Auditor of Public Accounts
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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, 2017. 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 fiscal court lacks internal controls over cash, receipts, disbursements, capital assets, payroll, record keeping, report preparation, and reconciliations: This is a repeat finding and was included in the prior audit year report as Finding 2016-001. The fiscal court lacks internal controls, has inadequate segregation of duties, and has no documented compensating controls over cash, receipts, disbursements, payroll, record keeping, report preparation, bank reconciliations, and capital assets. The county treasurer was responsible for collecting and recording receipts, preparing and making deposits, preparing bank reconciliations, signing checks, and preparing monthly and quarterly reports on behalf of the fiscal court. The county judge/executive's administrative assistant was responsible for maintaining the county's capital asset schedule. The county judge/executive's administrative assistant and finance officer/deputy judge were responsible for preparation of payroll. The finance officer/deputy judge was responsible for issuing purchase orders, preparing claims lists for fiscal court approval, recording disbursements, and preparing, printing, and signing checks on behalf of the county judge/executive. The occupational tax administrator was responsible for collecting occupational tax receipts, preparing occupational tax deposits, and generating reports to the county treasurer. The fiscal court has not developed internal controls and failed to provide adequate segregation of duties over these accounting and reporting functions, and there are no documented compensating controls noted.

The fiscal court and county judge/executive failed to develop adequate internal controls and segregate the duties over all accounting and reporting functions and did not provide adequate oversight regarding the county treasurer's preparation of financial reports.

The lack of adequate internal controls and failure to segregate duties, coupled with a lack of adequate management oversight, provides an environment in which an individual could manipulate financial records and misappropriate or misdirect county funds. The following control deficiencies occurred due to the lack of internal controls and segregation of duties over these areas:

- The fiscal court did not accurately report financial information, as reported in Finding 2017-002.
- The fiscal court disbursements exceeded budgeted appropriations, as reported in Finding 2017-003.
- The fiscal court lacks internal controls over cash transfers, as reported in Finding 2017-004.
- The fiscal court did not properly reconcile all bank accounts, as reported in Finding 2017-005.
- The fiscal court had overdrawn bank balances in numerous bank accounts during Fiscal Year 2017, as reported in Finding 2017-006.
- The fiscal court did not properly reconcile the payroll revolving account, as reported in Finding 2017-007.
- The fiscal court did not have adequate internal controls over disbursements, as reported in Finding 2017-008.
- The fiscal court did not have adequate internal controls over the tourism fund disbursements, as reported in Finding 2017-009.
- The fiscal court did not follow correct procedures for approving purchase orders, as reported in Finding 2017-010.
- The fiscal court did not have adequate internal controls over receipts, as reported in Finding 2017-011.
- The fiscal court did not have adequate internal controls over the Local Government Economic Assistance (LGEA) Fund, as reported in Finding 2017-012.
- The fiscal court lacks internal controls over occupational tax receipts, as reported in Finding 2017-013.
- The county judge/executive and jailer were overpaid their maximum salaries, as reported in Finding 2017-014.
- The fiscal court lacks adequate internal controls over payroll, as reported in Finding 2017-015.

- The fiscal court did not properly reconcile retirement reports with payroll reports, as reported in Finding 2017-016.
- The fiscal court did not pay tax liabilities timely resulting in penalties and interest, as reported in Finding 2017-017.
- The fiscal court did not maintain accurate capital asset records, as reported in Finding 2017-018.

The implementation of internal controls and the segregation of duties over various accounting functions such as recording receipts and disbursements; preparing bank reconciliations; and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Appropriate management oversight should be provided to ensure the completion of accurate and timely financial reports. The fiscal court county administrative code states "[t]he county judge executive may delegate specific executive tasks (i.e., supervision of road maintenance) to anybody, including individual members of the fiscal court. However, it is important to note that responsibility and accountability for the performance of such a delegated task continues to lie ultimately with the Judge Executive."

We recommend the fiscal court implement internal controls and segregate the duties involved in recording receipts and disbursements, capital assets, payroll, record keeping, preparing bank reconciliations, and preparing monthly, quarterly, and annual financial reports where possible. If segregation of duties is not possible due to the limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

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

The fiscal court and county treasurer did not accurately report financial information, and the county treasurer did not maintain accurate financial records: This is a repeat finding and was included in the prior year audit report as Finding 2016-004. The fiscal court's fourth quarter financial report and the county treasurer's annual settlement were both materially misstated. According to the fiscal court's fourth quarter financial report, the total fund balance of all budgeted funds was $836,372 as of June 30, 2017. The county treasurer's annual settlement for fiscal year 2017 reported a total fund balance of $949,772 for budgeted funds, a variance of $113,400 between the two reports. The audited financial statement reports an ending fund balance of $683,144 for budgeted funds, a variance of $153,228 with the fourth quarter financial report and $266,628 with the county treasurer's annual settlement. The receipts and disbursements ledgers did not agree to either report and were also inaccurate. Numerous audit adjustments were necessary to correct misstatements on the fiscal court's fourth quarter financial report as follows:

- General Fund: beginning fund balance was understated by $28,345, operating receipts were understated by $6,148, disbursements were understated by $1,156, and transfers were understated by $359,445.
- Road Fund: beginning fund balance was understated by $3,519 and disbursements were understated by $11,033.

