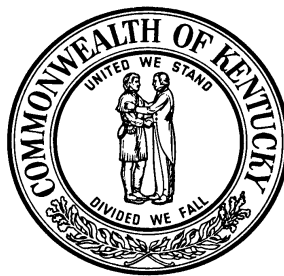


**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2018**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Richard C. Armstrong, Former Clinton County Judge/Executive

The Honorable Ricky L. Craig, Clinton County Judge/Executive

Members of the Clinton 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 Clinton County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Clinton 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky

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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 Clinton 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 Clinton County Fiscal Court as of June 30, 2018, 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 Clinton County Fiscal Court as of June 30, 2018, 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 Clinton County Fiscal Court. The Budgetary Comparison Schedules and the Capital Asset Schedule 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.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule 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 and the Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Richard C. Armstrong, Former Clinton County Judge/Executive

The Honorable Ricky L. Craig, Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2019, on our consideration of the Clinton 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 Clinton 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 Responses included herein, which discusses the following report findings:

- 2018-001 The Fiscal Court Lacks Adequate Segregation Of Duties Over All Accounting Functions
- 2018-002 Fiscal Court Disbursements Exceeded Budgeted Appropriations
- 2018-003 The Fiscal Court Lacks Internal Controls Over Cash Transfers
- 2018-004 The Fiscal Court Had Overdrawn Bank Balances In Numerous Bank Accounts During Fiscal Year 2018
- 2018-005 The Fiscal Court's Payroll Account Was Not Properly Reconciled
- 2018-006 The Fiscal Court Did Not Have Proper Internal Controls Over Disbursements
- 2018-007 The Fiscal Court Was Not In Compliance And Did Not Have Adequate Internal Controls Over The Local Government Economic Assistance (LGEA) Fund
- 2018-008 The Fiscal Court Lacked Adequate Internal Controls Over Payroll
- 2018-009 The Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports
- 2018-010 The Fiscal Court Did Not Pay Tax Liabilities Timely
- 2018-011 The Fiscal Court Lacks Internal Controls Over Capital Assets
- 2018-012 The Jail Commissary Does Not Have Strong Internal Controls Over Disbursements
- 2018-013 The Former Jailer Did Not Deposit Receipts Daily
- 2018-014 The Former Jailer Lacked Adequate Segregation Of Duties Over The Jail Commissary Fund And The Jail Inmate Account

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 9, 2019

CLINTON COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

Richard C. Armstrong	County Judge/Executive
Johnny Russell	Magistrate
Patty Guinn	Magistrate
Ricky L. Craig	Magistrate
Mickey Riddle	Magistrate
Terry Buster	Magistrate
Hershel Key	Magistrate

Other Elected Officials:

Michael A. Rains	County Attorney
Johnny Thrasher	Jailer
Shelia Booher	County Clerk
Jake Staton	Circuit Court Clerk
James Guffey	Sheriff
Pat Campbell	Property Valuation Administrator
Steve Talbott	Coroner

Appointed Personnel:

Tuesday Davis	County Treasurer
Joanna Armstrong	Finance Officer

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 425,584	\$	\$	\$
In Lieu Tax Payments	134,545			
Excess Fees	25,924			
Licenses and Permits	22,293			
Intergovernmental	130,118	1,218,190	169,358	48,218
Charges for Services	20,004			
Miscellaneous	98,766	33,682	1,808	13,145
Interest	68	621	19	4
Total Receipts	<u>857,302</u>	<u>1,252,493</u>	<u>171,185</u>	<u>61,367</u>
DISBURSEMENTS				
General Government	594,930	21,691	1,261	49,658
Protection to Persons and Property	3,312		580,400	2,225
General Health and Sanitation	247,796			
Social Services				4,020
Recreation and Culture				40,501
Roads		871,856		
Administration	386,176	230,622	128,846	19,051
Total Disbursements	<u>1,232,214</u>	<u>1,124,169</u>	<u>710,507</u>	<u>115,455</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(374,912)</u>	<u>128,324</u>	<u>(539,322)</u>	<u>(54,088)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	559,397	100,000	517,000	55,000
Transfers To Other Funds	<u>(227,000)</u>	<u>(190,589)</u>		
Total Other Adjustments to Cash (Uses)	<u>332,397</u>	<u>(90,589)</u>	<u>517,000</u>	<u>55,000</u>
Net Change in Fund Balance	(42,515)	37,735	(22,322)	912
Fund Balance - Beginning (Restated)	135,900	464,223	5,528	2,934
Fund Balance - Ending	<u>\$ 93,385</u>	<u>\$ 501,958</u>	<u>\$ (16,794)</u>	<u>\$ 3,846</u>
Composition of Fund Balance				
Bank Balance	\$ 98,445	\$ 504,466	\$ (1,624)	\$ 5,876
Plus: Deposits In Transit				
Less: Outstanding Checks	<u>(5,060)</u>	<u>(2,508)</u>	<u>(15,170)</u>	<u>(2,030)</u>
Fund Balance - Ending	<u>\$ 93,385</u>	<u>\$ 501,958</u>	<u>\$ (16,794)</u>	<u>\$ 3,846</u>

