



Auditor of Public Accounts  
Allison Ball

**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Allison Ball has released the audit of the financial statements of the Clay County Fiscal Court for the fiscal year ended June 30, 2023. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statements present 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. 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 116 of 120 fiscal court audits in Kentucky.

The audit contains the following findings:

**The Clay County Fiscal Court did not accurately report financial information on the fourth quarter financial report:** The fiscal court’s financial information on the fourth quarter report contained over \$5,000,000 in material errors regarding budgeting, recording, and transferring funds.

We recommend the fiscal court strengthen internal controls to help ensure accurate financial reporting by complying with the KRS and guidance located in the DLG policy manual by having the finance officer and treasurer reconcile the receipts and appropriation ledgers at least once a month and document the review by initialing and dating the reconciliation.

*County Judge/Executive’s Response: Due to previous administration and software, we were unable to accurately report the fourth quarter financial report. Since then we have been able to secure all correct documentation in order to have accurate reporting.*

**The Clay County Fiscal Court’s actual disbursements exceeded budgeted appropriations:** The fiscal court exceeded their approved budgeted appropriations in the Road Fund, Occupational Tax Fund, and Document Storage Fee Fund by \$262,067, 32,822, and \$14,480, respectively.

We recommend the Clay County Fiscal Court ensure all line items and funds are properly budgeted. The budget should be reviewed periodically by management and department heads and always before a purchase order is approved and the expenditure is completed. Budget transfers or budget amendments should be prepared and reported properly on the fourth quarterly report.

*County Judge/Executive’s Response: The fiscal court will monitor budget line items accordingly, previously we were unable to see amendments/transfers through original software. Software is now up to date and tracks all disbursements.*

**The Clay County Fiscal Court’s Schedule of Expenditures of Federal Awards (SEFA) was materially misstated:** The Clay County Fiscal Court did not prepare a SEFA that accurately reflects the county’s expenditures of federal awards for fiscal year ending June 30, 2023—\$5,653 of Federal Emergency Management Agency (FEMA) expenditures were understated compared to county records; \$902,636 of FEMA expenditures could not be confirmed as related expenditures; \$221,254 of FEMA expenditures were overstated; and \$146,615 of FEMA expenses were not included on the SEFA.

We recommend the Clay County Fiscal Court develop policies and procedures for SEFA preparation and strengthen internal controls over the preparation to ensure its completeness, accuracy, and compliance with reporting compliance requirements.

*County Judge/Executive's Response: Due to previous administration changes and lack of paperwork we were unable to provide necessary documentation for the SEFA. We have implemented a new tracking system in order to correct this issue.*

**The Clay County Fiscal Court did not perform bank reconciliations for revolving accounts:** The fiscal court did not prepare bank reconciliations for the revolving accounts which included a payroll account for employee deductions for federal, social security, and state taxes; a retirement account for employee retirement deductions; and health insurance for fiscal year 2023. The payroll account had an unreconciled balance of \$182,096, in addition to several other errors.

We recommend the fiscal court establish procedures to prepare and review bank reconciliations for the payroll, health insurance, and retirement revolving accounts. 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.

*County Judge/Executive's Response: New software has implemented reconciliation for all accounts.*

**The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts:** The tax administrator performs several duties that should be segregated such as custody (opening the mail, prepares and sends out tax bills, deposits receipts), approval (stamps checks), recording (matches checks to bills, makes a receipt list, posts checks), and reconciliation (totals checks for deposit, compares deposit to receipt list and program report) of occupational tax receipts.

We recommend the fiscal court separate the duties involving mailing bills, opening mail, preparing the receipt list, collecting and depositing receipts, and preparing the deposit. If this is not feasible, strong oversight could occur and involve an employee who is not performing any of those functions. This oversight should be documented by dating, signing, or initialing the documentation.

*County Judge/Executive's Response: The mail is now processed by the assigned employee and then given to the Occupational Tax Administrator.*

**The Clay County Fiscal Court's controls over receipts were not operating effectively:** Receipts were not deposited timely and were not posted to ledgers with accuracy or a consistent methodology resulting in \$1,188,262 reclassifications in the General Fund.

We recommend the fiscal court comply with the KRS and guidance located in the DLG policy manual to strengthen controls to ensure accurate financial reporting by making daily deposits, maintaining daily deposit records, and ensuring accurate posting to receipts ledger.

*County Judge/Executive's Response: Checks are taken to the bank upon arrival and not held for any period of time.*

**The Kentucky Infrastructure Authority debt payments were not paid as required by the debt agreement:** The Kentucky Infrastructure Authority (KIA) debt payments were not made following 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 on the first of each month; however, payments were not made in accordance with the amortization schedule during the fiscal year. Total payments of \$56,000 were made through March 2023 and applied to the prior year's principal balance. The total past due principal balance is \$438,512 and the total past due interest is \$51,897 as of June 30, 2023, based upon county records.

We recommend the fiscal court comply with the terms of the KIA agreement by making all required debt payments in the future. We also recommend the fiscal court contact KIA to become compliant 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.

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

**The Clay County Fiscal Court submitted inaccurate retirement reports for employees and did not remit retirement payments properly:** The fiscal court did not properly pay the Kentucky Retirement System (KRS) for retirement contributions and submitted inaccurate retirement reports for employees during the fiscal year ending June 30, 2023. A review of payroll records, retirement reports, and bank statements noted the following: retirement contributions for nine months were paid late, retirement contributions reported for one month were inaccurate when compared to the county's payroll reports, and retirement contributions reported for one month were inaccurate when compared to the county's payroll reports.

We recommend the fiscal court implement internal controls over payroll liabilities for retirement contributions to ensure retirement reports submitted to KRS are correct based upon the county's payroll reports and payments to KRS for retirement are submitted timely. This finding will be referred to the Kentucky Retirement System.

*County Judge/Executive's Response: Reports in error were amended and payments are completed properly each month.*

**The Clay County Fiscal Court did not properly remit local and state tax payments:** The fiscal court did not remit payments monthly from October 2022 through June 2023 to the Clay County Occupational Tax Administrator for employee occupational tax withholdings totaling \$29,260. Furthermore, the fiscal court had not properly paid the Kentucky Department of Revenue (DOR) for state income tax withheld from employees and failed to submit bi-monthly tax returns consistently and accurately during the fiscal year ending June 30, 2023, and subsequently through December 31, 2023.

We recommend the fiscal court implement internal controls over payroll liabilities to ensure compliance with KRS 141.310(1) and the occupational tax ordinance and remit amounts due to the Department of Revenue and the Clay County Occupational Tax Administrator timely. We also recommend the fiscal court contact the Department of Revenue to determine if employee state tax withholdings were overpaid and to request a refund for the overpayment.

*County Judge/Executive's Response: The Clay County Fiscal Court were unaware these payments were not being made until it was brought to our attention. Issue has been resolved.*

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

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