Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Clinton County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Clinton County Fiscal Court for the fiscal year ended June 30, 2019. State law requires annual audits of county fiscal courts.

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

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

The audit contains the following comments:

The county failed to maintain supporting documentation: The county failed to either obtain or maintain supporting documentation. The following documents had to be requested from other sources or were created:

- Several bank statements for the tourism account and the tri-county account.
- Bank reconciliations for the tourism account, tri-county animal account, homeland security account, and payroll account.
- Payroll ledgers
- Retirement reports

- Official training letters

Due to the lack of oversight by the county being in place the noted above were not on file.

Failure to maintain supporting documentation resulted in noncompliance with record keeping set forth by the State Local Finance Officer . Misstated financial statements may also result from the failure to maintain supporting documentation.

Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting and reporting standards which are to be used by county jailers for jail commissary funds maintained pursuant to KRS 441.135. These standards stipulated by the State Local Finance Officer, requires that the county maintain supporting documentation for all accounting functions.
We recommend the county ensures that all supporting documentation is obtained and filed appropriately.

County Judge/Executive's Response: This audit has been conducted under two separate administrations. From July 1st 2018 through January 7th 2019 was prior administration. The current administration began at that time and though it's hard to tell when the errors were made, I can only speak for what we have done since that time and say that we are working to correct the errors listed in this report. Personnel changes have been made to rectify errors that occurred through June 30th 2019.

Reconciliation has been done monthly since July 1st, 2019. All training letters are being kept in a file on site in the Judge's office.

The county failed to properly reconcile the payroll revolving account and account for liabilities: This is a repeat finding and was included in the prior year audit report as Finding 2018-005. A bank reconciliation for the payroll revolving account was not presented. After reconciling the account, it was determined that the account had a negative reconciled balance of $61,248 as of June 30, 2019. Unrecorded liabilities were the main contributing factor to the negative balance totaling $140,825. The aforementioned liabilities included past due state taxes, federal taxes, and retirement contributions not properly remitted to their respective agency.

The lack of oversight and internal controls resulted in the situation described.

The negative balance as noted above results in there not being sufficient funds to cover outstanding checks and liabilities that are to be paid.

The payroll revolving account is a clearing account and should be reconciled to a zero balance, or set amount, at the end of each pay period. Therefore, only the exact amount needed to cover payroll expenditures should be transferred to the payroll account.

We recommend the county treasurer transfer from the general fund the necessary funds to cover any reconciled negative balance. In the future, the county treasurer should only transfer enough funds to meet payroll obligations each pay period. We further recommend, the county treasurer maintain written documentation of the reconciliation between the transfer checks written to the payroll account and the payroll register to ensure accurate amounts are transferred to the payroll account each pay period. Finally, we recommend that the county establish procedures to provide oversight and provide internal controls that ensure all payroll related obligations are properly remitted.

County Judge/Executive's Response: As of July 1st 2019 all reconciliations are done monthly.

The county failed to implement proper internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2018-006. The fiscal court did not follow proper procedures and requirements for disbursements of county funds. The following deficiencies were noted:

- Five (5) invoices tested were paid in excess of thirty (30) days after the invoice date.
- The service charges accrued for negative bank balances were posted to the ledgers without fiscal court approval.
- One reimbursement request did not have supporting documentation.
- One reimbursement request did not have authorizing signatures.
- Two tourism board disbursements were paid without sufficient documentation. Additionally, the disbursements were not authorized by the fiscal court.
- One tourism board disbursement was in the form of electronic transfer.
- Two disbursements were coded incorrectly
- One disbursement was not properly bid
- Interest incurred and late fees paid on credit cards totaled $34 and $78, respectively.
- Cash disbursements are made to reimburse key deposit from community rentals.

The county failed to implement sufficient monitoring over the disbursement process.

The deficiencies noted above resulted in line items exceeded budgeted appropriations, bank accounts being overdrawn, inaccurate reporting, and potential misappropriation of assets.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[p]urchases 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." In addition all disbursements are to be made bycheck.

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…"

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

County Judge/Executive's Response: All documents are verified by three personnel.

