Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Clark County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Clark County Fiscal Court for the fiscal year ended June 30, 2020. 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 Clark 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 Clark County Fiscal Court failed to implement proper internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The fiscal court did not follow proper procedures and requirements for disbursements of county funds. The following deficiencies were noted during the testing of 44 disbursements:

- One disbursement was not included on the fiscal court claims list for approval,
- Twenty-two purchase orders were issued after the county staff received the invoice for payment,

- One expenditure over $30,000 to a vendor in the jail fund was not bid and/or county staff did not maintain bid documentation.
- One bid expenditure in jail fund did not have any supporting documentation for the vendor.

The county did not have effective internal controls in place to ensure purchases/payments made by the fiscal court were supported by an authorized purchase order prior to service or goods being ordered, bills were presented to the fiscal court for approval before payment was issued, or purchases of $30,000 or above were bid and proper bid documentation was maintained.

These internal control deficiencies resulted in a noncompliance with state law and the county's administrative code. When bills are not presented to the fiscal court prior to approval and purchases are not authorized with a purchase order prior to goods being ordered or services being rendered, the risk that the fiscal court is making improper payments without detection significantly increases. Also, when purchase orders are not used properly, then staff cannot correctly determine if operating budgets are being overspent or not.

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, "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 Department for Local Government's guidance further requires purchase orders be issued for all disbursements.

KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than thirty thousand dollars ($30,000) without first making newspaper advertisement for bids."

We recommend the fiscal court implement procedures to ensure they follow their administrative policies and to be in compliance with state laws related to purchase orders, paying for disbursements with fiscal court approval and bidding projects.

County Judge/Executive's Response: Since the period under audit, there have been several personnel and position changes. We will work to adequately segregate these duties and will implement compensating controls when adequate segregation is not possible. We will follow all current bids laws for future purchases and keep adequate documentation for those bid projects.

The Clark County Jail lacks segregation of duties over disbursements: The Clark County jail commissary bookkeeper's duties include collection of funds, preparing checks and posting disbursements to the accounting software, and completing the bank reconciliations. The Clark County Jailer has implemented compensating controls over these functions by reviewing deposits, reviewing bank reconciliations, dual signatures on checks, and documenting this review by signing or initialing supporting documentation. During testing, auditors noted that dual signatures were not completed on four of the sixteen checks tested and that one of the checks with dual signatures did not include the jailer's signature. The results of the test show that compensating controls were not effective.

The jailer does not have proper segregation of duties as part of the internal control procedures for the jail.

Failure to maintain adequate segregation of duties or implement compensating controls could lead to misstatements or theft. Without strong oversight and limited segregation of duties, this increases the risk for fraud or theft.

Effective internal controls require that a proper segregation of duties over accounting functions such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Clark County Jailer segregate duties over disbursements processes to adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets. If it is not feasible for the duties to be segregated, then we recommend the jailer to implement compensating controls he has in place of dual signature.

County Judge/Executive's Response: We will provide assistance if necessary to help the Jailer correct this issue.

County Jailer's Response: The jailer has hired a comptroller to work in conjunction with the secretary to separate the duties of collecting receipts, approving and preparing disbursements, recording the general ledger and reconciling the checking account and inmate accounts. It is a requirement that both the secretary and comptroller be present when emptying the kiosk, counting the receipts, and preparing the deposit. Other senior staff including the jailer will be trained and available to help in the event that either the secretary or comptroller is absent. The jailer will review the transactions to the third party commissary company's kiosk reports.

The Clark County Jailer did not deposit receipts daily or ensure receipts were accounted for properly: The Clark County Jailer did not deposit receipts on a daily basis. Monies were removed from kiosks and only deposited 8 times during the month tested. It was also noted that there were four deposits in the month tested, totaling $31,633, that appear to be direct deposits that the bookkeeper is not aware of the purpose of the deposits. The bookkeeper did not complete a daily checkout and does not have a report from their accounting software to verify what makes up the deposits.