- Jail Fund: beginning balance was understated by $33,852, operating receipts were overstated by $15,164, disbursements were understated by $488, and transfers were overstated by $84,000.
- Local Government Economic Assistance (LGEA) Fund: beginning balance was understated by $9,292, operating receipts were understated by $25, disbursements were understated by $1,155, and transfers were understated by $2,000.
- Disaster and Emergency Service Fund: beginning balance was overstated by $1,726 and disbursements were overstated by $934.
- Ambulance Fund: beginning balance was overstated by $4,125, operating receipts were understated by $136,986, disbursements were understated by $50,401, and transfers were understated by $135,000.
- Forestry Fund: beginning balance was understated by $17, operating receipts were overstated by $1,500, disbursements were understated by $5, and transfers were understated by $3,000.
- Occupational Tax Fund: beginning balance was overstated by $135,914, operating receipts were overstated by $5,141, disbursements were understated by $180, and transfers were understated by $248,500.
- 911 Fund: beginning balance was overstated by $65, operating receipts were understated by $65,509, disbursements were understated by $3,902, and transfers were understated by $11,000.
- Tourism Fund: beginning balance was overstated by $34,488, operating receipts were understated by $36,639, and disbursements were understated by $36,803.

These misstatements are a result of a weak internal control system over the financial reporting process. The fiscal court failed to recognize the importance of strong internal controls over reporting financial information, and instead relied on a single employee without sufficient oversight. The errors were not detected because the fourth quarter financial report, the county treasurer's settlement, and ledgers were not reviewed by another employee to ensure accuracy. According to the county treasurer, she knew the financial reports and ledgers had errors in them, but she did not have time to fix them before the audit.

Because of this weak internal control system, the amounts reported on the quarterly financial reports and annual settlement were misstated and did not agree with the actual budgeted amounts and the actual transaction amounts. The weak internal control system has also resulted in disbursements being posted to the wrong line items, reducing the usefulness of the financial reports to the public as well as to the fiscal court. The fiscal court needs accurate financial information to oversee the financial condition of the government as well as to prepare future budgets.

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 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 requires the county treasurer to "[p]repare a quarterly financial statement for the State Local Finance Officer." The manual provides a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, actual receipts and disbursements, and the total available in each line item.

In addition, the manual provides a chart of accounts and states, "[a]ll counties must use the account numbers from the chart of accounts." Strong internal controls over financial reporting are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. These controls should include an individual independent of the accounting function reviewing the financial reports for compliance with DLG reporting requirements.

We recommend the fiscal court implement internal controls over the financial reporting process. Internal controls such as a thorough review of quarterly financial reports by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include:

- tracing budgeted amounts reported to the original budget and budget amendments approved by DLG;
- tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions;
- agreeing fund balances between the quarterly financial reports and bank reconciliations;
- agreeing bank balances per the bank statements to the quarterly financial reports and bank reconciliations;
- checking for mathematical accuracy; and
- verification of bank reconciliation amounts.

Ledgers should also be reviewed to verify transactions have been recorded and posted to the correct account codes. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can implement its internal control system and help ensure accurate financial reporting.

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

Fiscal court disbursements exceeded budgeted appropriations: This is a repeat finding and was included in the prior year audit report as Finding 2016-006. Disbursements exceeded approved budgeted appropriations for the general, road, jail, ambulance, forestry, occupational tax, 911, and tourism funds.

Due to a weak internal control system over disbursements and the budgeting process, budget amendments and appropriations transfers were not made to ensure the fiscal court was within the approved budget. The fiscal court did not monitor the budget or quarterly reports to prevent disbursements from exceeding the approved budget appropriations. As a result, the following funds and line items had disbursements in excess of budgeted appropriations:

General fund - general government by $13,235, general health and sanitation by $8,259.
Road fund - roads by $8,381.

Jail fund - protection to persons and property by $15,870, administration by $1,763.
Ambulance fund - administration by $49,192.
Forestry fund - protection to persons and property by $2,104, administration by $5.
Occupational tax fund - general government by $11.
911 fund - administration by $1,109.
Tourism fund - recreation and culture by $19,293.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

We recommend the fiscal court and the county treasurer monitor the budget closely and amend the county's budget or transfer necessary appropriations in order to prevent the fiscal court from exceeding the budget. We also recommend the county judge/executive or his designee not approve purchase orders for claims that exceed the budget appropriations. We further recommend the fiscal court not vote to approve payment of claims that would cause a line item to exceed the budget.

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

The fiscal court lacks internal controls over cash transfers: The fiscal court did not approve the following cash transfers:

- Occupational tax fund to jail fund on October 11, 2016 for $16,000.
- 911 fund to the occupational tax fund on December 13, 2016 for $10,000.
- Occupational tax fund to forestry fund on May 19, 2017 for $1,500.

The following control deficiencies over cash transfers were also noted:

- The county treasurer did not post general fund cash transfers of $359,445.
- The county treasurer posted jail fund cash transfers of $84,000 but was not actually transferred.
- The county treasurer did not post LGEA fund cash transfers of $2,000.
- The county treasurer did not post ambulance fund cash transfers of $135,000.
- The county treasurer did not post forestry fund cash transfers of $3,000.
- The county treasurer did not post occupational tax fund cash transfers of $268,500.
- The county treasurer posted occupational tax fund cash transfers of $20,000 but was not actually transferred.
- The county treasurer did not post 911 fund cash transfers of $11,000.
- On December 5, 2016, the fiscal court approved to transfer $30,000 from the occupational tax fund to the ambulance fund. However, the county treasurer mistakenly transferred the money from the road fund to the ambulance fund, and this money was never paid back.

These errors resulted from lack of internal control and oversight of the cash transfer process performed by the county treasurer.

Cash transfers were not properly approved, transferred to the wrong fund, posted but not completed, and not recorded on the financial statements. As a result of not posting to the receipts ledger, the amounts reported on the fourth quarterly report for transfers were understated by $674,945. In addition, the ambulance fund owes the road fund $30,000.

Strong internal controls over cash transfers are vital in ensuring the fiscal court's financial reports accurately reflect the financial activity of the fiscal court. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires all transfers to have a court order. In addition, transfers from a restricted fund such as the road fund to another fund should be transferred back to the restricted fund before the end of the fiscal year.

