



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, 2016. 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 the internal control over financial operations and reporting.

The audit contains the following comments:

**The fiscal court lacks adequate segregation of duties over receipts, disbursements, record keeping, report preparation, and reconciliations.** This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The fiscal court lacks segregation of duties over the following accounting functions: receipts, collections and processing, record keeping, disbursements processing, report preparation, and reconciliations.

The county treasurer prepares and deposits the receipts, posts to the ledgers, prepares reports from those ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations. The occupational tax administrator receives and documents payments received for occupational tax and net profits tax. The finance officer prepares a listing

of bills for the fiscal court's approval and prints the checks. The county judge/executive and county treasurer sign the checks without evidence of a comparison to the invoices.

The lack of segregation of duties could result in inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing oversight should document this. We also recommend the county treasurer and county judge/executive, prior to signing checks, compare them against the original invoices. This comparison could be documented by both the county judge/executive and county treasurer initialing cancelled invoices. Additionally, we recommend the ledgers maintained by the county treasurer and finance officer be reconciled monthly with documentation of the reconciliation noted.

*County Judge/Executive's response: We have gone from one to three people involved in the process. Considering the size of the County, employees have to multitask.*

**The fiscal court had weak internal controls over purchase and procurement procedures.**

This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The fiscal court lacks segregation of duties and has weak internal controls over purchasing and procurement procedures.

The deficiencies listed below occurred due to the weak controls over purchasing and procurement.

- One invoice was not paid within 30 days from receipt of invoice.
- Adequate documentation was not maintained to support credit card purchases.
- One purchase was not in compliance with the fiscal court's bid policy.

Good internal controls dictate that adequate original supporting documentation be maintained for all disbursements. All original vendor invoices and receipts should be maintained including any supporting documentation, agreed to the corresponding purchase order, and cancelled upon payment. All purchase orders should be approved and issued before the work or service is performed. KRS 65.140 also 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[.]"

We recommend the fiscal court maintain all original vendor invoices, including any supporting documentation, and comply with KRS 65.140 by paying vendors within 30 working days unless the purchaser and vendor otherwise contract. In addition, we recommend that the fiscal court review their bid policy, and comply with KRS 424.260 bid requirements.

*County Judge/Executive's response: We have corrected this at this point.*

**The fiscal court did not properly reconcile all bank accounts including the revolving payroll account.** All of the bank reconciliations were incorrect or incomplete. The bank reconciliations included stale dated checks, deposits that did not exist, and erroneous balances due to misclassifications. Additionally, controls over transfers were inadequate.

The reconciliations are prepared and reviewed by the same individual. The bank reconciliations were improperly completed and went unnoticed by the county officials which could provide opportunity for inaccurate records or misappropriation of assets. Weak internal controls over reconciliations allowed most bank accounts to become out of balance with their associated fund and the revolving payroll account to accumulate an unexplained balance of \$9,422.

Improperly reconciled accounts could result in surplus or overdraft balances and unnecessary bank fees. Payroll revolving accounts are clearing accounts and should reconcile to a zero balance at the end of each month.

We recommend the county strengthen internal controls over all bank reconciliations, including the revolving payroll account bank reconciliations, to ensure ending reconciled bank balances are sufficient to cover all withdraws issued and the remaining balance is due to a current liability. Bank reconciliations should then be reviewed by the county judge/executive or a person independent of the reconciliation process to verify accuracy and completeness. This could be documented by initialing the reconciliation.

*County Judge/Executive's response: We have corrected this at this point.*

**The county treasurer did not maintain accurate financial records.** Numerous audit adjustments and reclassifications were made to the fiscal court's financial records in order to ensure their accuracy. The county treasurer's ledgers did not agree with amounts reflected on the fourth quarter financial report. The annual settlement prepared and submitted by the county treasurer to the fiscal court and the Department for Local Government as required by Kentucky Revised Statutes does not accurately reflect the county's financial position.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* lists the duties of the county treasurer based on KRS 68.020, 68.300, 68.360(1), and 441.235. This manual requires the county treasurer to maintain the financial records, to receive and disburse money, to invest funds, to prepare financial reports monthly, and to settle accounts within 30 days after the close of each fiscal year. In addition, the manual requires the county treasurer to countersign all checks for payment of funds from the county treasury only if the payment is approved by the fiscal court, sufficient funds are available, and an adequate free balance is available in the properly budgeted appropriation account.

We recommend the county treasurer maintain accurate ledgers and prepare the quarterly financial reports from those ledgers. Bank reconciliations should be accurately prepared, reconciled to the ledgers, and any variances promptly researched and resolved. The county treasurer should also prepare and submit an annual settlement to the fiscal court for approval.

*County Judge/Executive's Response: We feel we have corrected this at this point. We have implemented a new software system.*

**The fiscal court lacks internal controls over payroll.** The fiscal court lacks internal controls over payroll and payroll related items. As a result, the following issues were noted:

- One employee was paid overtime when a portion of the total hours were vacation hours.
- Four timesheets were not signed by supervisors.
- One employee did not have complete personnel documentation, specifically an I-9 or signed KRS form.
- Two instances of lack of documentation for employee leave.