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

CLINTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds					Unbudgeted Funds	
Disaster and Emergency Services Fund	Ambulance Fund	Forestry Fund	Occupational Tax Fund	911 Fund	Tourism Fund	Homeland Security Fund
\$	\$	\$	\$ 1,594,836	\$ 195,110	\$	\$
5,164	10,000					
	429,336			34,186		
1,548	52,206			34,301		
3	41		263	28		
<u>6,715</u>	<u>491,583</u>		<u>1,595,099</u>	<u>263,625</u>		
			35,508			
36,958	955,650	1,502		253,640		
1,896	242,242		7,374	60,689		
<u>38,854</u>	<u>1,197,892</u>	<u>1,502</u>	<u>42,882</u>	<u>314,329</u>		
<u>(32,139)</u>	<u>(706,309)</u>	<u>(1,502)</u>	<u>1,552,217</u>	<u>(50,704)</u>		
36,200	667,000	1,500		97,000		
			(1,551,700)	(60,000)	(3,808)	
<u>36,200</u>	<u>667,000</u>	<u>1,500</u>	<u>(1,551,700)</u>	<u>37,000</u>	<u>(3,808)</u>	
4,061	(39,309)	(2)	517	(13,704)	(3,808)	
36	42,294	8	9,063	19,351	3,808	1,776
<u>\$ 4,097</u>	<u>\$ 2,985</u>	<u>\$ 6</u>	<u>\$ 9,580</u>	<u>\$ 5,647</u>	<u>\$ 0</u>	<u>\$ 1,776</u>
\$ 4,175	\$ 4,297	\$ 6	\$ 9,580	\$ 5,767	\$	\$ 1,776
<u>(78)</u>	<u>(1,312)</u>			<u>(120)</u>		
<u>\$ 4,097</u>	<u>\$ 2,985</u>	<u>\$ 6</u>	<u>\$ 9,580</u>	<u>\$ 5,647</u>	<u>\$ 0</u>	<u>\$ 1,776</u>

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

CLINTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

	<u>Unbudgeted Funds</u>	
	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS		
Taxes	\$	\$ 2,215,530
In Lieu Tax Payments		134,545
Excess Fees		25,924
Licenses and Permits		22,293
Intergovernmental		1,581,048
Charges for Services		483,526
Miscellaneous	18,155	253,611
Interest		1,047
Total Receipts	<u>18,155</u>	<u>4,717,524</u>
DISBURSEMENTS		
General Government		703,048
Protection to Persons and Property		1,833,687
General Health and Sanitation		247,796
Social Services		4,020
Recreation and Culture	15,120	55,621
Roads		871,856
Administration		1,076,896
Total Disbursements	<u>15,120</u>	<u>4,792,924</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>3,035</u>	<u>(75,400)</u>
Other Adjustments to Cash (Uses)		
Transfers From Other Funds		2,033,097
Transfers To Other Funds		<u>(2,033,097)</u>
Total Other Adjustments to Cash (Uses)		
Net Change in Fund Balance	3,035	(75,400)
Fund Balance - Beginning	<u>6,357</u>	<u>691,278</u>
Fund Balance - Ending	<u>\$ 9,392</u>	<u>\$ 615,878</u>
Composition of Fund Balance		
Bank Balance	\$ 17,966	\$ 650,730
Plus: Deposits In Transit	1,677	1,677
Less: Outstanding Checks	<u>(10,251)</u>	<u>(36,529)</u>
Fund Balance - Ending	<u>\$ 9,392</u>	<u>\$ 615,878</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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**CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Clinton County includes all budgeted and unbudgeted funds under the control of the Clinton 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.