The county did not maintain adequate internal controls over cash, receipt, and reporting processes: The county lacks proper internal controls over the cash, receipt, and reporting functions. We noted the following:

- There is no documented evidence of the review of bank reconciliations, bank statements, and deposits by someone independent of the recording and reporting functions.
- The general fund balance on both the fourth quarter report and bank reconciliation was incorrect. Activity from the tourism account and tri county animal account failed to be recorded. (See Finding 2019-014)
- There were numerous missing bank statements and bank reconciliations. (See Finding 2019-001)
- Cash received for rentals are not being deposited intact.
- Numerous negative bank balances occurred on numerous occasions. (See Finding 2019-015)
- The 6/30/19 tri-county account bank reconciliation not accurate.
- The 6/30/19 homeland account and tourism account reconciliations were not presented.
- General fund owes the road fund $82,971. (See Finding 2019-019)
- The fourth quarter financial report was inaccurate. (See Finding 2019-014)
- Payroll revolving account had a reconciled balance of ($61,248). (See Finding 2019-002)

The county failed to implement internal controls over cash, receipt, and reporting processes.

Without having proper internal controls over cash, receipt, and reporting processes the county could be at risk for misappropriation of assets and/or inaccurate financial reporting.

The quarterly report is a cumulative report and is prepared on a regulatory basis by the county judge/executive and the county treasurer pursuant to KRS 68.210. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Kentucky Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the fourth quarter financial report to be utilized for reporting. Furthermore compensating controls over the cash and reconciliation functions when staff is limited is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Some compensating controls may include:

- An independent person could compare the listing of receipts to the county treasurer's deposits and receipt ledger. The comparison should be documented.

- An independent person could review the county treasurer's bank reconciliations for accuracy and/or unusual items, and compare to the ending fund balances. This review should be documented.

We recommend that the fiscal court separate the duties of the cash and reconciliation process. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

County Judge/Executive's Response: As of July 1st 2019 reconciliation reported monthly to Fiscal Court for acknowledgement and approval during Fiscal Court Meetings.

The county failed to implement adequate internal controls over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2018-008. The county failed to establish adequate internal controls over payroll. The following control deficiencies were noted:

- Three (3) employees did not sign or approve their timesheets.
- Four (4) supervisor signatures were missing from timesheets.
- Federal Insurance Contributions Act (FICA) withholdings were incorrectly computed due to retirement being deducted from taxable wages.
- One employee had five percent (5%) withheld for retirement from wages instead of the required six percent (6%).

The county failed to provide sufficient oversight or implement internal controls to ensure payroll procedures and requirements are being conducted properly.

Due to FICA withholdings being calculated and paid incorrectly, the county may be liable for penalties, interest, and paying the unpaid FICA and retirement. Without both employee and supervisor signature for verification purposes of hours worked, misappropriation of assets may occur.

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. In addition, to reduce employees from disputing the number of hours worked, employers should require employees to sign a weekly timesheet and have a supervisor document their approval of hours worked.

KRS 61.510 (21) states, in part, "Regular 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…" Also, federal wage an hour guidelines require that proper amounts of FICA be withheld and remitted.

We recommend the fiscal court strengthen controls over the payroll process by requiring all county employees to prepare a timesheet each pay period indicating the actual hours worked. The timesheets should be signed by the employee indicating they agree with the hours worked and should also be signed by a supervisor indicating approval. Additionally, the county should ensure that all employees' withholdings are being computed correctly. Furthermore, we recommend the fiscal court update their personnel ordinance and ensure those policies are followed.

County Judge/Executive's Response: As of July 1st 2019 procedures implemented for biweekly inspection by three personnel.

The county failed to properly reconcile retirement reports to payroll reports: This is a repeat finding and was included in the prior year audit report as Finding 2018-009. 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 disbursement ledgers. They were recorded at the amount listed on the payroll summaries not the actual amount paid to CERS.
- The amounts reported for gross salaries on the retirement reports did not agree with gross salaries per the payroll summaries.

The county failed to provide sufficient oversight or implement internal controls to ensure retirement was reported and paid correctly.

Improper reporting and payment of retirement may lead to employees not being credited properly for retirement benefits. In addition, improper reporting may lead to penalties and interest being assessed by the Kentucky Retirement System (KRS).

CERS has strict guidelines in which should be followed when reporting retirement for employees.

