



**Auditor of Public Accounts  
Mike Harmon**

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Clay County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Clay County Fiscal Court for the fiscal year ended June 30, 2022. 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 Clay County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

We were engaged to audit the financial activity contained in the fourth quarter financial statement of the Clay County Fiscal Court, for the year ended June 30, 2022.

We do not express an opinion on the accompanying financial activity contained in the fourth quarter financial statement of the Clay County Fiscal Court. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial activity.

The absence of effective internal controls, oversight, and review procedures created an environment in which funds could be misappropriated and financial records were inaccurate. Based on these conditions, we determined the fraud risk to be too high and were unable to apply other procedures to mitigate this risk. The significance of these issues, in the aggregate, prevents us from placing reliance on the financial activities contained in the Clay County Fiscal Court's fourth quarter financial statement and from expressing an opinion on the financial statement of the Clay County Fiscal Court.

Finding 1 of the audit report will be referred to the Kentucky Department for Local Government (DLG) for further review. In addition, Finding 5 of the audit report will be referred to the Kentucky Public Pensions Authority (KPPA) for further review.

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 findings:

**The Clay County Fiscal Court failed to implement adequate internal controls to ensure complete and accurate accounting records were maintained:** The Clay County Fiscal Court failed to establish adequate internal controls, oversight, and review procedures for material financial processes. When auditors started the audit, the county did not have the fiscal year end (FYE) June 30, 2022 financial statements or bank reconciliations completed. The county hired a Certified Public Accountant (CPA) to complete the June 30, 2022 quarterly report and bank reconciliations for the major funds. The following issues were noted:

- Risk was still present that the CPA was unaware of receipts or disbursements that were not recorded on the financial statement. During the audit period, the county had three different county treasurers working on financial reports for FYE June 30, 2022 and fiscal court failed to provide adequate training for the new treasurers to ensure they had the knowledge and experience to complete financial reports.
- The June 30, 2022 quarterly report was not presented to the fiscal court.
- The county did not report encumbrances on the FYE June 30, 2022 quarterly report.
- Auditors noted three outstanding checks that were not included on the county's disbursement ledgers or on the outstanding check list for the bank reconciliation. The checks were for health insurance in the amount of \$34,030 general fund, \$18,802 jail fund, and \$15,583 occupational tax fund.
- One coal severance receipt for \$60,304 was deposited and recorded in the general fund instead of properly in the Local Government Economic Assistance (LGEA) fund.
- The county did not complete bank reconciliations for the payroll, retirement, and insurance bank accounts.
- A treasurer's settlement was submitted late to the fiscal court on September 28, 2022; however, the report was not an accurate representation of the county's financials.
- A signed Local Government Economic Assistance (LGEA) certification as required by KRS 42.460 was not obtained.
- Subsequent events –
  - The county has no financial records as of July 1, 2022 through the date of this report. The county treasurer has not prepared and submitted any quarterly reports to Department for Local Governments (DLG) for FYE 2023. Also, it was noted that the last payment made to the Kentucky Public Pensions Authority (KPPA) was October 21, 2022. County has withheld the employee portion from the employees' paychecks but has not paid the employee and matching employer portions to KPPA.

Due to the material errors we identified, such as no financial records subsequent to the audit period, additional retirement payments owed and the potential unidentified material errors due to a lack of strong internal controls over the financial reporting process, we cannot overcome the significant risks with audit procedures; therefore, we are unable to provide the fiscal court with an opinion on whether the financial statement is free from material misstatement. A disclaimer of opinion will be issued.

The former county treasurer was employed by the county as treasurer for over 30 years and retired during March 2022. The employee that replaced the former treasurer did not have the experience and training needed to maintain accurate accounting records which involved posting receipts and disbursements to ledgers, prepare accurate quarterly financial statements, and to prepare accurate bank reconciliations. The fiscal court failed to realize the importance of strong internal controls over reporting financial information, and instead relied on a single employee without sufficient oversight.

Failure to establish adequate controls, oversight, and review procedures increases the risk that undetected fraud or other errors will occur. The lack of adequate management oversight provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds. The weak internal control system has also resulted in receipts and disbursements not being posted or being posted to the wrong line items reducing the usefulness of the financial statements to the public as well as the fiscal court. Due to the issue noted above, the Clay County Fiscal Court did not sign the certification of compliance for LGEA funds and is in violation of KRS 42.460.