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 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.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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.

Disaster and Emergency Services (DES) Fund - The primary purpose of this fund is to account for the disaster and emergency service expenses of the county. The primary source of receipts for this fund is the Kentucky State Treasurer.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance activities of the county. The primary source of receipts for this fund is user fees paid by insurance companies.

Forestry Fund - The primary purpose of this fund is to account for the forestry expenses of the county. The primary source of receipts for this fund is the fire acres property tax.

Occupational Tax Fund - The primary purpose of this fund is to account for the occupational tax collections of the county.

911 Fund - The primary purpose of this fund is to account for the emergency dispatch activities of the county. The primary source of receipts for this fund is telephone 911 fees.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Tourism Fund - The primary purpose of this fund is to account for tourism receipts and disbursements.

Homeland Security Fund - The primary purpose of this fund is to account for some emergency equipment expenses of the county. The primary source of receipts for this fund is the federal government.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135. The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates, or to enhance safety and security within the jail. The jailer is required 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.

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.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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.

E. Clinton County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Clinton 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 Clinton 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).

G. Related Organization and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on this criteria, the Clinton County Tourist and Convention Commission is considered a related organization of the Clinton County Fiscal Court.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Related Organization and Joint Ventures (Continued)

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the following are considered joint ventures of the Clinton County Fiscal Court: Parks and Recreation (with City of Albany and Clinton County Board of Education), Animal Control (with Cumberland County and Wayne County), and Airport (with Cumberland County).

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.

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 government 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	Occupational Tax Fund	911 Fund	Tourism Fund	Total Transfers In
General Fund	\$	\$ 190,589	\$ 365,000	\$	\$ 3,808	\$ 559,397
Road Fund	100,000					100,000
Jail Fund	95,000		422,000			517,000
LGEA Fund	7,000		38,000	10,000		55,000
DES Fund	25,000		11,200			36,200
Ambulance Fund			617,000	50,000		667,000
Forestry Fund			1,500			1,500
911 Fund			97,000			97,000
Total Transfers Out	\$ 227,000	\$ 190,589	\$ 1,551,700	\$ 60,000	\$ 3,808	\$ 2,033,097

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(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. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2018, was \$1,460.

Note 5. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$279,215, FY 2017 was \$330,489, and FY 2018 was \$339,535.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

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 accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 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 KRS Board of Directors 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 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Employee Retirement System (Continued)

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. 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, 2018, the Clinton 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.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Prior Period Adjustments

	Disaster and Emergency Services Fund
Beginning Balance, June 30, 2017	\$ 35
Adjustments:	
Immaterial Adjustment	<u>1</u>
Restated Beginning Balance, June 30, 2017	<u>\$ 36</u>

Note 8. Negative Fund Balance

The jail fund had an ending fund balance of (\$16,794) as of June 30, 2018. Disbursements were submitted for payment that exceeded the available cash balance.

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**CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2018