We also noted the following:

- Paid health insurance invoices reflect that Clinton County Fiscal Court has paid health insurance premiums for former employees, and over withheld or under withheld the employee portion of premiums for current employees. In addition, the health insurance invoices were not canceled and the fiscal court may not be paying from the final invoice. Since the fiscal court is on a bi-weekly pay period, the employee's portion of the health insurance premiums may not always be withheld in advance of the payment being made to the health insurance company. The finance officer is not always paying from the final health insurance invoice for the month, and the health insurance invoice is not being compared to the employee withholding to ensure proper withholding are being made. The fiscal court may be paying additional health insurance premiums for employees who no longer work for the county, and some employees are not paying the proper portion.
- The fiscal court payments to the Kentucky Retirement System did not agree to the county's payroll report for the same period. The reports were not properly compared and corrections made in a timely manner. The fiscal court has overpaid on some employees and underpaid on others. This could also explain the problems associated with a proper reconciliation of the payroll account since the transfer of funds from each department is based on the payroll report, but the fiscal court pays the Kentucky Retirement System based on the calculations on the retirement report.

Weak internal controls have allowed inaccurate payments to employees that are not detected timely. KRS 337.320(1) requires "[e]very employer [to] keep a record of: (a) The amount paid each pay period of each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires." KRS 337.285 states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." KRS 337.355 states "[e]mployers, except those subject to the Federal Railway Labor Act, shall grant their employees a reasonable period for lunch, and such time shall be as close to the middle of the employee's scheduled work shift as possible. In no case shall an employee be required to take a lunch period sooner than three (3) hours after his work shift commences, nor more than five (5) hours from the time his work shift commences." The

department of labor has stated that “[a] fixed salary for a regular workweek longer than 40 hours does not discharge FLSA statutory obligations.”

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. The county administrative code states “[n]on supervisory full time employees shall work forty (40) hours per week.” It further states a full time employee is one who works 40 hours a week on a regularly scheduled basis and that the work week begins at on Monday at 6:00 am. The county’s personnel ordinance states that “[t]ime off pay (such as vacation or sick leave) may not be considered as hours worked for overtime pay purposes.”

Good internal controls require original supporting documentation for all payments, verifying endorsements, and dual signatures for all disbursements. In addition, the fiscal court should only pay expenditures they are responsible for.

The finance officer should verify that employee withholdings cover their required portion of health insurance premiums, and should also ensure that only current employees are included on the health insurance invoice. This can be done by printing a deduction report and comparing it to the health insurance invoice prior to paying. The final invoices should be used to pay the health insurance premiums and it should be annotated paid.

The finance officer should verify that employee’s withholdings are withheld at the correct rate, depending on the date the employee entered into the retirement system. In addition, the fiscal courts payroll report should be compared to the Kentucky Retirement Systems report and ensure that the wages, withholdings, and matching agree to what is due and what is paid. This can be documented by initialing the reports after comparison is completed.

We recommend the fiscal court strengthen internal controls over the payroll process to ensure timecards/timesheets are prepared each pay period for all employees, are submitted and signed by employees, and approved by supervisors.

We recommend the employees sign a request form that is approved by the supervisor and submitted with the timecard to the finance office. In addition, the employees’ leave balances could be incorporated on their pay stub to ensure accuracy. We further recommend pay checks not be issued prior to paydays authorized by the county’s policy. In addition, we recommend that employee’s timesheets reflect actual hours worked and they annotate times in/out for lunch in order to ensure compliance with KRS 337.355. The fiscal court should also review their administrative code to ensure compliance with their code regarding payroll issues.

Also, all payroll and benefit returns such as health insurance and Kentucky Retirement Systems should be reconciled each pay period to employee withholdings.

Although magistrates are not required by the administrative code to maintain timesheets, timesheets provide a record of hours worked and ensure proper eligible for benefits. Therefore we recommend that magistrates prepare and submit timesheets.

*County Judge/Executive's response: We moved payroll responsibilities to a different person and the new software system makes reconciliations easier.*

**Fiscal court disbursements exceeded budgeted appropriations.** Certain expenditures in the budget exceeded budgeted amounts due to weak internal controls over expenditures and budgeting.

Purchase requests should not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate budget transfers have been made. Each time the fiscal court overdraws on a line item, it may be violating KRS 68.300, which states “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void.”

We recommend the county treasurer present line item budget transfers to the fiscal court as necessary to ensure disbursements do not exceed budgeted appropriations.

*County Judge/Executive's response: We will take steps to fix this.*

**The jailer lacks adequate segregation of duties over the jail commissary fund and the inmate account.** The jail bookkeeper collects money, issues receipts, prepares and deposits receipts, writes and signs checks, posts to the ledgers, and prepares bank reconciliations.

As a result, the following deficiencies were noted:

- One invoice was not paid within 30 days from receipt of invoice, and incurred a late charge.
- One check copy only had one signature for approval.

Compensating controls were put in place and generally working effectively for receipts, disbursements, and bank reconciliation processes.

A compensating control does not eliminate the control deficiency, but potentially limits the severity. The jailer reviewed daily checkout sheets comparing to the daily deposit and documented those reviews with his initials. The jailer also reviewed all cancelled invoices, comparing to the checks written for payment and documented those reviews with his initials and signed checks for payment. There were two signatures on checks with one being the jailer. In addition, the jailer reviewed monthly reports, bank statements, and bank reconciliations for both accounts documenting his review with his initials.

We recommend that the jailer continue to implement compensating controls over all accounting functions of the jail commissary fund and inmate account to offset this lack of segregation of duties.

*County Jailer's response: We will try to improve this process.*

**The jailer did not deposit receipts intact daily.** Receipts and deposits for the jail commissary fund were not deposited timely. Due to limited staff, deposits are made whenever time allows. Untimely deposits can increase the risk of misappropriation of cash.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft. We recommend the jailer require his bookkeeper to make daily deposits for the jail commissary fund and inmate account to ensure compliance with the Department for Local Government.

*County Jailer's response: We will try to improve this process.*

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

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