KRS 78.610 states "(1) [e]ach 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) "[t]he 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 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 county establish procedures and internal controls to ensure wages and retirement are properly reported to CERS.

County Judge/Executive's Response: As of July 1st 2019 monthly reconciliation is performed before reporting to retirement.

The jailer did not have adequate segregation of duties over accounting functions of the jail commissary and inmate accounts: This is a repeat finding and was included in the prior year audit report as Finding 2019-014. A lack of segregation of duties existed over jail commissary receipts, disbursements and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the monthly receipt ledger, prepared checks for disbursements, and performed the monthly bank reconciliations without any documented oversight.

A lack of segregation of duties exists as a result of lack of oversight by the jailer and staffing limitations due to budgets restraints.

The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations and would have prevented the same person from having a significant role in these incompatible functions.

The following are examples of other controls the jailer could implement:

- Bank statements should be reviewed by a person independent from the accounting function.
- Deposits should be agreed to source documents by a person independent of the accounting function.
- Supporting documentation for disbursements and invoices should be reviewed by the jailer prior to payment.
- The jailer, or his designee, could complete bank reconciliations or review the bookkeeper's reconciliation for accuracy.

We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date of the review on applicable documentation.

County Judge/Executive's Response: Previous administration prior to January 7th 2019 cannot comment. New jail personnel has corrected this issue.

County Jailer's Response: Due to limited staff this is unavoidable, but have implemented dual control on all.

The jailer's annual commissary report was not accurate and was not presented to the county treasurer: The jailer failed to prepare an accurate annual jail commissary report and turn it over to the county treasurer as prescribed by the State Local Finance Officer. The report presented for the audit only covered six (6) months of the fiscal year instead of the twelve (12) months that should have been presented for the fiscal year. The beginning balance, receipts, and disbursements were understated by $10,041, $26,391, and $30,616, respectively. In addition, a receipt was incorrectly accounted for in the current year that resulted in the ending balance being overstated by $203.

A lack of understanding by the jailer and understanding of the requirements caused the issues noted above occurred.

Failure to provide adequate oversight over the preparation of the annual report may result in misstated financial statements. Also, failure to provide the annual report to the county treasurer resulted in a violation of Kentucky Revised Statutes (KRS).

Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting and reporting standards which are to be used by county jailers for jail commissary funds maintained pursuant to KRS 441.135. These standards stipulated by the State Local Finance Officer, requires that commissary reports include a year to date summary section that will provide a cash balance at any time during the fiscal year. This shall be turned over to the county treasurer at the end of the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The reconciliation section of this report reconciles the bank balance to the cash balance.

We recommend the jailer prepare and submit to the county treasurer in a timely manner an accurate annual jail commissary report as prescribed by the State Local Finance Officer.

County Judge/Executive's Response: Previous administration prior to January 7th 2019 cannot comment. New jail personnel has corrected this issue.

County Jailer's Response: Was not aware of standard until this audit.

The jailer did not have adequate controls over jail commissary disbursements: This is a repeat finding and was included in the prior year report as Finding 2018-012. The jail did not have adequate controls over jail commissary disbursements. During our testing of jail commissary disbursements for the fiscal year ending June 30, 2019, we noted:

- One (1) instance where the Jail paid sales taxes on a purchase.
- Six (6) instances where items purchased should not have been purchased with commissary monies totaling $1,096. These purchases included repair and maintenance supplies, office supplies, and leg irons that should have been purchased from the fiscal court's jail fund.
- One (1) instance where invoice was not paid within 30 days and incurred a $10 late charge.

A lack of oversight by the jailer and understanding of requirements allowed the situation noted to occur.

Failure to provide proper oversight may lead to unnecessary spending of funds and violations of related statutes and requirements.

The jail commissary is a governmental entity that is exempt from paying sales taxes. KRS 65.140(2)(3) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved each month or fraction thereof after the thirty (30) working days which follow receipt of vendor's invoice by the purchaser." KRS 441.135(2) states, "[a]ll profits from the canteen shall be used: (a) for the benefit and to enhance the well-being of the prisoners; or (b) to enhance safety and security within the jail."

