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Mike Harmon

**FOR IMMEDIATE RELEASE**

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# Harmon Releases Audit of Clinton County Fiscal Court

**FRANKFORT, Ky. –** State Auditor Mike Harmon has released the audit of the financial statement of the Clinton County Fiscal Court for the fiscal year ended June 30, 2018. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Clinton County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

**The fiscal court lacks adequate segregation of duties over all accounting functions:** This is a repeat finding and was included in the prior year audit report as Finding 2017-001. A lack of segregation of duties exists over all accounting functions. The county treasurer was responsible for collecting and recording receipts, preparing and making deposits, preparing bank reconciliations, signing checks, and preparing monthly and quarterly reports on behalf of the fiscal court. The former county judge/executive's administrative assistant was responsible for maintaining the county's capital asset schedule. The former county judge/executive's administrative assistant and finance officer/deputy judge were responsible for the preparation of payroll. The former finance officer/deputy judge was responsible for issuing purchase orders, preparing claims list for fiscal court approval, recording disbursements, and preparing, printing, and signing checks on behalf of the county judge/executive. The occupational tax administrator was responsible for collecting occupational tax receipts, preparing occupational tax deposits, and generating reports to the county treasurer. The fiscal court has not developed internal controls and failed to provide adequate segregation of duties over these accounting and reporting functions, and there are no documented compensating controls noted.

The fiscal court and former county judge/executive failed to develop adequate internal controls and segregate the duties over all accounting and reporting functions and did not provide adequate oversight regarding the county treasurer's preparation of financial reports.

The lack of adequate internal controls and failure to segregate duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds.

The implementation of internal controls and the segregation of duties over various accounting functions such as recording receipts and disbursements; preparing bank reconciliations; and preparing monthly, quarterly, and annual financial reports 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. Appropriate management oversight should be provided to ensure the completion of accurate and timely financial reports. The Clinton County Kentucky Administrative Code states "[t]he county judge executive may delegate specific executive tasks (i.e. supervision of road maintenance) to anybody, including individual members of the fiscal court. However, it is important to note that responsibility and accountability for the performance of such a delegated task continues to lie ultimately with the judge executive."

We recommend the fiscal court implement internal controls and segregate the duties involved in recording receipts and disbursements, capital assets, payroll, record keeping, preparing bank reconciliations, and preparing monthly, quarterly, and annual financial reports where possible. If segregation of duties is not possible, due to the limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

*County Judge/Executive's Response: This comment was based on findings from the past administration. Due to the size of the county total segregation of all duties is challenging. The current administration will require accounting duties to be reviewed and acknowledged by at least two employees.*

**The fiscal court's disbursements exceeded budgeted appropriations:** This is a repeat finding and was included in the prior year audit report as Finding 2017-003. Disbursements exceeded approved budgeted appropriations for the general, jail, and occupational tax funds as follows:

General Fund - Administration by $6,576
Jail Fund - Protection to Persons and Property by $80,410
Occupational Tax Fund - Administration by $27,384

Due to a weak internal control system over disbursements and the budgeting process, budget amendments and appropriations transfers were not made to ensure the fiscal court was within the approved budget. The fiscal court did not monitor the budget or quarterly reports to prevent disbursements from exceeding the approved budget appropriations.

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." Also, good internal controls dictate that the approved budget be monitored closely and budget amendments be made when necessary to avoid exceeding the budgeted amounts.

We recommend the fiscal court and the county treasurer monitor the budget closely and amend the fiscal court's budget or transfer necessary appropriations in order to prevent the fiscal court from exceeding the budget. We also recommend the county judge/executive or his designee not approve purchase orders for claims that exceed the budget appropriations. We further recommend the fiscal court not vote to approve payment of claims that would cause a line item to exceed the budget.