KRS 68.360(1) states, “[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation.”

Additionally, KRS 68.360(2) states, “[t]he county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund. The county judge/executive shall post the statement in a conspicuous place in the courthouse near the front door for at least ten (10) consecutive days, and transmit a copy to the fiscal court and to the state-local finance officer. The statement shall be read at the next meeting of the fiscal court.”

KRS 65.905(2) requires, “[t]he final quarterly report filed by a county within fifteen (15) days after the end of the last quarter of the fiscal year, in accordance with KRS 68.360(2), shall be deemed the uniform financial information report for that county for purposes of compliance with KRS 65.900 to 65.925.”

KRS 68.020(4) states the county treasurer, “shall keep an accurate detailed account of all money received and disbursed by him for the county and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.”

KRS 61.675(3) states, “(a) Any agency participating in the Kentucky Employees Retirement System which is not an integral part of the executive branch of state government shall file the

following at the retirement office on or before the tenth day of the month following the period being reported: 1. The employer and employee contributions required under KRS 61.560, 61.565, and 61.702; 2. The employer contributions and reimbursements for retiree health insurance premiums required under KRS 61.637; and 3. A record of all contributions to the system on the forms prescribed by the board. (b) If 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), may be added to the amount due the system.

KRS 42.460 states, in part, “[e]xcept as provided in KRS 91A.040(7)(b), any assistance granted under KRS 42.450 to 42.495 shall include an agreement that an independent annual audit shall be conducted and that the audit report shall include a certification that the funds were expended for the purpose intended.”

We recommend fiscal court implement stronger internal controls and management oversight over the financial reporting process such as:

- Training the county treasurer to ensure accurate accounting records are maintained, accurate quarterly financial statements are prepared, and bank reconciliations are completed.
- Conducting a thorough review of the quarterly financial statements by someone independent of the accounting function to help detect misstatements and errors that have occurred.
- Tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions.
- Agreeing fund balances between the quarterly financial statements and bank reconciliations, checking for mathematical accuracy, and verifying bank reconciliation amounts.
- Reviewing ledgers to verify transactions have been recorded in the correct account codes.
- Once the ledgers and reconciliations are deemed accurate, the reviewer should document their review and submit the quarterly financial statement to the fiscal court for review.
- Submitting the fourth quarter financial statement to the Department for Local Government(DLG) timely.
- Signing all required certifications.

By implementing these procedures, the fiscal court can strengthen its internal control system, and help ensure accurate financial reporting. This finding will be referred to the Kentucky Department for Local Government (DLG).

*County Judge/Executive’s Response: Although these findings were under previous administration.*

*Since coming into office, we have rectified a major part of the accounting record issues, we continue to work diligently to correct the issues found, we have a plan set into action that we are following. For the LGEA expenditure letter, due to lack of information from previous administration I am not able to confirm or deny that the funds were expended appropriately. Therefore, I do not feel comfortable signing the verification of expenditures.*

**The Kentucky Infrastructure Authority debt payments were not paid as required by the debt agreement:** This is a repeat finding and was included in the prior year audit report as Finding 2021-002. The Kentucky Infrastructure Authority (KIA) debt payments were not made in accordance with the debt schedule as required by the agreement with KIA. The schedule requires 12 monthly payments of \$12,582 plus varying monthly servicing fees to be made the first of each month; however, payments were not made in accordance with the amortization schedule during the fiscal year. Total payments of \$70,000 were made during the year and applied to the prior year's principal balance. The amortization schedule required total payments of \$152,263, comprised of principal payments of \$132,076 and interest payments of \$18,905. In addition, servicing fees of \$1,282 were required to be paid. The total past due principal balance is \$358,485 and the total past due interest is \$35,927 as of June 30, 2022, based upon county records.

The Clay County Fiscal Court entered into the debt agreement with KIA in order to obtain funding for waterlines on behalf of North Manchester Water Association. The fiscal court further entered into a lease agreement with North Manchester Water Association where they would make lease payments equaling the debt service payments directly to KIA. North Manchester made payments up through January 2018, but then failed to make the required monthly payments. The Clay County Fiscal Court now requires North Manchester Water Association to pay payments to the fiscal court and they in turn make the payments to KIA. However, the county is not receiving the payments from North Manchester in accordance with the amortization schedule; therefore, the proper payment amount is not being submitted to KIA by the fiscal court.