We recommend the fiscal court implement stronger internal controls over the cash transfer process to ensure all cash transfers are approved by the fiscal court, transferred to the correct fund, and properly recorded to the financial statements. We also recommend the fiscal court transfer $30,000 from the ambulance fund to the road fund to replace a transfer made by mistake by the county treasurer.

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

The fiscal court did not properly reconcile all bank accounts: This is a repeat finding and was included in the prior year report as Finding 2016-003. All of the bank reconciliations were incorrect or incomplete. The bank reconciliations included stale dated checks, outstanding checks that did not exist, outstanding checks that had cleared the bank before June 30, 2017, deposits that did not exist, and erroneous balances due to misclassifications. In addition, no bank reconciliations were prepared for the homeland security fund and tourism fund.

According to the county treasurer, she prepares bank reconciliations and reviews but did not have a chance to correct them.

The lack of internal controls over reconciliations allowed most bank accounts to become out of balance with their associated fund, which resulted in negative bank balances and bank charges as reported in Finding 2017-006. The bank reconciliations were improperly completed and errors were not noticed by the fiscal court and county judge/executive, which could provide the opportunity for inaccurate records, misappropriation of assets, and unnecessary bank fees.

The fiscal court's administrative code 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 to each fund, on the day the balance is made, and shall within ten days file with the county judge/executive and fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all itemized 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."

We recommend the fiscal court implement internal controls over all bank reconciliations to ensure ending reconciled bank balances are accurate. All bank reconciliations should 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: The official did not provide a response.

The fiscal court had overdrawn bank balances in numerous bank accounts during Fiscal Year 2017: The fiscal court had negative bank balances in numerous county bank accounts due to checks being written for disbursements and submitted for payment that exceeded the available cash in the bank account. This practice resulted in the following negative cash balances on various dates within bank accounts for the funds:

General Fund	
10/26/2016	($10,263)
11/07/2016	($12,832)
11/08/2016	($13,082)
11/09/2016	($15,095)
11/10/2016	($15,375)
11/14/2016	($14,660)
11/15/2016	($14,758)
11/16/2016	($57,758)
11/17/2016	($85,131)
11/21/2016	($81,970)
12/02/2016	($8,494)
12/05/2016	($9,670)

Jail Fund	
07/07/2016	($4,941)
07/11/2016	($2,183)
07/14/2016	($3,285)
07/15/2016	($22,187)
07/19/2016	($24,367)
07/22/2016	($24,680)
07/26/2016	($14,324)
09/22/2016	($5,287)
09/23/2016	($9,618)
09/26/2016	($10,536)
09/27/2016	($11,340)
09/28/2016	($11,382)
09/29/2016	($11,626)
09/30/2016	($11,761)

Jail Fund (Continued)	
10/03/2016	($11,787)
10/04/2016	($11,967)
10/07/2016	($22,073)
10/11/2016	($22,096)
10/12/2016	($1,009)
10/17/2016	($1,245)
10/18/2016	($1,288)
11/16/2016	($17,667)
11/17/2016	($35,461)
12/02/2016	($13,689)
12/05/2016	($13,803)
12/06/2016	($13,403)
12/07/2016	($2,846)
12/14/2016	($3,197)
04/20/2017	($5,313)
05/04/2017	($5,217)
05/10/2017	($5,817)
05/11/2017	($5,857)
05/12/2017	($6,116)
05/15/2017	($5,991)
05/17/2017	($6,304)
05/18/2017	($22,183)

Forestry Fund	
08/08/2016	($1,490)
08/31/2016	($1,490)
09/30/2016	($1,490)
06/01/2017	($1,492)

LGEA Fund	
07/05/2016	($1,260)
07/08/2016	($58)
07/15/2016	($86)
11/17/2016	($1,405)
11/18/2016	($1,438)
11/21/2016	($3,483)
01/17/2017	($259)
01/18/2017	($292)
01/19/2017	($363)

Ambulance Fund	
11/21/2016	($8,781)

Payroll Account	
07/14/2016	($18,666)
09/30/2016	($15,473)
10/06/2016	($17,176)
10/13/2016	($24)
10/17/2016	($265)
10/18/2016	($799)
10/19/2016	($29,230)
10/20/2016	($34,936)
11/15/2016	($2,005)
11/16/2016	($4,075)
12/12/2016	($1,616)
12/13/2016	($39,485)
01/11/2017	($2,946)
03/06/2017	($13,266)

Payroll Account (Continued)	
03/08/2017	($13,366)

03/17/2017	($425)
03/21/2017	($1,138)
06/14/2017	($9,014)

Purchase orders for goods and services were approved without determining if there was available cash in the bank accounts to cover all disbursements. The invoices were presented to the fiscal court, checks were issued, and the finance officer/deputy judge executive and the county treasurer signed each check. According to the county treasurer and the county judge/executive's administrative assistant, the payroll account was overdrawn due to amounts transferred to the payroll account that did not match the reporting amounts used to pay federal taxes, state taxes, local taxes, retirement, and health insurance as reported in Findings 2017-016 and 2017-017.

The fiscal court is not in compliance with the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requirements.

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

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of the county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

We recommend the fiscal court refrain from issuing payments for disbursements when there is no available cash in bank accounts to cover those disbursements. We also recommend the county treasurer comply with all applicable requirements outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* concerning countersigning of checks.

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

The fiscal court's payroll account was not properly reconciled: The fiscal court uses a clearing bank account for payroll processing. Deposits are made into the bank account from the fiscal court's general, road, jail, LGEA, DES, ambulance, occupational tax, and 911 funds to pay for salaries, taxes, fiscal court matching portion of taxes, retirement, health insurance, and other payments to benefit vendors. The payroll account should reconcile to zero every month because the total amount deposited into the account should be completely paid out that same month. The fiscal court has consistently prepared inaccurate reconciliations on this account, and there was a negative reconciled balance of ($54,131) at June 30, 2017, which includes an outstanding liability to the Internal Revenue Service (IRS) that has not been paid.