We recommend that the jailer review all purchases and ensure that sales taxes are not being paid and invoices are being paid timely. In addition, we recommend that the jailer ensure purchases made with commissary profits are for allowable uses of the funds. We further recommend that the fiscal court reimburse the jail commissary $1,096 for disallowed purchases made from the commissary that should have been disbursed from the Jail Fund.

County Judge/Executive's Response: Previous administration prior to January 7th 2019 cannot comment. New jail personnel has corrected this issue.

County Jailer's Response: Agree to fully comply.

The county did not annually review the administrative code and make any changes or revisions deemed necessary: During the review of the fiscal court minutes we were unable to find where the fiscal court performed the required annual review of the administrative code. In addition, the auditor noted that the ethics code and personnel policy appear not to have been updated for several years.

Due to lack of understanding of KRS requirements and oversight, the situation described above occurred.

Without reviewing and then making necessary changes to the administrative code, ethics code and personnel policy, procedures that are currently being followed may not be included and employees may not be aware of proper procedures to be followed

KRS 68.005 requires the fiscal court should review the administrative code annually before the end of the fiscal year. Good practice dictates that as changes are made in regards to requirements or procedures to be followed that the written policies should be updated as well to be used as an instructional guide.

We recommend that the fiscal court review the administrative code, ethics code and personnel policy and make the necessary changes and modification as appropriate. This review and the approval of the changes by the fiscal court should be reflected in the minutes of the fiscal court.

County Judge/Executive's Response: County Attorney is revising and updating all policies.

Disbursements exceeded approved budgeted appropriations: This is a repeat finding and was included in the prior year audit report as Finding 2018-002. Disbursements exceeded approved budgeted appropriations for the general fund, jail fund, local government economic development fund, ambulance fund, and 911 fund. The following shows excess disbursements that the expenditure accounting codes had over budgeted appropriations:

General Fund - General Government	$ 44,895
General Fund - General Health and Sanitation	110,650
General Fund - Recreation and Culture	31,325
Jail Fund - Protection to Persons and Property	35,174
Jail Fund - Administration	89
Local Economic Assistance Fund - Recreation and Culture	3,012
Ambulance Fund - Protection to Persons and Property	42,982
911 Fund - Administration	923

This situation occurred due to lack of oversight over the disbursement and budgeting processes. In addition, the fiscal court did not monitor the budget or quarterly reports to prevent disbursements from exceeding the approved budget appropriations. The ambulance fund exceeded budget appropriations after the financial agreement for the Stryker cots was adjusted in the financial statements.

Failure to amend the budget or exceed budgeted appropriations is a violation of Kentucky Revised Statutes (KRS). In addition, failure to spend within the budget or amend the budget may skew the financial position of the county.

KRS 68.300 states, in part, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not made within the budget appropriations, shall be void." KRS 68.280 gives fiscal courts the ability to amend the budget when necessary, which would have prevented appropriations from exceeding the approved budget. Because the fiscal court is obligated for these financing obligations, all debt should be budgeted for and recorded. In addition, the Department for Local Government (DLG) requires that all debt incurred be budgeted in the financial statements.

We recommend fiscal court comply with KRS 68.300, KRS 68.280, and DLG requirements by budgeting all fiscal court disbursements and debt by amending the budget as necessary to reflect unanticipated receipts and disbursements.

County Judge/Executive's Response: Budget was approved by previous administration. Changes will be made in the Budget for 2020-2021 Fiscal Year.

The county failed to prepare a Schedule of Expenditures of Federal Awards: The fiscal court failed to prepare a Schedule of Expenditures of Federal Awards for the fiscal year ending June 30, 2019.

The county did not have adequate knowledge or procedures in place to prepare the Schedule of Expenditures of Federal Awards.

Failure to properly prepare a Schedule of Expenditures of Federal Awards resulted in the county's noncompliance with the Kentucky Department for Local Government's (DLG) requirements.

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 DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. DLG requires the county to prepare a schedule of expenditures of federal awards and submit this schedule with the fourth quarter financial report to DLG within 20 days after the end of the fiscal year. In addition, 2 CFR Part 200 requires that the entity receiving federal monies account the amount of federal awards expended. Furthermore, if the entity expends in excess of $750,000 for the year a Single Audit is required.

We recommend the county prepare and submit a Schedule of Expenditure of Federal Awards to DLG as required.