*County Judge/Executive's Response: The official did not provide a response.*

**The fiscal court lacks internal controls over cash transfers:** This is a repeat finding and was included in the prior year report as Finding 2017-004. The fiscal court did not approve the following cash transfers:

- Road fund to general fund on August 18, 2017, for $90,588.
- General fund to disaster and emergency services on September 29, 2017, for $10,000.
- Occupational tax fund to Local Government Economic Assistance (LGEA) fund on November 17, 2017, for $3,000.
- Occupational tax fund to jail fund on January 19, 2018, for $10,000.
- Occupational tax fund to jail fund on April 20, 2018, for $30,000.
- Occupational tax fund to general fund on April 20, 2018, for $30,000.
- Occupational tax fund to ambulance fund on April 20, 2018, for $30,000.
- Occupational tax fund to forestry fund on April 20, 2018, for $1,500.

The following control deficiency was also noted over cash transfers:

- The county treasurer did not post a payment from the occupational tax fund to the forestry fund for $1,500 as a cash transfer.

These errors resulted from lack of internal control and oversight of the cash transfer process performed by the county treasurer.

Cash transfers were not properly approved, and one was not properly recorded on the financial statements. As a result, the amount reported on the fourth quarterly report for transfers was understated by $1,500.

Strong internal controls over cash transfers are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires all transfers to have a court order. In addition, transfers from a restricted fund such as the road fund to another fund should be transferred back to the restricted fund before the end of the fiscal year.

We recommend the fiscal court implement stronger internal controls over the cash transfer process to ensure all cash transfers are approved by the fiscal court and properly recorded to the financial statements.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration requires all transfers to be reviewed and approved by the Fiscal Court.*

**The fiscal court had overdrawn bank balances in numerous bank accounts during Fiscal Year 2018:** This is a repeat finding and was included in the prior year report as Finding 2017-006. The fiscal court had negative bank balances in numerous county bank accounts due to checks being written for disbursements and submitted for payment that exceeded the available cash in the bank account. This practice resulted in the following negative cash balances on various dates within bank accounts for the funds:

| General Fund | |
|---|---|
| 11/02/17 | ($17,740) |
| 11/03/17 | ($1,091) |
| 11/06/17 | ($1,363) |
| 11/14/17 | ($1,078) |
| 11/15/17 | ($1,308) |
| 11/22/17 | ($36,077) |
| 11/24/17 | ($36,679) |
| 11/27/17 | ($38,000) |
| 01/25/18 | ($5,504) |
| 01/26/18 | ($5,209) |
| 01/29/18 | ($5,770) |
| 01/30/18 | ($5,279) |
| 01/31/18 | ($5,337) |
| 02/01/18 | ($4,949) |
| 02/02/18 | ($5,413) |
| 02/08/18 | ($10,036) |

| Jail Fund | |
|---|---|
| 09/07/17 | ($2,321) |
| 09/11/17 | ($2,452) |
| 09/12/17 | ($3,516) |

| Jail Fund (Continued) | |
|---|---|
| 11/02/17 | ($29,404) |
| 12/15/17 | ($8,868) |
| 12/18/17 | ($9,082) |
| 12/28/17 | ($12,455) |
| 12/29/17 | ($15,300) |
| 01/02/18 | ($17,474) |
| 01/03/18 | ($17,217) |
| 01/04/18 | ($18,718) |
| 01/05/18 | ($18,318) |
| 01/08/18 | ($18,359) |
| 01/11/18 | ($6,983) |
| 01/18/18 | ($7,422) |
| 01/23/18 | ($796) |
| 01/24/18 | ($13,479) |
| 01/25/18 | ($31,818) |
| 01/26/18 | ($19,367) |
| 02/08/18 | ($11,972) |
| 06/29/18 | ($1,624) |

| DES Fund | |
|---|---|
| 07/17/17 | ($396) |
| 09/28/17 | ($5,226) |
| 12/01/17 | ($22) |
| 12/08/17 | ($50) |
| 12/19/17 | ($83) |
| 12/20/17 | ($161) |

| Ambulance Fund | |
|---|---|
| 08/14/17 | ($3,905) |
| 08/15/17 | ($4,034) |
| 10/09/17 | ($4,365) |
| 01/30/18 | ($945) |
| 04/25/18 | ($2,314) |
| 04/26/18 | ($894) |
| 04/27/18 | ($1,514) |