According to the county treasurer and the county judge/executive's administrative assistant, the payroll account was overdrawn due to amounts transferred to the payroll account that did not match the reporting amounts used to pay federal taxes, state taxes, local taxes, retirement, and health insurance. As for the IRS outstanding liability, the county treasurer did not provide a reason for non-payment.

As a result, the fiscal court had overpayments/underpayments of federal taxes, state taxes, local taxes, and retirement. Underpayments included $17,062 of federal taxes due to the IRS from June 2017.

Good internal controls require timely and accurate reconciliations for bank accounts and all other reports concerning payroll to ensure all funds are properly accounted for and to prevent misappropriation of funds and inaccurate financial reporting. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies are transferred from other funds. Therefore, the reconciled balance each month of the payroll revolving account should be zero.

We recommend the fiscal court reconcile the payroll revolving bank account to a zero balance each month. In addition, we recommend the fiscal court reconcile all reports for federal taxes, state taxes, local taxes, retirement, and health insurance to determine the correct amounts are deducted, reported, paid, and agree with the amounts deposited into the payroll account. We also recommend the fiscal court contact the IRS and resolve the outstanding liability of $17,062.

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

The fiscal court did not have adequate internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The fiscal court did not follow proper procedures and requirements for disbursements of county funds. The following control deficiencies and noncompliances were noted:

- Sixteen items tested were paid without supporting documentation, including two paid by statement with no invoices attached. This includes 12 tourism fund disbursements paid without invoices to support the disbursement as reported in Finding 2017-009.
- Twenty-two items tested were either not recorded to the disbursements ledger or quarterly report or were not recorded correctly.
- Fiscal court did not pay eight invoices within 30 days of receipt.
- Thirty-two purchase orders were approved after purchases were made as reported in Finding 2017-010.
- Purchase orders were approved without sufficient budget or cash available as reported in Finding 2017-010.
- There was one instance of a check dated prior to the invoice date.

The fiscal court did not have controls in place to ensure the staff knew the Kentucky Revised Statutes (KRS) associated with disbursements, and the fiscal court did not monitor or review to ensure the staff followed the requirements of the statutes or detected mistakes.

The deficiencies and noncompliances noted above resulted in line items over budget, bank accounts overdrawn, claims possibly being paid not related to the fiscal court, inaccurate reporting, and potential misappropriation of assets.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government (DLG)'s *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "purchases shall not be made without approval by the judge/executive (or designee), and/or a department head . . . Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

The fiscal court's 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, "[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 proper internal controls over all disbursements and ensure they are operating effectively.

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

The fiscal court did not have adequate internal controls over tourism fund disbursements: The fiscal court did not have internal controls in place over disbursements from the tourism fund, a budgeted fund of the county. The following deficiencies and noncompliances were noted:

- Twelve disbursements were paid without invoices to support the disbursement.
- No checks after March 2017 were signed by the county treasurer. The tourism director and the county judge/executive's assistant, who is also the treasurer of the tourism commission, were signing checks from April 2017 to June 2017.
- No checks were signed by the county judge/executive or his designee.
- Twenty disbursements were not reviewed by the fiscal court before payment with two being wire transfers.
- Two disbursements totaling $10,775 were made by wire transfer instead of a check as required by the Department for Local Government.
- Five disbursements tested were not posted to the correct account.
- Twenty-one disbursements tested were purchased prior to the purchase order being approved or not approved at all.

The fiscal court did not have controls in place or understand that all disbursements, including tourism fund disbursements, should be reviewed by the fiscal court before checks are prepared and all checks are to be signed by the county treasurer and the county judge/executive or designee. In addition, wire transfers are not permitted.

The deficiencies and noncompliances noted above could have resulted in claims not related to the fiscal court being paid, inaccurate reporting, and misappropriation of assets.

Proper internal controls over disbursements are important to ensure all funds of the fiscal court are approved, spent, and reported correctly. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts, which is set forth in the Department for Local Government (DLG)'s *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual 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, the manual states as part of the minimum requirements for handling public funds, "[d]isbursements by check only." The manual also states under the duties of the county treasurer, "[c]ountersign checks only if the following conditions exist:

- Claim reviewed by the fiscal court
- Sufficient fund balance and adequate cash in the bank to cover the check
- Adequate free balance in a properly budgeted appropriation account to cover the check[.]"

Furthermore, the manual states "[t]he county treasurer is the sole officer bonded to receive and disburse county funds and could be liable on the county treasurer's bond if correct records are not maintained and the procedures are not followed as required by law."

KRS 68.275(2) states, "[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment[.]"

We recommend the fiscal court improve the internal controls over tourism fund disbursements to ensure proper procedures are followed as required by law and disbursements are properly recorded and reported.

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

The fiscal court did not follow correct procedures for approving purchase orders: This is a repeat finding reported in the prior year audit report as Findings 2016-002 and 2016-006. Thirty-two purchase orders were approved after purchases were made and were approved prior to reviewing the budget and bank balances.

The finance officer was not aware she should have checked the line item balance and the bank account balance to ensure money was available for purchases. As a result, purchases were made that exceeded budget line items and caused the bank accounts to be overdrawn.

Strong internal controls over disbursements are essential in ensuring disbursements are properly approved and recorded. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties. Each county is responsible for ensuring their purchase order system is executed and working properly.

Furthermore, this manual requires purchase requests to indicate the proper appropriation account number to which the claim will be posted. DLG also highly recommends counties accept the practice of issuing purchase orders for payroll and utility claims. Issuing purchase orders for payroll and utility claims allows the county to actually see the cash requirements needed to cover a particular bill.