The jailer did not have internal control procedures in place to ensure that all receipts are accounted for and supported properly or to ensure they are deposited daily. This results in increased risk of misstated receipts due to error or theft. Also, not making deposits daily is a violation of state law.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to make deposits in-tact on a daily basis to their financial institution.

Strong internal controls dictate that funds received for inmate accounts be reported on a daily collection report with supporting documentation showing receipts are posted to the proper inmate's account. This parallels DLG guidance related to jail commissary funds on page 65, in the budget manual.

We recommend the jailer implement procedures to ensure all funds received are deposited daily, supported with a daily collection sheet, and maintain documentation showing the funds received for inmate accounts are posted when received to the proper inmate's account.

County Judge/Executive's Response: We will provide assistance if necessary to help the Jailer correct this issue.

County Jailer's Response: Regarding failure to deposit receipts on a daily basis, the Clark County Detention Center uses a third-party vendor to receive monies for the benefit of inmates in our facility. The vendor has placed one secure kiosk in our lobby, and one in our booking area, and both are in view of security cameras. These kiosks are designed with the same strength and security features as an ATM machine and runs on software that creates its own record of funds received, and for which inmates' benefit. The records of receipts are independent and cannot be altered by the staff of the Detention Center. Three times during the week (Monday, Wednesday, and Friday), a minimum of two (2) staff members of the Detention Center opens the machines, retrieves the funds, counts the funds together, and prepares a deposit slip. That deposit is taken to [bank name redacted] by office staff and one other staff member, typically the Jailer or the Comptroller. Because the accounting for receipts is done by an independent third party, it is easy to review the receipts register to the actual deposit made at the bank. Jailer Doyle performs this review weekly and initials the deposits.

Our reason for not making a daily deposit is the low volume of activity with these machines and the lack of administrative staff to perform this task daily. We feel strongly that our internal controls, physical controls, and our protocols for handling this liquid asset, provides assurances that the asset is protected.

The Clark County Fiscal Court failed to properly reconcile the payroll revolving accounts: This is a repeat finding and was included in the prior year audit report as Finding 2019-004. Reconciliations for the payroll revolving account and fringe payroll account were not reconciled completely. The county failed to account for receivables and liabilities for an accurate reconciliation of revolving accounts. The payroll account and fringe account had reconciled balances of $24,347 and $82,687, respectively that will be included in the general fund ending balance.

The fiscal court did not have oversight and controls in place to ensure payroll revolving accounts were properly reconciled.

The balance as noted above results in there being an overage of funds that may be resources that the county could otherwise utilize elsewhere.

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

We recommend the county treasurer review the bank balances in the payroll revolving accounts and transfer the balances to the general fund or other fund as deemed appropriate, to eliminate the excess funds in the payroll revolving accounts. In the future, the county treasurer should only transfer enough funds to meet payroll obligations each pay period. We further recommend the county treasurer maintain written documentation of the reconciliation between the transfer checks written to the payroll accounts and the payroll register to ensure accurate amounts are transferred to the payroll accounts each pay period.

County Judge/Executive's Response: The current county treasurer is working to reconcile the payroll revolving accounts. Once they have been properly reconciled, new payroll accounts will be opened, and moving forward, controls will be put in place to ensure proper reconciliation in the future.

The Clark County Fiscal Court failed to segregate all accounting duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-005. The fiscal court has segregated most of the accounting duties, but not all of them. The treasurer posts revenues to ledgers, posts disbursements to ledgers, signs disbursement checks, as well as reconciles bank accounts. There are some compensating controls in place, such as the judge/executive reviews the monthly report and reviews and initials bank statements, but these reviews were not on a consistent basis, therefore, compensating controls were not effective.

The county does not have segregation of accounting functions included as part of their internal control procedures. The lack of oversight could result in misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG), which could occur but go undetected.

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

We recommend the fiscal court segregate duties over receipts, disbursements, and bank reconciliation processes. If segregation of duties is not possible, then the fiscal court should implement consistent compensating controls by monitoring the financial activities of the fiscal court and maintain documentation of review.