| Payroll Account | |
|---|---|
| 07/12/17 | ($33,215) |
| 08/07/17 | ($2,618) |
| 08/08/17 | ($3,237) |
| 08/09/17 | ($3,828) |

| | | | |
|---|---|---|---|
| 09/13/17 | ($3,883) | LGEA Fund | |
| 09/14/17 | ($3,674) | 07/03/17 | ($9,695) |
| 09/21/17 | ($829) | 07/14/17 | ($9,736) |
| 10/05/17 | ($5,803) | 07/28/17 | ($886) |
| 10/11/17 | ($6,629) | 09/11/17 | ($601) |
| 10/12/17 | ($6,710) | 09/13/17 | ($33) |
| 10/18/17 | ($7,043) | 09/14/17 | ($962) |
| 10/19/17 | ($22,818) | 12/19/17 | ($1,323) |
| 10/31/17 | ($12,350) | 12/20/17 | ($1,486) |
| 11/01/17 | ($12,438) | 12/21/17 | ($1,532) |

Purchase orders for goods and services were approved without determining if there was available cash in the bank accounts to cover all disbursements. The invoices were presented to the fiscal court, checks were issued, and the finance officer/deputy judge/executive and the county treasurer signed each check.

Due to submitting payments that exceeded the balances of their accounts, the county was charged a total of $1,307 in service charges from the financial institutions. The fiscal court is not in compliance with the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requirements.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county treasurer to countersign checks only if the following conditions exist: claim reviewed by the fiscal court, sufficient fund balance and adequate cash in the bank to cover the check, and adequate free balance in a properly budgeted appropriation account to cover the check.

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 the fiscal court refrain from issuing payments for disbursements when there is no available cash in bank accounts to cover those disbursements. We also recommend the county treasurer comply with all applicable requirements outlined in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* concerning countersigning of checks.

*County Judge/Executive's Response: This comment was based on findings from the past administration. Procedures have been implemented to monitor bank accounts. This is reviewed at least weekly by the County Judge/Executive.*

**The fiscal court's payroll account was not properly reconciled:** This is a repeat finding and was included in the prior year audit report as Finding 2017-007. The fiscal court uses a clearing bank account for payroll processing. Deposits are made into the bank account from the fiscal court's general, road, jail, Local Government Economic Assistance (LGEA), Disaster and Emergency Services (DES), ambulance, occupational tax, and 911 funds to pay for salaries, taxes, fiscal court matching portion of taxes, retirement, health insurance, and other payments to benefit vendors. The payroll account should reconcile to zero every month because the total amount deposited into the account should be completely paid out that same month. The fiscal court has consistently prepared inaccurate reconciliations on this account and a reconciled balance existed at June 30, 2018, of $2,046, which includes a prior year outstanding liability to the Internal Revenue Service (IRS) that has not been paid.

According to the county treasurer, the former county judge/executive's administrative assistant inaccurately reconciled the payroll account. The county treasurer stated the outstanding IRS liability just didn't get paid. As a result, the fiscal court had an underpayment of $17,062 of federal taxes due to the IRS from June 2017.

Good internal controls require timely, accurate reconciliations for bank accounts and all other reports concerning payroll to ensure all funds are properly accounted for and to prevent misappropriation of funds and inaccurate financial reporting. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies are transferred from other funds. Therefore, the reconciled balance each month of the payroll revolving account should be zero.

We recommend the fiscal court reconcile the payroll revolving bank account to a zero balance each month. In addition, we recommend the fiscal court reconcile all reports for federal taxes, state taxes, local taxes, retirement, and health insurance to determine the correct amounts are deducted, reported, paid, and agree with the amounts deposited into the payroll account. We also recommend the fiscal court contact the IRS and resolve the outstanding liability of $17,062.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration will review the payroll account by at least two employees to ensure proper reconciliation.*

**The fiscal court did not have proper internal controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2017-008. The fiscal court did not follow proper procedures and requirements for disbursements of county funds. The following deficiencies and non-compliances were noted:

- Two invoices tested were paid more than 30 days after they were received but did not accrue finance charges.
- One invoice tested was processed using a fax copy of an invoice instead of the actual invoice.
- There was no evidence the four invoices tested for inmates housed in other counties were reviewed to ensure the inmates listed were Clinton County inmates.
- Two capital assets purchased were posted as 'maintenance' and as such, weren't added to the county's capital asset listing.
- The county received an insufficient funds check for a building inspection that was never

collected nor turned over to the county attorney for prosecution.

