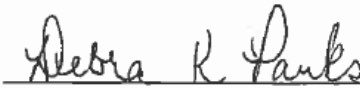
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CLAY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2016

The Clay County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