County Judge/Executive's Response: Will be implemented on the next fourth quarter.

The treasurer did not prepare annual settlement and adhere to the publishing requirement of KRS 68.020 and KRS 424.220: The county did not present a treasurer's settlement to the fiscal court for approval at the end of the fiscal year, and failed to publish the released audit report in accordance with KRS 68.020 and KRS 424.220. The situation occurred due to lack of understanding by the treasurer of reporting and publishing requirements.

Failure to obtain fiscal court approval of the treasurer's settlement and adhere to the publication requirements creates a situation where the public is not informed of the availability of public records and where to obtain them, and violates Kentucky Revised Statutes (KRS).

KRS 68.020 requires the treasurer to present an annual financial settlement to the fiscal court within thirty (30) days of the end of the fiscal year. In addition, KRS 424.220 establishes the guidelines and requirements for the presentation and publishing of the county's audit in lieu of publishing the settlement.

We recommend the treasurer prepare and present a treasurer's settlement as required by KRS 68.020. Furthermore, we recommend the county adhere to the publishing requirements of KRS 424.220 for publishing the audits of the county.

County Judge/Executive's Response: Personnel from previous administration, will be corrected on next settlement.

The county failed to accurately report activity of the general fund in the fourth quarter financial report: We noted that the general fund was overstated by $11,689. The amount reported was $95,465 and the amount that should have been reported was $83,767. This occurred due to disbursements in the tourism account and tri-county animal shelter account not being accounted for in the financial reporting system of $11,359 and $339, respectively.

There was a lack of oversight that resulted in the inaccurate reporting.

Failure to accurately report the cash balances in the fourth quarter financial report may result in the misstatement of the county's financial statement.

General Fund	
Date	Account Balance
11/29/18	$ (9,080.32)
11/30/18	$ (11,142.72)

Ambulance Fund	
Date	Account Balance
11/06/18	$ (230.23)
10/31/18	$ (22,342.18)

Jail Fund	
Date	Account Balance
07/02/18	$ (2,258.67)
07/05/18	$ (5,382.02)
07/09/18	$ (1,954.13)
07/10/18	$ (3,496.00)
07/11/18	$ (4,928.89)
07/13/18	$ (430.01)
10/18/18	$ (3,440.70)
11/29/18	$ (3,176.68)
11/30/18	$ (10,096.80)
12/03/18	$ (10,184.80)
12/05/18	$ (10,092.78)
12/07/18	$ (9,892.78)
12/10/18	$ (2,477.24)
02/21/19	$ (12,808.44)

Payroll Account	
Date	Account Balanc
10/03/18	$ (4,795.07)
10/09/18	$ (18,663.27)
10/10/18	$ (24,523.71)
10/11/18	$ (20,490.96)
10/12/18	$ (14,871.83)
10/15/18	$ (15,527.20)
10/16/18	$ (16,165.72)
10/17/18	$ (16,842.84)
11/08/18	$ (3,413.38)
11/09/18	$ (3,603.73)
11/13/18	$ (3,729.14)
11/14/18	$ (43,393.09)
02/14/19	$ (2,770.26)
04/25/19	$ (2,454.53)
04/26/19	$ (18,351.68)
04/29/19	$ (14,904.96)
04/30/19	$ (17,181.39)
05/01/19	$ (17,418.22)
05/08/19	$ (14,345.05)
05/09/19	$ (15,093.92)

The quarterly report is a cumulative report and is prepared on a regulatory basis by the county judge/executive and the county treasurer pursuant to KRS 68.210. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Kentucky Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the Fourth Quarter Financial Report to be utilized for reporting.

We recommend that the county ensure that the fourth quarter financial report is accurate.

County Judge/Executive's Response: Prior treasurer and administration, efforts have been in place to correct since July 1st 2019.

The county failed to maintain adequate cash balances in bank accounts: This is a repeat finding and was included in the prior year audit report as Finding 2018-004. The county failed to properly transfer funds into the general fund, jail fund, ambulance fund, and payroll revolving account that resulted in negative cash balances on numerous occasions. The following is a breakdown of the dates and balances in which this situation occurred:

The lack of oversight and failure to implement internal controls led to the situation described above.