- The service charges accrued for negative bank balances were posted to the ledgers without fiscal court approval.
- Two meals were reimbursed but did not have itemized tickets; one of these was a $90 meal for the former judge/executive.
- Three tourism board disbursements were paid without sufficient documentation. Additionally, the checks were authorized by the former administrative assistant and a tourism employee, not the treasurer as required by regulations.
- Two invoices tested show an employee was reimbursed for using their personal vehicle with both invoices being for a six month period and both invoices being the exact same amount of mileage without specific details on how that number was achieved.
- Two travel invoices tested were paid even though the form did not have the signed approval of the former judge/executive.

The former judge/executive relied upon employees to ensure that statutes and regulations were followed without sufficient controls or monitoring.

The deficiencies and noncompliances noted above resulted in line items over budget, bank accounts overdrawn, claims possibly being paid not related to the fiscal court, inaccurate reporting, and potential misappropriation of assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "purchases shall not be made without approval by the judge/executive (or designee), and/or a 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."

The Clinton County Kentucky Administrative Code states, "[i]n general the fiscal court is responsible for setting the policies and priorities of Clinton County and for insuring that the mandated functions and responsibilities of the county are carried out. Responsibility for the specific execution of the policies, on the other hand, is vested in the Judge Executive."

KRS 65.140(2) states, in part, "[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within (30) working days of receipt of a vendor's invoice[.]"

Good internal controls dictate that original invoices be used for payment, disbursements be posted to the correct account codes, all invoices be reviewed for accuracy prior to payment, supporting documentation be maintained for all disbursements, and all travel reimbursements have the proper approval.

We recommend the fiscal court implement policies and procedures to ensure disbursements are in compliance with applicable statutes and regulations. Additionally we recommend the fiscal court put into place internal controls to monitor that these policies and procedures are operating effectively.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration will require at least two employees to review disbursements.*

**The fiscal court was not in compliance and did not have adequate internal controls over the Local Government Economic Assistance (LGEA) fund:** This is a repeat finding and was included in the prior year audit report as Finding 2017-012. The adopted budget included $20,576 of revenues expected from LGEA for mineral tax. However, when the fiscal court received payments from the Department for Local Government (DLG), the monies were deposited, spent from, and posted to the general fund in numerous account codes.

The fiscal court did not document or advertise for a public hearing on the disbursement of funds within the LGEA fund. The fiscal court also expended LGEA funds on the following unallowable categories: account 04-5080-175, the fiscal court paid the community center custodian $22,273; account 04-9400-202, the fiscal court paid the employer's share of the custodian's retirement $4,272; account 04-9400-205, the fiscal court paid the custodian's insurance $84; account 04-9400-201, the fiscal court paid the employer's share of Social Security and Medicare $1,614; account 04-9100-503, the fiscal court paid bank service charges of $293; and account 04-9100-531, the fiscal court paid bond premiums of $102.

The county treasurer did not realize the former finance officer had paid unallowable expenses from the LGEA fund until informed by the auditors. Nor were they aware, until that audit, that a public hearing was required for LGEA funds. Furthermore, they thought that paying the community center custodian from LGEA funds would be allowable since the individual was not a "courthouse employee."

The financial statement approved by the fiscal court was inaccurate because LGEA funds were not receipted and expended according to KRS 42.455. The fiscal court was not in compliance with 109 KAR 10:010 Section 2, because the public was not informed through hearing on the disbursement of LGEA monies. Even though the Clinton County Fiscal Court signed the certification of compliance required by KRS 42.460, the Clinton County Fiscal Court did not expend LGEA funds for the purpose intended as noted in this comment.

DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* states KRS 42.455(2)(3)(4) specifically prohibits the expenditure of LGEA funds for the administration of government.

109 KAR 10:010 Section 2 states:

> Budget Hearings. Each fiscal year, any recipient local government that proposes to expend money from the fund in any fiscal year shall hold at least one (1) public hearing on specific proposed projects the government intends to fund (hereafter referred to as the budget hearing).
> (1) At the budget hearing, all citizens of the recipient local government shall have a reasonable opportunity to provide written and oral comments, and to ask questions concerning the allocation of local government assistance funds.

(2) At least seven (7) days prior to the budget hearing the recipient local government shall make available for public inspection during normal business hours, at the principal office of the local government, a summary of the proposed expenditures from the fund. This summary shall be submitted as a part of the county's annual budget to the Department of [sic] Local Government. This summary shall identify each expenditure according to eligible categories and the amount of money to be allocated to each category.
(3) A notice of the budget hearing shall be published in a newspaper of general circulation serving the geographic area of the recipient local government no later than seven (7) but not more than twenty-one (21) days prior to the scheduled date of the hearing. The notice shall contain the following: date, place and time of the public budget hearing; a statement of the amount anticipated from the fund for the fiscal year; the amount of such funds to be expended in each eligible category; a statement advising when and where a summary of projects and a summary of the entire budget for all income and expenditures of the recipient government is available for public inspection; a statement that citizens attending the public budget hearing have the right to provide written and/or oral comments and ask questions concerning the allocation of local government assistance funds.
(4) The public budget hearing may be held concurrently with budget hearings of the recipient local government provided the notice specifically identifies the fund and includes all information required by subsection (3) of this section.

In addition, KRS 42.460 states, in part, "the audit report shall include a certification that the funds were expended for the purpose intended."

Good internal controls dictate that all funds be deposited and expended from the proper account, spent according to required statutes and reported properly on the financial statement.

We recommend the fiscal court ensure all LGEA funds are deposited and expended from the LGEA bank account on allowable disbursements and reported properly on the financial statement. We also recommend the fiscal court ensure a public hearing is held on the disbursement of funds received for mineral tax to be in compliance with KRS 42.455.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration will implement internal controls over the Local Government Economic Assistance (LGEA) Fund.*

**The fiscal court lacked adequate internal controls over payroll:** This is a repeat finding and was included in the prior year audit report as Finding 2017-015. The fiscal court lacked adequate internal controls over payroll. The following control deficiencies were noted:

- Salaries were approved "same as current salaries" but did not document actual salaries for each position in the fiscal court minutes.
- Three employees of the 20 tested did not sign or approve their timesheets.
- One (1) supervisor did not get the county judge/executive's approval on his/her time sheet.
- Ambulance service employees tested showed a negative personal leave balance. Investigation determined this was how the former finance officer coded 'on call' time worked.

- Federal Insurance Contributions Act (FICA) withholdings were incorrectly computed due to retirement being deducted from taxable wages.
- One employee was paying for spouse vision coverage but the additional coverage was not listed on the health insurance invoice tested.
- Three (3) part-time employees were identified by the Kentucky Retirement Systems (KRS) as working an average of more than 100 hours per month in June 2018. There was no evidence that this was reviewed by the former county judge/executive or that additional policies were instituted to ensure that part-time employee do not work full time hours.
- Nineteen employees were paid a total of 643 hours or $8,962 for unused vacation time when the personnel policy states that vacation time does not have a cash value.

The former county judge/executive relied upon one employee and did not provide sufficient oversight to ensure accuracy of the work performed or that policies and procedures were followed.

Without a documented copy of the salary schedule and without ensuring employees sign their timesheets, employees could have been under or overpaid. And since the county doesn't have a personal time policy, the negative personal time for ambulance service employees makes it appear as if they received benefits other county employees did not or that ambulance employees owe the county for benefits not earned. Additionally, since FICA withholdings were calculated and paid incorrectly, the county could be liable for penalties and interest from the federal government.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly and ensuring that the county's assets are safeguarded.