We recommend the fiscal court follow DLG's procedures and strengthen controls over the purchase order system by requiring disbursements have purchase orders submitted prior to approval. All purchase orders should be completed properly with dates, amounts, account codes, and department head approvals to ensure sufficient appropriations are available within the line items in the fiscal court's budget and to ensure sufficient cash balance is available in the bank account. We also recommend the fiscal court make all employees aware of the proper procedures and internal controls.

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

The fiscal court did not have adequate internal controls over receipts: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. Internal controls over receipts have not been developed, and the following deficiencies and noncompliances were noted:

- A total of $223,501 in receipts for budgeted funds were not posted to the receipts ledger or quarterly reports.
- Receipts were not always posted to the correct account or fund or not posted at all. A total of 29 adjustments were made to the quarterly financial statement.
- The receipts ledger did not agree to the fourth quarter report, which made it difficult to trace all confirmations received.
- There was inadequate segregation of duties with no compensating controls.
- The county treasurer did not make daily deposits.

The fiscal court did not have controls in place to ensure receipts are reported in the manner required by the uniform system of accounts. In addition, the fiscal court did not have adequate segregation of duties and did not have oversight to ensure mistakes were detected and corrected timely.

The county treasurer is the sole officer bonded to receive and disburse county funds and could be liable on the county treasurer's bond if correct records are not maintained and the procedures are not followed as required by law.

The deficiencies caused the financial statement operating receipts to be understated by $223,501. Audit adjustments were necessary to correct the amounts reported in all funds.

According to KRS 68.020(4), 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."

We recommend the fiscal court implement proper internal controls over receipts and verify all accounts for accuracy on the financial statement.

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

The fiscal court did not have adequate internal controls over the Local Government Economic Assistance (LGEA) fund: The adopted budget included $62,933 of revenues expected from LGEA for mineral tax. However, when the fiscal court received payments from the Department for Local Government (DLG), the monies were deposited, spent from, and posted to the general fund in numerous account codes.

The fiscal court did not document or advertise a public hearing on the disbursement of funds within the LGEA fund. The fiscal court also expended LGEA funds on the following unallowable categories: account 04-5080-175, the fiscal court paid the courthouse custodian $22,840; account 04-9100-503, the fiscal court paid bank service charges of $163; and account 04-9100-531, the fiscal court paid bond premiums of $204.

The county treasurer did not realize the monies were to be deposited in the LGEA fund and the fiscal court did not have controls in place to identify the errors. The county treasurer and county judge/executive did not understand the requirement that only certain categories are allowable for LGEA disbursement of funds. The fiscal court failed to remember a public hearing on the disbursement of LGEA funds was required.

The financial statement approved by the fiscal court was inaccurate because LGEA funds were not receipted and expended according to KRS 42.455. The fiscal court was not in compliance with 109 KAR 10:010 Section 2, because the public was not informed through a hearing on the disbursement of LGEA monies. In addition, the county judge/executive and county treasurer signed the LGEA certification noting funds were expended for the purposes intended and this certification is included in the audit report for compliance with KRS 42.460 but funds were not receipted or spent properly.

DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* states, "KRS 42.455(2)(3)(4) specifically prohibits the expenditure of LGEA funds for the administration of government."

109 KAR 10:010 Section 2 states,

> Budget Hearings. Each fiscal year, any recipient local government that proposes to expend money from the fund in any fiscal year shall hold at least one (1) public hearing on specific proposed projects the government intends to fund (hereafter referred to as the budget hearing).
> (1) At the budget hearing, all citizens of the recipient local government shall have a reasonable opportunity to provide written and oral comments, and to ask questions concerning the allocation of local government assistance funds.
> (2) At least seven (7) days prior to the budget hearing the recipient local government shall make available for public inspection during normal business

hours, at the principal office of the local government, a summary of the proposed expenditures from the fund. This summary shall be submitted as a part of the county's annual budget to the Department of Local Government. This summary shall identify each expenditure according to eligible categories and the amount of money to be allocated to each category.
(3) A notice of the budget hearing shall be published in a newspaper of general circulation serving the geographic area of the recipient local government no later than seven (7) but not more than twenty-one (21) days prior to the scheduled date of the hearing. The notice shall contain the following: date, place and time of the public budget hearing; a statement of the amount anticipated from the fund for the fiscal year; the amount of such funds to be expended in each eligible category; a statement advising when and where a summary of projects and a summary of the entire budget for all income and expenditures of the recipient government is available for public inspection; a statement that citizens attending the public budget hearing have the right to provide written and/or oral comments and ask questions concerning the allocation of local government assistance funds.
(4) The public budget hearing may be held concurrently with budget hearings of the recipient local government provided the notice specifically identifies the fund and includes all information required by subsection (3) of this section.

In addition, KRS 42.460 states the audit report shall include a certification that the funds were expended for the purpose intended.

We recommend the fiscal court ensure all LGEA funds are deposited and expended from the LGEA bank account on allowable disbursements and reported properly on the financial statement. We also recommend the fiscal court ensure a public hearing is held on the disbursement of funds received for mineral tax to be in compliance with KRS 42.455.

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

The fiscal court lacks adequate internal controls over occupational tax receipts: The occupational tax administrator has control over all phases of occupational tax receipts including opening mail, receiving payments, posting receipts, and completing the deposit. There are no compensating controls in place. Thirty-nine returns were tested, and the following conditions were noted:

- Two tax returns were remitted with the prior year rate of .75 percent and not the current year rate of 1.25 percent. As a result, an additional $15,887 is due to the fiscal court.
- One tax return was received for Clinton, Kentucky, not Clinton County, Kentucky.
- Deposits were made twice a week not on a daily basis.
- No documentation of whether payment was made by cash or check.
- Penalties are not enforced with late returns.