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CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 443,000	\$ 443,000	\$ 425,584	\$ (17,416)
In Lieu Tax Payments	140,000	140,000	134,545	(5,455)
Excess Fees	24,000	24,000	25,924	1,924
Licenses and Permits	5,500	5,500	22,293	16,793
Intergovernmental	347,300	347,300	130,118	(217,182)
Charges for Services	6,000	6,000	20,004	14,004
Miscellaneous	5,500	25,879	98,766	72,887
Interest	100	100	68	(32)
Total Receipts	<u>971,400</u>	<u>991,779</u>	<u>857,302</u>	<u>(134,477)</u>
DISBURSEMENTS				
General Government	592,776	618,119	594,930	23,189
Protection to Persons and Property	2,700	3,400	3,312	88
General Health and Sanitation	278,764	257,300	247,796	9,504
Administration	363,800	379,600	386,176	(6,576)
Total Disbursements	<u>1,238,040</u>	<u>1,258,419</u>	<u>1,232,214</u>	<u>26,205</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(266,640)</u>	<u>(266,640)</u>	<u>(374,912)</u>	<u>(108,272)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	266,640	266,640	559,397	292,757
Transfers To Other Funds			<u>(227,000)</u>	<u>(227,000)</u>
Total Other Adjustments to Cash (Uses)	<u>266,640</u>	<u>266,640</u>	<u>332,397</u>	<u>65,757</u>
Net Change in Fund Balance			(42,515)	(42,515)
Fund Balance - Beginning			<u>135,900</u>	<u>135,900</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 93,385</u>	<u>\$ 93,385</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 603,500	\$ 603,500	\$ 1,218,190	\$ 614,690
Miscellaneous	1,500	1,500	33,682	32,182
Interest	250	250	621	371
Total Receipts	<u>605,250</u>	<u>605,250</u>	<u>1,252,493</u>	<u>647,243</u>
DISBURSEMENTS				
General Government	22,000	21,750	21,691	59
Roads	868,956	889,706	871,856	17,850
Administration	253,248	232,748	230,622	2,126
Total Disbursements	<u>1,144,204</u>	<u>1,144,204</u>	<u>1,124,169</u>	<u>20,035</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(538,954)</u>	<u>(538,954)</u>	<u>128,324</u>	<u>667,278</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	(90,558)	(90,558)	(190,589)	(100,031)
Total Other Adjustments to Cash (Uses)	<u>(90,558)</u>	<u>(90,558)</u>	<u>(90,589)</u>	<u>(31)</u>
Net Change in Fund Balance	(629,512)	(629,512)	37,735	667,247
Fund Balance - Beginning	629,512	629,512	464,223	(165,289)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 501,958</u>	<u>\$ 501,958</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 125,300	\$ 125,300	\$ 169,358	\$ 44,058
Charges for Services	4,000	4,000		(4,000)
Miscellaneous	1,000	28,960	1,808	(27,152)
Interest	100	100	19	(81)
Total Receipts	<u>130,400</u>	<u>158,360</u>	<u>171,185</u>	<u>12,825</u>
DISBURSEMENTS				
General Government	1,000	1,500	1,261	239
Protection to Persons and Property	461,600	499,990	580,400	(80,410)
Administration	134,652	171,970	128,846	43,124
Total Disbursements	<u>597,252</u>	<u>673,460</u>	<u>710,507</u>	<u>(37,047)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(466,852)</u>	<u>(515,100)</u>	<u>(539,322)</u>	<u>(24,222)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>466,852</u>	<u>466,852</u>	<u>517,000</u>	<u>50,148</u>
Total Other Adjustments to Cash (Uses)	<u>466,852</u>	<u>466,852</u>	<u>517,000</u>	<u>50,148</u>
Net Change in Fund Balance		(48,248)	(22,322)	25,926
Fund Balance - Beginning			<u>5,528</u>	<u>5,528</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (48,248)</u>	<u>\$ (16,794)</u>	<u>\$ 31,454</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 48,218	\$ (101,782)
Miscellaneous	12,000	12,000	13,145	1,145
Interest	50	50	4	(46)
Total Receipts	<u>162,050</u>	<u>162,050</u>	<u>61,367</u>	<u>(100,683)</u>
DISBURSEMENTS				
General Government	54,250	54,750	49,658	5,092
Protection to Persons and Property	3,000	2,225	2,225	
Social Services	3,900	4,100	4,020	80
Recreation and Culture	82,900	46,112	40,501	5,611
Administration	18,000	19,575	19,051	524
Total Disbursements	<u>162,050</u>	<u>126,762</u>	<u>115,455</u>	<u>11,307</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)		<u>35,288</u>	<u>(54,088)</u>	<u>(89,376)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			<u>55,000</u>	<u>55,000</u>
Total Other Adjustments to Cash (Uses)			<u>55,000</u>	<u>55,000</u>
Net Change in Fund Balance		35,288	912	(34,376)
Fund Balance - Beginning			<u>2,934</u>	<u>2,934</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 35,288</u>	<u>\$ 3,846</u>	<u>\$ (31,442)</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