KRS 61.510(21) states, in part, "'[r]egular full-time positions,' as used in subsection (5) of this section, shall mean all positions that average one hundred (100) or more hours per month determined by using the number of months actually worked within a calendar year or fiscal year[.]"

The Clinton County Personnel Ordinance Classification and Compensation Plans Personnel Policies and Procedures Position Descriptions section on vacation leave states, "8. Compensation in cash for vacation leave in lieu of time off shall **not** be given."

We recommend fiscal court strengthen their internal controls by including a copy of the approved salary schedule with fiscal court minutes. Additionally, the county should ensure all time sheets/cards are signed by the corresponding employee and his/her supervisor, by ensuring all employees' withholdings are being computed correctly and by ensuring that employees are receiving additional benefits if they are paying for them. And the fiscal court should correctly code "on call" time worked as wages earned. Furthermore, we recommend the fiscal court update their personnel ordinance and ensure those policies are followed.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration has implemented procedures to provide internal control over payroll. Payroll will be reviewed by the Finance Officer, Treasurer and County Judge/Executive prior to posting payroll.*

**The fiscal court did not properly reconcile retirement reports with payroll reports:** This is a repeat finding and was included in the prior year audit report as Finding 2017-016. Discrepancies were noted between amounts reported to the County Employees Retirement System (CERS) and the county's payroll reports. The following errors or problems were noted with the fiscal court's CERS benefits:

- Detailed retirement reports and invoices are not printed and maintained in the fiscal court's records to document the payments made to retirement.
- Retirement contributions were not properly recorded to the disbursement ledgers. They were recorded at the amount listed on the payroll summaries not the actual amount paid to CERS.
- Employees who were paid out for vacation time had those wages reported on the monthly CERS report when those wages are not considered 'credible compensation'.
- The amounts reported for gross salaries on the retirement reports did not agree with gross salaries per the payroll summaries. For the period July 1, 2017 through June 30, 2018:

  - $129,551 of full time employee wages were not reported and $88,365 of employee full time wages were reported in excess of actual wages earned.
  - $2,363,900 total wages (part-time and full time) were paid but only $2,004,540 were reported leaving $359,360 unreported.
  - $112,164 was withheld from employee pay for the employee share of retirement but only $97,137 was paid leaving $15,027 still due to CERS.

The former county judge/executive relied on a single employee without sufficient oversight or controls in place to ensure retirement was reported and paid correctly.

Some employee wages were over reported and some under reported and not all of the employee share of retirement has been paid. A strong internal control system over retirement is essential in ensuring that retirement benefits are calculated, reported, and paid to CERS properly.

KRS 78.610 states:

> (1) Each employee shall, commencing on August 1, 1990, contribute, for each pay period for which he receives compensation, five percent (5%) of his creditable compensation.
> (2) The agency reporting official of a participating county shall cause to be deducted from the 'creditable compensation' of each employee for each and every payroll period subsequent to the date the county participated in the system the contribution payable by the member as provided in KRS 78.510 to 78.852. The agency reporting official shall promptly pay the deducted employee contributions to the system in accordance with KRS 78.625.

Furthermore, KRS 61.702(2)(b)(1.) states, in part, "[e]ach employer described in paragraph (a) of this subsection shall deduct from the creditable compensation of each member having a membership date on or after September 1, 2008, an amount equal to one percent (1%) of the member's creditable compensation. The deducted amounts shall, at the discretion of the board, be credited to accounts established pursuant to 26 U.S.C. sec. 401(h), within the funds established in KRS 16.510, 61.515, and 78.520[.]"