The county is in default on the debt agreement with KIA by not ensuring proper debt payments were made in accordance with their agreement. The loan agreement the county entered into with KIA requires monthly loan payments to be made the first of each month in accordance with the debt amortization schedule.

We recommend the Clay County Fiscal Court comply with the terms of the KIA agreement by making all required debt payments in the future. We further recommend the fiscal court contact KIA in order to become in compliance with the terms of the agreement regarding unpaid principal and interest payments. If the original agreement is amended, a new written agreement should be entered into outlining the responsibilities and required payments of all parties. The county should consult with the county attorney for legal guidance on this issue.

*County Judge/Executive's Response: Although these findings were under previous administration.*

*We are in contact with the KY Infrastructure Authority and we hope to follow the Payment Schedule accordingly.*

**The detention center bonds, refinanced with the Kentucky Association Of Counties' Finance Corporation, were not paid as required by the debt agreement:** This is a repeat finding and was included in the prior year audit report as Finding 2021-003. The debt payments with the Kentucky Association of Counties Finance Corporation were not made in accordance with the debt schedule as required by the agreement with KACo. The schedule required one principal payment of \$535,000 and two interest payments totaling \$14,271; however, payments were not made in

accordance with the amortization schedule during the fiscal year. In addition, the prior year required principal payment of \$520,000 was not made as required by the amortization schedule. Total payments made during the year were for \$634,271 which was comprised of the \$520,000 prior year principal, \$14,271 in current year interest, and \$100,000 of the current year principal due, which leaves \$435,000 of unpaid principal for Fiscal Year (FY) 2022. The remaining principal due of \$435,000 was subsequently paid off on August 12, 2022, resulting in the loan being paid off.

Through inquiry with the former county judge/executive, it was noted that the county did not have the funds to pay the principal due for FY 2022, since they were late on prior year payments that had to be caught up. The county was in default on the debt agreement with KACo as of June 30, 2022, by not ensuring proper debt payments were made in accordance with their agreement.

The loan agreement the county entered into with KACo requires one annual principal payment and two bi-annual interest payments to be made in accordance with the debt amortization schedule.

We recommend the Clay County Fiscal Court comply with the terms of all debt agreements by making all required debt payments.

*County Judge/Executive's Response: Although these findings were under previous administration.*

*The Detention center is now paid off so this will no longer be an issue.*

**The Clay County Treasurer did not prepare an accurate schedule of expenditures of federal awards:** The county treasurer prepared a schedule of expenditures of federal awards (SEFA) for Fiscal Year (FY) 2022. The original SEFA prepared by the county treasurer reported federal expenditures totaling \$1,156,624. This SEFA was materially misstated and failed to include the third draw for the American Rescue Plan Act (ARPA) in the amount of \$2,006,759. The county treasurer then revised the SEFA and reported federal expenditures totaling \$3,360,765. This revised SEFA was misstated by \$2,006,759 due to a cut-off issue. Further, the SEFA reported amounts for Federal Emergency Management Agency (FEMA) programs totaling \$1,156,624 that could not be verified or supported. Due to issues noted in Finding 2022-001, we cannot determine the total amount of federal expenditures for FY 2022.

The fiscal court did not have adequate internal controls and procedures in place to ensure that the SEFA was accurately prepared and accounted for all federal expenditures. The failure to prepare the SEFA accurately, misrepresented the fiscal court's federal expenditure activity for the fiscal year and understated federal expenditures by at least \$2,006,759. The county revised the SEFA during the course of the audit to include the third ARPA draw that was previously left off the initial SEFA.

2 C.F.R. § 200.510(b) states "[t]he auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended..." At a minimum, the schedule must include the following if applicable:

- (1) List individual Federal programs by Federal agency.

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the ALN information is not available.
- (4) The total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Notes that describe the significant accounting policies used in preparing the schedule.

Good internal controls dictate that the fiscal court have procedures in place to review the SEFA prepared by the county treasurer for accuracy and to ensure all federal expenditures for the fiscal year are included on the SEFA.

We recommend the fiscal court implement internal controls to ensure that the SEFA is properly prepared and federal expenditures are reported accurately.