DISASTER AND EMERGENCY SERVICES FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 28,974	\$ 28,974	\$ 5,164	\$ (23,810)
Miscellaneous			1,548	1,548
Interest	20	20	3	(17)
Total Receipts	<u>28,994</u>	<u>28,994</u>	<u>6,715</u>	<u>(22,279)</u>
DISBURSEMENTS				
Protection to Persons and Property	25,544	40,544	36,958	3,586
Administration	3,450	3,450	1,896	1,554
Total Disbursements	<u>28,994</u>	<u>43,994</u>	<u>38,854</u>	<u>5,140</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(15,000)</u>	<u>(32,139)</u>	<u>(17,139)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			36,200	36,200
Total Other Adjustments to Cash (Uses)			<u>36,200</u>	<u>36,200</u>
Net Change in Fund Balance		(15,000)	4,061	19,061
Fund Balance - Beginning (Restated)			36	36
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (15,000)</u>	<u>\$ 4,097</u>	<u>\$ 19,097</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 50,000	\$ 10,000	\$ (40,000)
Charges for Services	602,000	602,000	429,336	(172,664)
Miscellaneous			52,206	52,206
Interest	50	50	41	(9)
Total Receipts	<u>602,050</u>	<u>652,050</u>	<u>491,583</u>	<u>(160,467)</u>
DISBURSEMENTS				
Protection to Persons and Property	857,400	959,600	955,650	3,950
Administration	297,911	245,711	242,242	3,469
Total Disbursements	<u>1,155,311</u>	<u>1,205,311</u>	<u>1,197,892</u>	<u>7,419</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(553,261)</u>	<u>(553,261)</u>	<u>(706,309)</u>	<u>(153,048)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>548,361</u>	<u>548,361</u>	<u>667,000</u>	<u>118,639</u>
Total Other Adjustments to Cash (Uses)	<u>548,361</u>	<u>548,361</u>	<u>667,000</u>	<u>118,639</u>
Net Change in Fund Balance	(4,900)	(4,900)	(39,309)	(34,409)
Fund Balance - Beginning	<u>4,900</u>	<u>4,900</u>	<u>42,294</u>	<u>37,394</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,985</u>	<u>\$ 2,985</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,502	\$ 1,502	\$	\$ (1,502)
Total Receipts	1,502	1,502		(1,502)
DISBURSEMENTS				
Protection to Persons and Property	1,502	1,502	1,502	
Total Disbursements	1,502	1,502	1,502	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(1,502)	(1,502)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			1,500	1,500
Total Other Adjustments to Cash (Uses)			1,500	1,500
Net Change in Fund Balance			(2)	(2)
Fund Balance - Beginning			8	8
Fund Balance - Ending	\$ 0	\$ 0	\$ 6	\$ 6