As a result the county incurred $110 in service charges and was in noncompliance with the Kentucky Department for Local Government's (DLG) requirements.

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

We recommend the county either perform cash transfers or refrain from disbursing funds when available balances are insufficient. We also recommend the county treasurer comply with all applicable requirements outlined in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* concerning countersigning of checks.

County Judge/Executive's Response: Previous county treasurer did not reconcile, has been corrected in current administration.

The county failed to properly disclose debt on the quarterly financial report: The county did not report liabilities on the fourth quarterly financial report. The auditor was unable to locate the liabilities page that should have been submitted to the Department for Local Government (DLG).

During the year, the county entered into an agreement for the purchase of Stryker cots for the ambulance service in the amount of $52,710. The ending balance that should have been reported on the fourth quarter financial report as of June 30, 2019 was $42,710.

The county was not aware of the requirement to disclose debt on the fourth quarter financial report.

By not correctly reporting for outstanding liabilities, fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year.

KRS 68.280 states, “the fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby.” KRS 68.240(1) states, “the county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.” According to the *County Budget Preparation and State Local Finance Officer Policy Manual,* issued by the Department for Local Government (DLG), all borrowed money received and repaid must be reflected in the county budget. Any borrowed money that is not reflected in the original budget estimate must be amended into the budget and be properly reflected on the financial report as a receipt as well as an “expenditure” for repayment of borrowed funds. Furthermore, all funds should be recorded in receipts and appropriation ledgers. DLG’s manual also requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt.

We recommend the fiscal court properly disclosure all debt on the quarterly financial reports.

County Judge/Executive’s Response: Miscommunication of filing status.

The county failed to establish proper controls over the Local Government Economic Assistance fund that resulted in oncompliance: The fiscal court did not document or advertise for a public hearing on the disbursement of funds within the Local Government Economic Assistance (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 $22,965; account 04-9400-202, the fiscal court paid the employer’s share of the custodian’s retirement $4,076; account 04-9400-205, the fiscal court paid the custodian’s insurance $69; account 04-9400-201, the fiscal court paid the employer’s share of Social Security and Medicare $1,664; account 04-9100-503,the fiscal court paid insurance on buildings of $12,800.

The lack of oversight and understanding of the allowable disbursements from the LGEA fund resulted in the deficiencies.

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.

The Department for Local Government's (DLG) *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.

County Judge/Executive's Response: Previous administration, payroll adjustments have been made. Account codes have been corrected.

The county failed to properly code and record receipts: During revenue testing, we noted 64 instances where receipts were posted to incorrect receipt account codes totaling $510,278. In addition, the county failed to account for the receipt from the financing of medical equipment totaling $52,710. Also, the county incorrectly deposited $82,971 in the general fund that should have been deposited in the road fund.

This situation occurred due to lack of oversight and understanding.

Failure to comply with this policy could produce a skewed analysis of county receipts and may overstate the receipts in one fund while understating the receipts in the other.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* has statutory receipt account codes to be used for recording receipts to the receipt ledgers. In addition, posting to appropriate account codes may assist the county during budgeting processes and normal operating procedures.

We recommend that the county ensure receipts are posted and accounted for properly.

County Judge/Executive's Response: Previous county treasurer, funds will reimbursed before next fiscal year.

The general fund has a deficit balance of $60,452: As of June 30, 2019, the general fund had a deficit balance of $60,452.

Cash Balance	$	83,767
Payroll Account Balance		(61,248)
Interfund Payable Due To Road Fund		(82,971)
Fund Balance	$	(60,452)

The general fund deficit was due to outstanding payroll liabilities and monies owed to the road fund.

The situation described resulted in a general fund negative balance of $60,452. Non-allowable disbursements made by the general fund are due back to the road fund. Under the regulatory basis of accounting, fund balances are not adjusted on the financial statement for unpaid liabilities; however, the liability is still owed.

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*. The road fund is restricted for transportation, with the exception of the amount calculated on the road fund cost allocation worksheet.

We recommend the road fund liability and payroll account deficit be properly remedied.

County Judge/Executive's Response: Corrections in place.