The fiscal court has not appointed anyone to review occupational tax receipts and has allowed the occupational tax administrator complete control over receipts, including the database associated with tax collections and taxpayer information. According to the county judge/executive, the penalties are not enforced. This lack of internal controls over occupational tax receipts has allowed taxpayers to submit returns with the incorrect tax rate and submit late returns with no penalties enforced.

The implementation of internal controls and the segregation of duties over various accounting functions, such as recording receipts and disbursements, and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Appropriate management oversight should be provided to ensure the completion of accurate, timely financial reports. The fiscal court's county administrative code states, "The county judge executive may delegate specific executive tasks (i.e. supervision of road maintenance) to anybody, including individual members of the fiscal court. However, it is important to note that responsibility and accountability for the performance of such a delegated task continues to lie ultimately with the judge executive."

In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government (DLG)'s *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits. Per the fiscal court's occupational license fee ordinance and KRS 67.770(2), "[i]f the time for filing a return is extended, the business entity shall pay, as part of the tax, an amount equal to twelve percent (12%) per annum simple interest on the tax shown due on the return, but not been previously paid, from the time the tax was due until the return is actually filed and the tax paid to the tax district. A fraction of a month is counted as an entire month."

We recommend the fiscal court implement internal controls, such as segregation of duties over occupational tax receipts, and follow the fiscal court's occupational license fee ordinance and KRS 67.770. We also recommend occupational tax receipts be deposited daily.

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

The county judge/executive and jailer were overpaid their maximum salaries: The Department for Local Government (DLG) sets annual maximum salaries in accordance with KRS 64.5275, and the fiscal court sets the jailer's salary. The county jailer's 2016 maximum salary authorized was $46,045 along with training incentive of $1,985 for a total of $48,030. The fiscal court paid the jailer $49,801, which resulted in an overpayment of $1,771.

The county judge/executive's 2016 maximum salary authorized was $79,386 along with training incentive of $1,985 for a total of $81,371. The fiscal court paid the county judge/executive $84,429, which resulted in an overpayment of $3,058.

The overpayment occurred due to the fiscal court's lack of monitoring officials' salaries to ensure the amounts paid agreed to the amounts approved by the fiscal court. The payroll officer divided both the county judge/executive's and the jailer's salary by 26 pay periods, but there were actually 27 pay periods.

The lack of monitoring resulted in the officials being overpaid.

KRS 441.245 allows the fiscal court to set the salary for the jailer of a non-service jail. In a letter dated January 27, 2016, DLG stated, "[f]or Jailers who do not operate a full service jail, salary is established by the fiscal court but may not exceed the minimum allowable salary of $71,448 for calendar year 2016. This maximum salary results from the conventional application of the consumer price index, as adopted by the courts in Matthews v. Allen, 360 S.W.2d 135 (Ky. 1962), to the constitutional maximum of $7,200. The resulting calculation represents an adjustment to the maximum salary to reflect the current purchasing power of the dollar. The minimum salary for 2016 is $20,000 or the 2015 calendar year salary, whichever is greater, as provided for by KRS 441.245 (revised 1998)." Therefore, the fiscal court set the jailer's salary at $46,045.

KRS 64.5275(2) states, "the maximum salary of county judges/executive, county clerks, jailers who operate full service jail, and sheriffs shall be fixed by the Department for Local Government according to a salary schedule in accordance with Section 246 of the Kentucky Constitution."

We recommend the jailer reimburse the fiscal court $1,771 he was overpaid for calendar year 2016 and the county judge/executive reimburse the fiscal court $3,058 he was overpaid. We also recommend the fiscal court review maximum salary authorizations upon receipt, set the officials' compensation for the fiscal year by May 1, and establish monitoring procedures to determine correct salaries are being paid.

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

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

The fiscal court lacks adequate internal controls over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2016-005. The fiscal court lacks adequate internal controls over payroll. Although the fiscal court has segregation of duties over payroll, they lack monitoring controls to ensure reports are accurate. The following control deficiencies were noted with the fiscal court's payroll:

- The fiscal court does not properly reconcile the payroll revolving account, as reported in Finding 2017-007.
- The fiscal court did not properly reconcile retirement reports with payroll reports, as reported in Finding 2017-016.
- The fiscal court did not pay tax liabilities timely resulting in penalties and interest, as reported in Finding 2017-017.
- Raises were approved but not documented in the fiscal court minutes, and a recent salary schedule was not provided in the fiscal court minutes
- Employees' salaries for the year should have been divided by 27 paychecks instead of 26 due to employees receiving 27 paychecks in fiscal year 2017. Five employees were overpaid due to this.
- Part-time employees' hours are not monitored to ensure they are working less than an average of 100 hours. Two part-time employees tested worked over an average of 100 hours and did not have retirement withheld from their check.
- The supervisor did not sign two out of 18 timesheets tested.

- Employees did not sign two out of 18 timesheets tested.
- Three out of 18 timecards were incorrectly computed causing employees to be underpaid.
- Retirement deduction of 5 percent was incorrectly calculated as 6 percent on one of 18 employees.
- One employee had a negative sick leave balance for a pay period that sick leave was used on their timesheet.
- One employee used 48 hours of sick time in a 40 hour week.
- FICA wages were incorrectly computed due to retirement being taken out of taxable wages on seven of 18 employees.
- No timesheet was completed on one of 18 employees tested.
- One employee did not have a personnel file. Ten out of 18 employees did not have withholding authorization forms in employee files.

The fiscal court relied on employees to perform specific functions of payroll without sufficient oversight to ensure accuracy of the work performed. As a result, the aforementioned findings occurred, and the fiscal court's administrative code was not followed.

Strong internal controls over payroll and timekeeping are vital to ensure that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the fiscal court's assets and those given the responsibility of accounting for them as well as ensuring the fiscal court is in compliance with state statutes.

KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires."

KRS 64.530(1) states, "the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers names in KRS 64.535 and the county attorney and jailer."

The Clinton County Personnel Policies and Procedures manual states, "[a] personnel file shall be maintained for each county employee by the Personnel Officer or person supervised by the Personnel Officer."

We recommend the fiscal court:

- Document approved raises in the fiscal court minutes and keep a copy of the approved salary schedule with fiscal court minutes.
- Ensure salaried employees are paid the correct amount by calculating paycheck amounts using the correct number of pay periods.
- Monitor part-time employees' hours to ensure they are not working more than an average of 100 hours per month.
- Require all employees to keep a timesheet signed by the corresponding employee and his or her supervisor.
- Recompute and check timesheets to ensure employees are accurately paid.
- Ensure employees have the correct amount of retirement deducted from their paychecks.

- Ensure employees have adequate leave time to cover the amount taken in the pay period and make sure the correct leave amount is deducted in a work week.
- Ensure all employees' withholdings are being computed correctly.
- Personnel files should be complete, contain all withholding authorizations, and be updated when changes occur.

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

The fiscal court did not properly reconcile retirement reports with payroll reports: This is a repeat finding and was included in the prior year audit report as Finding 2016-005. Discrepancies were noted between amounts reported to the County Employees Retirement System (CERS) and the county's payroll reports. The fiscal court did not have adequate controls implemented to ensure reported amounts were reconciled to the payroll reports when preparing the monthly CERS report. The following errors or problems were noted with the fiscal court's retirement benefits:

- Detailed retirement reports and invoices are not printed and maintained in the fiscal court's records to document the payments made to retirement.
- The amounts reported for gross salaries on the retirement reports did not agree with gross salaries per the payroll summaries. Ten employees' gross wages that were on the payroll report were not included on the retirement report.
- Four employees' wages were included on the monthly CERS report that were not on the payroll earnings report. The fiscal court paid employee and employer's share of retirement on three of these individuals.
- The employer's share of retirement was calculated incorrectly on the payroll reports for the sheriff's department, and county clerk's office and the wrong amounts were being transferred over to the payroll revolving account. The employer's share of retirement was 18.68 percent for fiscal year 2017; however, the employer's share was being computed with previous year's percentages on some of the payroll reports.
- Forty-one employees' amounts withheld from paychecks do not match retirement reports and amounts paid to retirement.
- Twenty employees' salaries reported to retirement do not match payroll reports.
- Retirement contributions were not properly recorded to the disbursement ledgers.

The fiscal court did not devote sufficient resources to the internal controls over retirement benefits, and instead relied on a single employee without sufficient oversight. The retirement reports were not reconciled to the payroll earning reports.

The fiscal court has overpaid retirement on some employees and underpaid retirement on others. This deficiency also contributes to the problems associated with a proper reconciliation of the payroll revolving account. The transfer of funds from each department is based on the payroll report but the fiscal court pays the Kentucky Retirement Systems (KRS) based on the calculations on the retirement report. In addition, retirement was withheld from the employees at the wrong rate, and those employees are due a refund.

A strong internal control system over retirement is essential in ensuring that retirement benefits are calculated, reported, and paid to CERS properly.

KRS 78.625 requires the fiscal court to file employee and employer contributions to CERS by the tenth day of the month following the period being reported.

KRS 78.610 states, "[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." and "[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, "[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."

In order to strengthen internal controls over retirement, we recommend an individual independent of the payroll process reconcile the monthly retirement reports to monthly payroll summaries. The reconciliation should include comparing all wage and retirement amounts on the retirement report to the payroll summary and should then be reviewed by the county judge/executive or the fiscal court. Once the retirement report and payroll summary are deemed accurate, retirement benefits should be submitted to CERS timely. We also recommend the detailed retirement reports be printed each month from the Kentucky Retirement Systems website with the electronic funds payment confirmation which breaks out gross wages, withholdings, and employer's share by employee to compare to the payroll register for accuracy. Any invoices or adjustments obtained each month should also be documented and kept with the monthly report to explain any differences. Furthermore, all employees' retirement withholdings need to be checked for accuracy. Any retirement erroneously withheld from an employee's paycheck should be refunded to the employee and any amount owed should be collected. Other errors should be reported and submitted to CERS.

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

The fiscal court did not report and pay tax liabilities timely or accurately, resulting in penalties and interest: During Fiscal Year 2017, federal tax withholdings and employer contributions were not properly remitted or submitted timely to the Internal Revenue Service (IRS). Six of seven IRS payments for the quarter tested were not made timely. Additionally, six of seven payments on the state tax returns for the quarter tested were not remitted timely. Payroll reports did not agree to what was submitted to the IRS and state.

The fiscal court failed to implement internal controls to monitor whether tax liabilities were reported correctly and instead relied on a single employee without sufficient oversight.

Federal taxes, including Social Security and Medicare, were not remitted in accordance with the federal deposit withholding deposit schedule as determined by employers tax guidance published by the IRS. As a result, the fiscal court paid penalties and interest of $14,573 to the IRS due to failure to pay, failure to make a proper federal tax deposit, and failure to file from April 30, 2016 to December 30, 2016. In addition, state taxes were paid late.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities. In addition, *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 and federal taxes accumulated on taxes for payroll paid on Monday or Tuesday by the following Friday.

103 KAR 18:150 Section 2(4)(a) states "…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. Revenue Form K-1 and the income tax withheld during the 16th through the last day of each month of the calendar year shall be reported and paid on or before the tenth day of the following month."

We recommend the fiscal court implement internal controls over tax liabilities. Internal controls, such as a thorough review of payroll earnings records, should be performed by an individual independent of the payroll process, as well as 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.