We recommend the fiscal court put procedures in place to ensure wages are reported to CERS correctly. For example, an individual independent of the payroll process should reconcile the monthly retirement reports to monthly payroll summaries. The reconciliation should include comparing all wage and retirement amounts on the retirement report to the payroll summary and should then be reviewed by the county judge/executive or the fiscal court. We also recommend the detailed retirement reports be printed each month from the CERS/Kentucky Retirement Systems (KRS) website with the electronic funds payment confirmation which breaks out gross wages, withholdings, and employer's share by employee to compare to the payroll register for accuracy. Any invoices or adjustments obtained each month should also be printed and kept with the monthly report to explain any differences. Furthermore, we recommend the fiscal court contact CERS concerning the $15,207 of employee share of retirement not paid during fiscal year 2018. These findings will be referred to KRS.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration has implemented procedures to ensure reconciliation is performed and accurate with retirement reports and payroll reports. We have been in contact with Kentucky Retirement Board to correct errors.*

**The fiscal court did not pay tax liabilities timely:** This finding is similar in nature to Finding 2017-017 in the prior year audit report. During Fiscal Year 2018, tax withholdings and employer contributions were not submitted timely to the Internal Revenue Service (IRS) and to the Kentucky Department of Revenue (DOR). Eighteen of 26 IRS payments for the year tested were not made timely. Additionally, one of seven state tax returns for the quarter tested were not remitted timely. Biweekly and quarterly reports maintained did materially agree to what was submitted to the IRS and DOR. However, three federal payments and one state payment did not have supporting documentation (auditors used other means to determine the payments were accurate). The former county judge/executive relied upon a single employee and failed to implement internal controls to ensure tax liabilities were reported correctly and remitted timely.

Federal and state taxes were not remitted in accordance with the required withholding deposit schedules. As a result, the fiscal court could incur penalties and interest.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are accurate and turned over to the appropriate taxing authorities.

*Publication 15 Employer's Tax Guide (Circular E)* and *Notice 931 Deposit Requirements For Employment Taxes* issued by the IRS require employers who are semiweekly schedule depositors to deposit federal taxes accumulated on taxes for payroll paid on Wednesday, Thursday, or Friday by the following Wednesday.

103 KAR 18:150 Section 2(4)(a) states, in part, "any employer who withheld income tax of $50,000 or more during the lookback period shall report and pay the tax twice monthly using

Revenue Form K-1, 'Employer's Return of Income Tax Withheld'. Revenue Form K-1 and the income tax withheld during the first through the 15th day of each month of the calendar year shall be reported and paid on or before the 25th day of that month… income tax withheld during the 16th through the last day of each month shall be reported and paid on or before the tenth day of the following month."

We recommend the fiscal court implement internal controls over tax liabilities. For example, an individual independent of the payroll process should review payroll earnings records and should compare amounts due to amounts paid. Once completed, the review should be signed by the individual performing the review and submitted to the county judge/executive. These reports should be maintained by the fiscal court to support the payments made and internal controls/oversight implemented. Additionally, the fiscal court should implement strong oversight over tax payments to state and federal entities to ensure those payments are made timely.

*County Judge/Executive's Response: The official did not provide a response.*

**The fiscal court lacks internal controls over capital assets:** A material weakness existed over the reporting of capital assets and infrastructure of Clinton County. The former county judge/executive did not turn over a capital asset and infrastructure schedule to the current administration after vacating the office.

According to the county treasurer, the former county judge/executive's administrative assistant maintained the capital assets and infrastructure schedule, but it could not be located.

Not maintaining an accurate schedule of capital assets and infrastructure has caused the new administration to attempt preparation of these records without the assistance of historical information.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting, to protect assets from misappropriation, and to ensure accurate insurance coverage. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement." The manual also states, "[a]n annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented."

Furthermore, the manual states "[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by the authorized personnel and documented accordingly."

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with DLG's requirements. Procedures should be implemented that will identify and track additions and deletions for the purpose of the capital asset schedule with adequate supporting documentation and procedures should be implemented to reconcile to the department inventory records annually for insurance coverage.

*County Judge/Executive's Response: This comment was based on findings from the past administration. The current administration will assign an employee to ensure proper controls over capital assets.*

**The jail commissary does not have strong internal controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2017-019. The jail commissary does not have strong internal controls over disbursements. Receipts collected from inmates for booking, housing, and medical fees are deposited into the commissary account each month, but are not paid to the fiscal court timely. The following deficiencies were noted:

- Three inmate fee payments were turned over to the county eight months after being collected.
- Three inmate fee payments were turned over to the county seven months after being collected.
- Two inmate fee payments were turned over to the county four months after being collected.
- Three inmate fee payments were turned over to the county three months after being collected.
- Six inmate fee payments were turned over to the county two months after being collected.