*County Judge/Executive's Response: Although these findings were under previous administration.*

*Although I cannot rectify these findings, I have put into place a more accurate and detailed plan to account for all Federal Awards received by the Clay County Fiscal Court.*

**The Clay County Fiscal Court did not properly remit payroll retirement:** The Clay County Fiscal Court did not remit payment for every month starting October 2022 through March 2023 to the Kentucky Public Pensions Authority (KPPA) for retirement contributions. The amount owed for these liabilities could not be determined due to the fiscal court's inaccurate records. The fiscal court failed to implement controls to monitor that payroll liabilities are reported correctly and properly remitted to appropriate parties. Instead, they relied on a single employee to report and remit the amounts due without sufficient oversight. In addition, as reported in Finding 2022-006 the retirement bank account used to process retirement transactions was not properly reconciled to ensure all liabilities were paid timely.

As a result, retirement payments were not remitted in accordance with KPPA guidelines. The lack of payments to the retirement system could result in the fiscal court being assessed penalty amounts. Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate entities.

In addition, KRS 61.675(3) states, “(a) Any agency participating in the Kentucky Employees Retirement System which is not an integral part of the executive branch of state government shall file the following at the retirement office on or before the tenth day of the month following the period being reported: 1. The employer and employee contributions required under KRS 61.560, 61.565, and 61.702; 2. The employer contributions and reimbursements for retiree health insurance premiums required under KRS 61.637; and 3. A record of all contributions to the system on the forms prescribed by the board. (b) If 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), may be added to the amount due the system.”

We recommend the fiscal court implement internal controls over payroll liabilities and remit amounts due to KPPA. Internal controls such as a thorough review of payroll earnings records should be performed by an individual independent of the payroll process and comparison of 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 and the fiscal court. This finding will be referred to KPPA.

*County Judge/Executive’s Response: Although these findings were under previous administration.*

*All remittance for the Clay County Fiscal Court Retirement has been repaired, over 700,000.00 has been paid into the KY Retirement system since I have taken office.*

**The Clay County Fiscal Court did not perform bank reconciliations:** The Clay County Fiscal Court did not prepare bank reconciliations for the fiscal court’s payroll, retirement, and health insurance bank accounts from April 2022 to June 2022. Since bank reconciliations were not provided, the accuracy of the cash balances of these accounts as of June 30, 2022 could not be verified.

The county treasurer did not prepare accurate bank reconciliations. Also, the fiscal court did not establish relevant review procedures to determine if the county treasurer was preparing an accurate reconciliation monthly.

The fiscal court’s failure to establish a review of the county treasurer’s bank reconciliations resulted in not being able to give an accurate account balance and make sure all payroll withholdings were paid timely.

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 manual requires officials handling public funds to prepare monthly bank reconciliations. Strong internal controls over the bank reconciliations should be implemented to ensure that proper amounts are reported to the fiscal court monthly and on the financial cover sheet of the financial reports quarterly.



We recommend the fiscal court establish procedures to prepare and review bank reconciliations. Also, oversight procedures to review the bank reconciliations and financial reports prepared by the county treasurer should be implemented. The review should be conducted by an independent employee to verify accuracy and completeness.

*County Judge/Executive's Response: Although these findings were under previous administration.*

*All Accounts are being reconciled as far back as July of 2022, my staff and I have reconciled over eight months of unreconciled bank records, and we are working daily to keep an accurate reconciliation for the Clay County Fiscal Court.*

**The Clay County Fiscal Court did not have strong internal controls over disbursements:** Internal controls over disbursements were not operating as intended during Fiscal Year 2022. Proper procedures were not followed over disbursements. The following exceptions were noted:

- Five disbursements had purchase orders that had been dated after the invoice date.
- Two disbursements were not paid within 30 working days of the invoice.
- Three disbursements were not presented to fiscal court before payment.
- One disbursement for steel drilling went to a contractor that was not the approved bidder by the fiscal court.
- The bid documents could not be located by the county for one disbursement for water line construction.
- The county is not maintaining a list of encumbrances.

The county treasurer stated that each department has been given guidelines for making purchases; however, some still fail to follow guidelines and make purchases without receiving a purchase order first. These deficiencies could result in inaccurate reporting and misappropriation of assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) County *Budget Preparation and State Local Finance Officer Policy Manual*. The manual states, "1. Purchases shall not be made without approval by the judge/executive (or designee) and/or a department head. 2. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted." The manual also states the appropriation ledger should include the original budget, increases/decreases by amendment or transfer, and the remaining balance.

KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods or 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."

The version of KRS 424.260(1) in effect during the subject fiscal year stated, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for: (a) Materials (b) Supplies except perishable

foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.”

We recommend the Clay County Fiscal Court implement proper internal controls over disbursements and ensure they are operating effectively.

*County Judge/Executive’s Response: Although these findings were under previous administration.*

*Following our payment schedule has been one of my top priorities since coming into office, we have followed the previous years budget making sure to control the Disbursements as much as possible and plan to continue to do so in the upcoming year.*

**The Clay County Fiscal Court did not have adequate controls in place over payroll:** Review of employee timesheets and payroll records shows the following:

1. In ten instances employees were paid overtime for hours worked in excess of 40 in a week. The Clay County Administrative Code (§XII(1)(a)) requires hours over 40 in week be paid in comp time at a rate of 1.5 hours unless the County Judge Executive has declared an emergency (§XII(1)(b)). An emergency declaration had not been declared during the time period tested.
2. One employee worked over 40 hours in a week and was not compensated with comp time at a rate of 1.5 hours.
3. In three instances an employee was paid on a 4-week cycle although the Clay County Administrative Code (§XII(1)(a)) requires employees be paid every two weeks.
4. In three instances an employee was paid as salary but did not meet any exemption under Section 13(a)(1) of the Fair Labor Standards Act (FLSA), and the county did not request an opinion from the county attorney or the Department of Labor concerning whether the employee was exempt under FLSA .

The county was not aware that it was not in compliance with the administrative code regarding overtime pay and pay periods. Weak internal controls appear to be the cause for hours paid not matching hours worked, and an employee misclassified as exempt.

The Clay County Fiscal Court is not in compliance with the county’s administrative code or the U.S. Department of Labor 29 CFR part 541. In addition, employees may not be getting paid correct compensation for hours worked. Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly.

U.S. Department of Labor Fact Sheet #17G states, “[b]eing paid on a ‘salary basis’ means an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee’s work.

Subject to exceptions listed, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked.”

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

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

To qualify for the administrative employee exemption, all of the following tests must be met:

- The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than \$684 per week;
- The employee's primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer's customers; and
- The employee's primary duty includes the exercise of discretion and independent judgment with respect to matters of significance."

The Clay County Administrative Code §XII (1) states, "The workday shall consist of not less than eight (8) consecutive hours, and the work week shall consist of at least forty (40) hours in five (5) consecutive days. Exceptions will be made only for departments working twenty-four (24) hours seven (7) days a week. Departments working twenty-four (24) hours seven days a week will schedule so employees will not work over forty (40) hours per week."

The Clay County Administrative Code §XII (2) states, "From time-to-time employees may be asked to work beyond the close of the normal workday, or even come in on weekends or holidays. When this occurs, employees will be given equal amount of time off for all over forty (40) hours worked per week. Employees may accumulate up to forty (40) hours of compensatory time for all extra work over forty hours per week. If an emergency is declared by the County Judge/Executive, and county employees are required to work, they will be paid time and half for all work performed over forty hours per week."

The Clay County Administrative Code §XII (5) states, "Employees are paid by check every two weeks on Friday. The salary of employees will be calculated on the basis of no more than eighty (80) hours per paid period. Time sheets will be turned into the payroll clerk showing the number of hours worked by each employee for the pay period."

We recommend the Clay County Fiscal Court strengthen internal controls over payroll to ensure compliance with Department of Labor regulations and the Clay County Administrative Code as well to ensure accurate payment of compensation for hours worked. This may include the following:

- Consulting with the Clay County Attorney and members on the Clay County Fiscal Court to consider amending the Clay County Administrative Code.
- Adding compensating controls over the payroll approval and tabulation process.

- Consulting with the Clay County Attorney and the Department of Labor to determine if employees being paid as salary employees meet the qualifications to be considered salaried employees or should be paid as hourly employees.