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

The fiscal court did not maintain accurate capital asset records: Material weaknesses existed over the reporting of capital assets and infrastructure of Clinton County. The fiscal court's schedule of capital assets and infrastructure for the period of audit did not include all assets purchased throughout the year, and the beginning balances did not agree to the prior year schedule of capital assets ending balances.

The following mistakes were noted:

- The county's capital asset listing for land was overstated $61,093.
- The county's capital asset listing for buildings was overstated $121,386.
- The county's capital asset listing for infrastructure was understated $214,900.
- The county's capital asset listing for vehicles was overstated $92,296.
- The county's capital asset listing for equipment was understated $299,587.
- The beginning balance for vehicles was overstated $203,568
- The beginning balance for equipment was understated $140,181.

Furthermore, the county did not maintain capital asset supporting documentation for auditors, such as invoices to support amounts recorded for assets included on the fiscal court's capital asset schedule.

The county judge/executive's secretary is responsible for the capital asset listing and stated she was unaware of the county's thresholds for items. Capital assets on the county's listing were understated and overstated due to the county including incorrect purchase prices for items, assets were erroneously added or not included, assets not meeting county's threshold were included on county's listing, some assets were added twice, and some items were accidentally left off. Two pieces of equipment totaling $29,200 were purchased in fiscal year 2018 and erroneously included on the current year capital asset listing.

Due to prior year errors, the beginning balance for vehicles and equipment had to be restated for presentation on the capital asset schedule. By not having a proper review of capital asset records, misstatements were able to occur without detection.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting, to protect assets from misappropriation, and to ensure accurate insurance coverage. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[f]ixed asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control and long range planning for property replacement." The manual also states, "[a]n annual physical inventory of property and equipment shall be conducted on or before June 30. Physical counts must be compared to the master asset inventory listing. Resulting differences must be reconciled, explained and documented." Furthermore, the manual states "[a] fixed asset record should be prepared for each acquisition that meets the useful life and threshold limits. Deletion, sale, or disposal of fixed assets must be approved by authorized personnel and documented accordingly."

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with DLG's requirements. Procedures should be implemented that will identify and track additions and deletions for the purpose of the capital asset schedule with adequate supporting documentation and procedures should be implemented to reconcile to the department inventory records annually for insurance coverage.

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

The jail commissary does not have strong internal controls over disbursements: The jail commissary does not have strong internal controls over disbursements. Receipts collected from inmates for booking, housing, and medical fees are deposited into the commissary account each month, but are not paid to the fiscal court timely. The following deficiencies were noted:

- Five inmate fee payments were turned over to the county four months after being collected.
- Six inmate fee payments were turned over to the county three months after being collected.
- Nine inmate fee payments were turned over to the county two months after being collected.

In addition, taxes are collected on all applicable jail commissary sales, but are not paid to the Kentucky Department of Revenue on a monthly basis. The following deficiencies were noted:

- July 2016 sales taxes were paid to the state six months late.
- August and October 2016 sales taxes were paid to the state five months late.
- September and November 2016 sales taxes were paid to the state four months late.
- December 2016 sales taxes were paid to the state three months late.
- January 2017 sales taxes were paid to the state two months late.
- February 2017 sales taxes were paid to the state one month late.
- April, May, and June 2017 sales taxes have not been paid to the state as of the audit date.

According to the jailer's bookkeeper, these issues are the result of not remembering to make payments timely.

These deficiencies could result in inaccurate reporting and misappropriation of assets. Additionally, failure to submit all sales tax as required will result in penalties and interest being charged.

Proper internal controls over disbursements are important to ensure invoices are paid timely. Additionally, KRS 139.540 states, "[t]he taxes imposed by this chapter are due and payable to the department monthly and shall be remitted on or before the twentieth day of the next succeeding calendar month." KRS 139.550(1) states, "[o]n or before the twentieth day of the month following each calendar month, a return for the preceding month shall be filed with the department in a form the department may prescribe."

We recommend the jail commissary implement internal controls over disbursements by turning over all inmate fees to the county within 30 working days of collection. We also recommend the jailer collect and submit sales tax to the Kentucky Department of Revenue monthly as required.

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

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

The jailer does not deposit receipts daily: This is a repeat finding and was included in the prior year audit report as Finding 2016-008. Receipts of the jail commissary fund were not deposited timely. Review of bank statements noted receipts are deposited haphazardly, and one deposit noted during testing was deposited six days after collection.

According to the jailer's bookkeeper, this condition is a result of a limited staff, and deposits are made when time allows. When deposits are not made timely, the risk that the bank account can be overdrawn increases and there is an increased risk of misappropriation of funds.

The state local finance officer was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds are outlined in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance*

Officer Policy Manual which requires, "[d]aily deposits intact into a federally insured banking institution." Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft.

We recommend the jailer make daily deposits for the jail commissary fund to ensure compliance with DLG's requirements.

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

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

The jailer lacks adequate segregation of duties over the jail commissary fund and the jail inmate account: This is a repeat finding and was included in the prior year audit report as Finding 2016-007. The jailer has a lack of segregation of duties over the jail commissary and inmate account's accounting functions. The jailer's bookkeeper collects money, issues receipts, prepares and deposits receipts, writes and signs checks, posts to the ledgers, and prepares the bank reconciliations.

According to the jailer's bookkeeper, this condition is a result of a limited budget, which restricts the number of employees the jailer can hire or delegate duties to.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

A proper segregation of duties over the accounting functions, or implementing compensating controls when necessary because of a limited number of staff, is essential for providing protection from undetected errors occurring. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the jailer separate the duties of receiving cash, preparing deposits, writing checks, posting to ledgers, and preparing monthly bank reconciliations. If this is not feasible due to the lack of staff, cross-checking procedures could be implemented and documented by the individual performing the procedure.

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

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

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

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