In addition, taxes are collected on all applicable jail commissary sales, but are not being paid to the Kentucky Department of Revenue (DOR) on a monthly basis. The following deficiencies were noted:

- July 2017 sales taxes were paid to the state 11 months late.
- August 2017 sales taxes were paid to the state 10 months late.
- September 2017 sales taxes were paid to the state nine months late.
- October 2017 sales taxes were paid to the state eight months late.
- November 2017 sales taxes were to the state seven months late.
- December 2017 sales taxes were paid to the state six months late.
- January 2018 sales taxes were paid to the state five months late.
- February 2018 sales taxes were paid to the state four months late.
- March 2018 sales taxes were paid to the state three months late.
- April 2018 sales taxes were paid to the state two months late.
- May 2018 sales taxes were paid to the state one month late.

According to the former jailer's bookkeeper, these issues are the result of not remembering to make payments timely.

These deficiencies could result in inaccurate reporting and misappropriation of assets. Additionally, failure to submit all sales tax as required will result in penalties and interest being charged.

Proper internal controls over disbursements are important to ensure invoices are paid timely. Additionally, KRS 139.540 states, "[t]he taxes imposed by this chapter are due and payable to the department monthly and shall be remitted on or before the twentieth day of the next succeeding calendar month." KRS 139.550(1) states, "[o]n or before the twentieth day of the month following each calendar month, a return for the preceding month shall be filed with the department in a form the department may prescribe."

We recommend the jail commissary implement internal controls over disbursements by turning over all inmate fees to the county within 30 working days of collection. We also recommend the jailer collect and submit sales tax to DOR monthly as required.

*County Judge/Executive's Response: The official did not provide a response.*

*County Jailer's Response: The official did not provide a response.*

**The former jailer did not deposit receipts daily:** This is a repeat finding and was included in the prior year audit report as Finding 2017-020. Receipts of the jail commissary fund were not deposited timely. Review of bank statements noted receipts were deposited haphazardly, and three deposits noted during testing were deposited four, five, and six business days, respectively, after collection. Additionally, a total of $96 was received on April 30, 2018, but was never deposited to the jail inmate bank account.

In the prior year, the former jailer's bookkeeper stated this condition was a result of a limited staff, and deposits were made when time allowed. The former bookkeeper could not be reached for comment concerning the undeposited receipts.

When deposits are not made timely, the risk that the bank account can be overdrawn increases, there is an increased risk of misappropriation of funds, and inmates may not receive the funds owed them.

The state local finance officer was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds are outlined in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires, "[d]aily deposits intact into a federally insured banking institution." Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft.

The former jailer should have made daily deposits to the jail commissary fund and to the jail inmate fund to ensure compliance with DLG's requirements. We recommend the jailer make daily deposits.

*County Judge/Executive's Response: The official did not provide a response.*

*County Jailer's Response: The official did not provide a response.*

**The former jailer lacked adequate segregation of duties over the jail commissary fund, and the jail inmate account:** This is a repeat finding and was included in the prior year audit report as Finding 2017-021. The former jailer had a lack of segregation of duties over the jail commissary and inmate account's accounting functions. The former jailer's bookkeeper collected money, issued receipts, prepared and deposited receipts, wrote and signed checks, posted to the ledgers, and prepared the bank reconciliations.

According to the former jailer's bookkeeper, this condition was a result of a limited budget, which restricted the number of employees the former jailer could hire or delegate duties to.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

A proper segregation of duties over the accounting functions, or implementing compensating controls when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The former jailer could have separated the duties of receiving cash, preparing deposits, writing checks, posting to ledgers, and preparing monthly bank reconciliations. If this was not feasible due to the lack of staff, cross-checking procedures could have been implemented and documented by the individual performing the procedure. We recommend the jailer segregate duties over the jail commissary fund and jail inmate account.

*County Judge/Executive's Response: The official did not provide a response.*

*County Jailer's Response: The official did not provide a response.*

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

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