The county failed to properly remit taxes: This is a repeat finding and was included in the prior year audit report as Finding 2018-010. The county failed to properly remit taxes to the Internal Revenue Service (IRS) and to the Kentucky Department of Revenue. Two (2) of Six (6) IRS payments for the year tested were not made timely of which one remained unpaid six (6) months later. Additionally, one (1) of six (6) state tax returns for the quarter tested was not remitted timely and remained unpaid six (6) months later.

The county failed to provide sufficient oversight or implement internal controls to ensure taxes are being remitted properly.

Federal and state taxes were not remitted in accordance with the required withholding deposit schedules that may result in penalties and interest being incurred.

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 payroll reporting and implement strong oversight over tax payments to state and federal entities.

County Judge/Executive's Response: All previous administration, all state and revenue taxes have been paid in full by current administration.

The county failed to timely file and pay retirement: The fiscal court reported and paid the retirement payments for the month of April 2019 on June 5, 2019, after the statutory deadline. This late payment resulted in the county incurring late penalties.

The county failed to provide sufficient oversight or implement internal controls to ensure retirement was reported and paid correctly. Improper payment may lead to penalties and interest being assessed by the Kentucky Retirement Systems (KRS).

KRS 78.625(1) states, in part, "[t]he agency reporting official of the county shall file the following at the retirement office on or before the tenth day of the month following the period being reported: (a) The employee and employer contributions… (b) The employer contributions and reimbursements for retiree health insurance premiums… (c) A record of all contributions to the system on the forms prescribed by the systems."

KRS 61.675(3)(b) states, "[i]f the agency fails to file all contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions at the actuarial rate adopted by the board compounded annually, but not less than one thousand dollars ($1,000), shall be added to the amount due the system."

KRS 61.598(2)(a) states, "[f]or employees retiring from the Kentucky Employees Retirement System, the County Employees Retirement System, or the State Police Retirement System on or after January 1, 2018, the systems shall, for each of the retiring employee's last five (5) fiscal years of employment, identify any fiscal year in which the creditable compensation increased at a rate of ten percent (10%) or more annually over the immediately preceding fiscal year's creditable compensation. The employee's creditable compensation in the fiscal year immediately prior to the employee's last five (5) fiscal years of employment shall be utilized to compare the initial fiscal year in the five (5) fiscal year period."

KRS 61.598(2)(b) states, "[i]f the creditable compensation for a specific fiscal year identified under paragraph (a) of this subsection as exceeding the ten percent (10%) increase limitation is not used to calculate the retiring employee's monthly retirement allowance, then no reduction in creditable compensation shall occur for that fiscal year.

KRS 61.598(2)(c) states, "[i]f the creditable compensation of the retiring employee is reduced as provided by paragraph (b) of this subsection, the retirement systems:

1. Shall refund the employee contributions and interest attributable to the reduction in creditable compensation; and
2. Shall not refund the employer contributions paid but shall utilize those funds to pay down the unfunded liability of the pension fund in which the retiring employee participated."

(4) Subsection (2) of this section shall not apply to:

(a)A bona fide promotion or career advancement as defined by subsection (1) of this section;

(b) A lump-sum payment for compensatory time paid to an employee upon termination of employment;

(c)A lump-sum payment made pursuant to an alternate sick leave program under KRS 78.616(5) that is paid to an employee upon termination of employment;

(d) Increases in creditable compensation in a fiscal year over the immediately preceding fiscal year, where in the immediately preceding fiscal year the employer reported the employee as being on leave without pay for any reason, including but not limited to sick leave without pay, maternity leave, leave authorized under the Family Medical Leave Act, and any period of time where the employee received workers' compensation benefit payments that were not reported to the plan as creditable compensation;
(e) Increases in creditable compensation directly attributable to an employee's receipt of compensation for overtime hours worked while serving as a participating employee under any state or federal grant, grant pass-through, or similar program that requires overtime as a condition or necessity of the employer's receipt of the grant; and
(f) Increases in creditable compensation directly attributable to an employee's receipt of compensation for overtime performed during a state of emergency declared by the President of the United States or the Governor of the Commonwealth of Kentucky.

We recommend the county establish procedures and internal controls to ensure retirement is properly reported and paid into the County Employees Retirement System (CERS) correctly.

County Judge/Executive's Response: Previous administration and treasurer, monthly corrections are being made to retirement's satisfaction.

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

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