*County Judge/Executive's Response: Although these findings were under previous administration.*

*We plan to update our Administrative code to follow more accurately with our payroll, these issues will no longer affect the Clay County Fiscal Court in the new fiscal year.*

**The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts:** This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts. The tax administrator opens the mail, matches the checks to the occupational tax bill, stamps checks for deposit only, makes a list of checks and totals the checks for deposit. The occupational tax clerk prepares and sends out occupational tax bills, makes copies of the checks, posts receipts to the tax manager program and compares the deposits to the receipt list and the report produced by the tax manager program. The deposit is taken to the bank by the occupational tax clerk or the tax administrator. The original deposit slip is provided to the county treasurer who compares the deposit slip to the bank statement and prepares bank reconciliations. No documented review of the receipt process was noted.

The county has two employees working in the occupational tax office. In addition, occupational tax information is restricted and can only be accessed by authorized personnel. Per former county judge executive, this along with a limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties.

A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

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

We recommend the fiscal court separate the duties in the occupational tax process. If this is not feasible, strong oversight over these areas should occur and involve an employee that is not currently performing any of those functions and this oversight should be documented by dating and signing or initialing the documentation.

*County Judge/Executive's Response: Although these findings were under previous administration*

*Under new Administration we hope to have accurate information provided for our Occupational Tax receipts.*

**The Clay County Jailer lacks adequate controls over commissary disbursements:** The jailer made a disbursement in the amount of \$153,995 from the jail commissary fund to the county jail fund as reimbursement to the fiscal court for medical expenses that occurred during the fiscal year. These funds were transferred in order to provide routine medical treatment for inmates. Routine medical expenses for inmates are the responsibility of the fiscal court. No supporting documentation was maintained to determine if the disbursement was for enhanced medical services for the inmates.

The jailer and county judge/executive were unaware supporting documentation needed to be maintained to document enhanced medical services when reimbursing fiscal court for medical expenses paid from the commissary account. Expenditures for routine medical expenses reduce funds available for the benefit and well-being of inmates. Strong internal controls dictate oversight and procedures to ensure commissary disbursements are for allowable expenses.

KRS 441.045(3) states “[e]xcept as provided in subsections (4) and (5) of this section, the cost of providing necessary medical, dental, and psychological care for indigent prisoners in the jail shall be paid from the jail budget.”

KRS 441.045(4) states “[t]he cost of providing necessary medical, dental, or psychological care for prisoners of the United States government shall be paid as provided by contract between the United States government and county or as may otherwise be provided by federal law.”

KRS 441.045(5)(a) states, “[t]he cost of providing necessary medical, dental, or psychological care, beyond routine care and diagnostic services, for prisoners held pursuant to a contractual agreement with the state shall be paid as provided by contract between the state and county. The costs of necessary medical, dental, or psychological care, beyond routine care and diagnostic services, of prisoners held in the jail for which the county receives a per diem payment shall be paid by the state.”

KRS 441.045(6) states, “[t]he cost of providing necessary medical, dental, or psychological care for prisoners held pursuant to a contractual agreement with another county or a city shall be paid as provided by contract between the county or city and county.”

KRS 441.045(10) states, “[f]or the purposes of this section, “necessary care” means care of a nonelective nature that cannot be postponed until after the period of confinement without hazard to the life or health of the prisoner.”

KRS 441.045(12) states, “[n]otwithstanding other provisions of this section to the contrary, a jail may impose a reasonable fee for the use of jail medical facilities by a prisoner who has the ability to pay for the medical care. These funds may be deducted from the prisoner's inmate account. A prisoner shall not be denied medical treatment because he or she has insufficient funds on his or her inmate account. This subsection shall not preclude other recovery of funds as provided in this section.”

We recommend the jailer strengthen internal controls and management oversight to ensure that the jailer does not reimburse the jail fund for expenses relating to routine medical expenses in the future.

*County Judge/Executive's Response: Although these findings were under previous administration.*

*We have spoken with the jailer to correct these findings.*

*Jailer's Response: The Jailer will not reimburse the Jail fund.*

**The Clay County Fiscal Court did not provide supporting documentation for Federal Emergency Management Agency (FEMA) expenditures:**

*Federal Program: ALN 97.036 Disaster Grants- Public Assistance (Presidentially Declared Disaster)*

*Award Number and Year: FEMA DR 4595 Year 2021*

*Name of Federal Agency – U.S. Department of Homeland Security. Federal Emergency Management Administration (FEMA)*