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,400,000	\$ 1,400,000	\$ 1,594,836	\$ 194,836
Interest	250	250	263	13
Total Receipts	<u>1,400,250</u>	<u>1,400,250</u>	<u>1,595,099</u>	<u>194,849</u>
DISBURSEMENTS				
General Government	32,540	35,740	35,508	232
Administration	9,550	(20,010)	7,374	(27,384)
Total Disbursements	<u>42,090</u>	<u>15,730</u>	<u>42,882</u>	<u>(27,152)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,358,160</u>	<u>1,384,520</u>	<u>1,552,217</u>	<u>167,697</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(1,358,160)</u>	<u>(1,358,160)</u>	<u>(1,551,700)</u>	<u>(193,540)</u>
Total Other Adjustments to Cash (Uses)	<u>(1,358,160)</u>	<u>(1,358,160)</u>	<u>(1,551,700)</u>	<u>(193,540)</u>
Net Change in Fund Balance		26,360	517	(25,843)
Fund Balance - Beginning			<u>9,063</u>	<u>9,063</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 26,360</u>	<u>\$ 9,580</u>	<u>\$ (16,780)</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 150,000	\$ 150,000	\$ 195,110	\$ 45,110
Charges for Services	2,000	2,000	34,186	32,186
Miscellaneous	500	500	34,301	33,801
Interest	50	50	28	(22)
Total Receipts	<u>152,550</u>	<u>152,550</u>	<u>263,625</u>	<u>111,075</u>
DISBURSEMENTS				
Protection to Persons and Property	251,365	256,715	253,640	3,075
Administration	69,050	62,100	60,689	1,411
Total Disbursements	<u>320,415</u>	<u>318,815</u>	<u>314,329</u>	<u>4,486</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(167,865)</u>	<u>(166,265)</u>	<u>(50,704)</u>	<u>115,561</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds				
Transfers From Other Funds	166,865	166,865	97,000	(69,865)
Transfers To Other Funds			(60,000)	(60,000)
Total Other Adjustments to Cash (Uses)	<u>166,865</u>	<u>166,865</u>	<u>37,000</u>	<u>(129,865)</u>
Net Change in Fund Balance	(1,000)	600	(13,704)	(14,304)
Fund Balance - Beginning	<u>1,000</u>	<u>1,000</u>	<u>19,351</u>	<u>18,351</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 1,600</u>	<u>\$ 5,647</u>	<u>\$ 4,047</u>

CLINTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

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

The general fund administration disbursements exceeded budgeted appropriations by \$6,576.

The jail fund protection to persons and property disbursements exceeded budgeted appropriations by \$80,410 and total disbursements exceeded budgeted appropriations by \$37,047.

The occupational tax fund administration disbursements exceeded budgeted appropriations by \$27,384 and total disbursements exceeded budgeted appropriations by 27,152.

CLINTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

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CLINTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 123,907	\$	\$	\$ 123,907
Buildings and Building Improvements	5,673,662			5,673,662
Vehicles*	948,012	119,530		1,067,542
Equipment	1,436,798	47,048	52,498	1,431,348
Infrastructure	6,429,735	399,127		6,828,862
 Total Capital Assets	 <u>\$ 14,612,114</u>	 <u>\$ 565,705</u>	 <u>\$ 52,498</u>	 <u>\$ 15,125,321</u>

**CLINTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

June 30, 2018

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 and Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles	\$ 5,000	3-25
Equipment	\$ 5,000	2-20
Infrastructure	\$ 20,000	10-50

Note 2. Beginning Balance Restatement

The beginning balance of vehicles has been decreased by \$6,000 due to a vehicle not removed in the prior year after it was sold.

**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***

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Richard C. Armstrong, Former Clinton County Judge/Executive
The Honorable Ricky L. Craig, Clinton County Judge/Executive
Members of the Clinton 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 Clinton County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Clinton County Fiscal Court's financial statement and have issued our report thereon dated May 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Clinton 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 Clinton County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clinton 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 Responses, 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 Responses as items 2018-001, 2018-003, 2018-005, 2018-006, 2018-008, 2018-009, 2018-010, 2018-011, 2018-012, and 2018-014 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 Responses as items 2018-002 and 2018-007 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clinton 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 Responses as items 2018-003, 2018-004, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, 2018-011, 2018-012, and 2018-013.

Views of Responsible Officials and Planned Corrective Action

Clinton County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. 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

May 9, 2019

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 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.

Views of Responsible Official and Planned Corrective Action:

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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 Fiscal Court 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.

Views of Responsible Official and Planned Corrective Action:

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

2018-003 The Fiscal Court Lacks Internal Controls Over Cash Transfers

This is a repeat finding and was included in the prior year report as 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 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Fiscal Court Lacks Internal Controls Over Cash Transfers (Continued)

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 *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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-004 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:

(See next page)

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Fiscal Court Had Overdrawn Bank Balances In Numerous Bank Accounts During Fiscal Year 2018 (Continued)