*Pass-Through Agency: KY Division of Emergency Management*

*Compliance Requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

*Type of Finding: Material Weakness and Material Noncompliance*

*Amount of Questioned Costs: None*

*COVID Related - No*

*Opinion Modification: Disclaimed*

The Clay County Fiscal Court receives Federal Emergency Management Agency (FEMA) reimbursements from the Kentucky Division of Emergency Management (KYEM) as pass-through funds. The county provided a schedule of expenditures of federal awards (SEFA) that reported the fiscal court expended \$1,156,624 during the fiscal year. Auditors requested documentation to verify the amount of expenditures reported, but adequate supporting documentation was not maintained by the county after the county's emergency manager director was replaced January 2023. Due to issues noted in Finding 2022-001, auditors were unable to develop sufficient audit procedures to verify these amounts.

The fiscal court did not have adequate internal controls over compliance and policies and procedures in place, to ensure that program expenditures were supported by financial records.

As a result, auditors were unable to perform sufficient audit procedures to verify that the fiscal court was in compliance with the terms of the award, and we are unable to provide an opinion on the fiscal court's compliance with the direct and material compliance areas for this major program.

Good internal controls dictate that the fiscal court have procedures in place to ensure that all records are maintained and can support expenditures of program awards. 2 CFR § 200.303 requires a non-federal entity to "[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal

award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

This finding is not a repeat finding.

We recommend the fiscal court implement internal controls over compliance to ensure that all federal program expenditures are properly documented and reported accurately.

*County Judge/Executive’s Response: Although these findings were under previous administration.*

*We are working with the Emergency Management team to keep a more accurate record of expenditures related to all FEMA work completed within our county.*

**The Clay County Fiscal Court failed to implement internal controls to ensure costs submitted to document loss of revenue were for eligible expenses not already reimbursed by other entities:**

*Federal Program: ALN 21.027 – COVID-19 - Coronavirus State and Local Fiscal Recovery Funds*

*Award Number and Year: 2022*

*Name of Federal Agency and Pass-Through Agency (if applicable) – U.S. Department of the Treasury*

*Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles*

*Type of Finding: Material Weakness and Material Noncompliance*

*Amount of Questioned Costs: \$0*

*COVID Related - Yes*

*Opinion Modification: Qualified*

During fiscal year 2022, the Clay County Fiscal Court received funds from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). The Clay County Fiscal Court contracted with a law firm and financial advisor to review grant documentation to ensure compliance with award requirements. The fiscal court elected to use a loss of revenue provision of the award and submitted documentation to show that essential services were being provided. The documentation submitted contained amounts that had already been submitted to other sources for reimbursement and resulted in duplicate reimbursement for the same expenditures. The audit sample was selected using a nonstatistical method.

During testing we found the following expenditures had already been reimbursed:

- \$307,216 for wages for various departments had already been reported as premium pay to essential workers and then claimed again for a loss of revenue provision.
- \$79,925 for election software was claimed as essential services provided that was reimbursed by a state grant received by the fiscal court.
- \$30,000 for a vehicle purchase was claimed as essential services provided that was reimbursed by a state grant received by the fiscal court.

The Clay County Fiscal Court failed to establish effective internal controls over compliance requirements to ensure expenditures submitted for loss of revenue calculation for CSLFRF were not already reimbursed from other sources.

As a result, the Clay County Fiscal Court included expenditures that had already been claimed as a CSLFRF expenditure or were reimbursed by another state or federal grant. This amount totaled \$417,141 of costs that had been received from other sources or were duplicated under the CSLFRF program. In addition, the fiscal court could be required to repay the duplicated costs back to the granting agency or provide additional documentation to support other eligible expenditures.

2 CFR § 200.303 requires a non-federal entity to “[e]stablish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.” In addition, 2 CFR § 200.1 states:

- (a) *Improper payment* means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- (b) *Improper payment* includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

This is not a repeat finding.

We recommend the fiscal court strengthen internal controls over federal awards to ensure expenditures have not been reimbursed by other entities and are eligible expenditures. We also recommend that the fiscal court contact the awarding agency to determine if duplicate costs should be repaid or if they can resubmit requests with eligible expenditures.

*County Judge/Executive’s Response: Although these findings were under previous administration.*

*We are keeping a more accurate record of submitted costs to be sure we do not have inadequate expense reimbursements from other entities.*

The audit report can be found on the [auditor’s website](#).

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