General Fund		Jail Fund (Continued)		DES Fund	
11/02/17	(\$17,740)	11/02/17	(\$29,404)	07/17/17	(\$396)
11/03/17	(\$1,091)	12/15/17	(\$8,868)	09/28/17	(\$5,226)
11/06/17	(\$1,363)	12/18/17	(\$9,082)	12/01/17	(\$22)
11/14/17	(\$1,078)	12/28/17	(\$12,455)	12/08/17	(\$50)
11/15/17	(\$1,308)	12/29/17	(\$15,300)	12/19/17	(\$83)
11/22/17	(\$36,077)	01/02/18	(\$17,474)	12/20/17	(\$161)
11/24/17	(\$36,679)	01/03/18	(\$17,217)		
11/27/17	(\$38,000)	01/04/18	(\$18,718)	<u>Ambulance Fund</u>	
01/25/18	(\$5,504)	01/05/18	(\$18,318)	08/14/17	(\$3,905)
01/26/18	(\$5,209)	01/08/18	(\$18,359)	08/15/17	(\$4,034)
01/29/18	(\$5,770)	01/11/18	(\$6,983)	10/09/17	(\$4,365)
01/30/18	(\$5,279)	01/18/18	(\$7,422)	01/30/18	(\$945)
01/31/18	(\$5,337)	01/23/18	(\$796)	04/25/18	(\$2,314)
02/01/18	(\$4,949)	01/24/18	(\$13,479)	04/26/18	(\$894)
02/02/18	(\$5,413)	01/25/18	(\$31,818)	04/27/18	(\$1,514)
02/08/18	(\$10,036)	01/26/18	(\$19,367)		
		02/08/18	(\$11,972)	<u>Payroll Account</u>	
		06/29/18	(\$1,624)	07/12/17	(\$33,215)
<u>Jail Fund</u>				08/07/17	(\$2,618)
09/07/17	(\$2,321)			08/08/17	(\$3,237)
09/11/17	(\$2,452)			08/09/17	(\$3,828)
09/12/17	(\$3,516)				
09/13/17	(\$3,883)	<u>LGEA Fund</u>			
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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Fiscal Court Had Overdrawn Bank Balances In Numerous Bank Accounts During Fiscal Year 2018 (Continued)

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 *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 *County Budget Preparation and State Local Finance Officer Policy Manual* concerning countersigning of checks.

Views of Responsible Official and Planned Corrective Action:

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.

2018-005 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 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, LGEA, 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Fiscal Court's Payroll Account Was Not Properly Reconciled (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-006 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Fiscal Court Did Not Have Proper Internal Controls Over Disbursements (Continued)

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 *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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-007 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Fiscal Court Was Not In Compliance And Did Not Have Adequate Internal Controls Over The Local Government Economic Assistance (LGEA) Fund (Continued)

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

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Fiscal Court Was Not In Compliance And Did Not Have Adequate Internal Controls Over The Local Government Economic Assistance (LGEA) Fund (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-008 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.
- 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 System 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The Fiscal Court Lacked Adequate Internal Controls Over Payroll (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-009 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 retirement (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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

- 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 the County Employees Retirement System (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 System 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 the Kentucky Retirement System.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

Views of Responsible Official and Planned Corrective Action:

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.

2018-010 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.

Views of Responsible Official and Planned Corrective Action:

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

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-011 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.

Views of Responsible Official and Planned Corrective Action:

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.

2018-012 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 comment 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-012 The Jail Commissary Does Not Have Strong Internal Controls Over Disbursements (Continued)

In addition, taxes are collected on all applicable jail commissary sales, but are not being paid to the Kentucky Department of Revenue 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 the Kentucky Department of Revenue monthly as required.

Views of Responsible Official and Planned Corrective Action:

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

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

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-013 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.

Views of Responsible Official and Planned Corrective Action:

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

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

2018-014 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-014 The Former Jailer Lacked Adequate Segregation Of Duties Over The Jail Commissary Fund And The Jail Inmate Account (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

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

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

CLINTON COUNTY FISCAL COURT

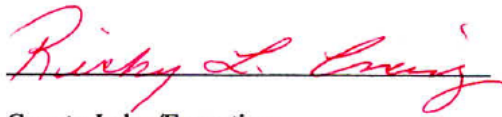
For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CLINTON COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Clinton 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

NOTE: Please see Finding 2018-007 which discusses the fiscal court not having adequate internal controls over the LGEA fund.