County Judge/Executive's Response: Since the period under audit, there have been several personnel and position changes. We will work to adequately segregate these duties and will implement compensating controls when adequate segregation is not possible.

The Clark County Fiscal Court failed to properly disclose debt on the quarterly financial reports: The county did not accurately report liabilities on the fourth quarter financial report. The ending balance that should have been reported on the fourth quarter financial report as of June 30, 2020, for principle and interest was $1,573,911 and $377,433, respectively. The amounts reported for principal and interest were $1,177,809 and $310,506, respectively. The difference resulted in a net overstatement of liabilities report of $463,029.

The county failed to implement sufficient monitoring over the reporting process. By not correctly reporting for outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts as set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. DLG's manual also requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt.

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

County Judge/Executive's response: The debt schedule has now been updated with correct amounts and procedures have been put in place to ensure proper reporting in the future.

The Clark County Fiscal Court did not prepare a schedule of expenditures of federal awards (SEFA) timely and did not submit it to the Department for Local Government: The county did not prepare a schedule of expenditures of federal awards (SEFA) and submit it to the Department for Local Government (DLG) with their fourth quarter report. The current treasurer informed auditors that the SEFA the former treasurer completed could not be found. So, the current treasurer prepared a SEFA upon request by the auditors.

By not preparing a SEFA timely and submitting to DLG, the county has not timely and accurately assessed if a single audit is required. This may also increase the risk of the suspension of federal programs, if improper federal expenditures are made.

Uniform Guidance per § 200.510(b), requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule must:

(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

(3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program.

(5) For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

(6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414.

In addition, DLG requires the schedule of expenditures of federal awards to be submitted at the end of the fiscal year when submitting the fourth quarter financial report.

We recommend the county prepare a SEFA to be in compliance with federal uniform guidance requirements. Also, the SEFA should be submitted to DLG with the fourth quarter financial report as required.

County Judge/Executive's Response: This was on oversight when preparing and submitting the final documents for the fiscal year. A SEFA will be prepared and submitted timely for all future fiscal years.

The Clark County Fiscal Court lacks adequate internal controls over federal programs:
Federal Program: CFDA #21.019 Covid-19 Coronavirus Relief Funds
Federal Agency: U.S. Department of Treasury
Pass Through Agency: Kentucky Department for Local Government
Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Questioned Costs: None

The fiscal court did not implement adequate internal controls over federal programs,. There were no procedures or review processes in place to ensure that compliance requirements were met for CFDA 21.019, Coronavirus Relief Fund. The fiscal court did not define, maintain, or periodically evaluate the skills and expertise needed among its members to enable them to ask relevant questions of financial staff related to the federal program oversight. Further, the fiscal court did not maintain an organizational structure that facilitated effective reporting and other communications about internal control over compliance among various functions and positions of management. The fiscal court did not have job descriptions for employees managing federal programs nor did they document significant processes that explain the flow of transactions, controls to address key risk areas, and related reporting responsibilities.

The fiscal court staff believed that they had appropriate procedures in place and did not realize that they were not sufficient. The fiscal court budgets for training in every department, however, training is not mandatory and the fiscal court does not ensure that training is sufficient for relevant employees. The fiscal court staff also believed that they were using job descriptions for employees outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, however, the positions of employees managing the federal programs are not outlined in the budget manual.

Failure to implement internal controls over federal programs creates a greater risk that compliance requirements will not be met and increases the risk of undetected errors in financial reporting, or misappropriation of federal funds due to fraud. Due to the lack of internal controls, the county was noncompliant with federal requirements over CFDA 21.019, resulting in ineligible expenditures, further described in Finding 2020-010.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) §200.303 states: "[t]he non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
(b) Comply with Federal statues, regulations, and the terms and conditions of the Federal awards.
(c) Evaluate and monitor non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
(d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
(e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designated as sensitive or the non- Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality."

Strong internal controls dictate that management should implement procedures to ensure that there is compliance with requirements related to federal funds received and expended, including providing adequate training to staff overseeing these procedures. To ensure these procedures are properly implemented by staff, the procedures should be in writing and easily accessible for staff to refer to while performing their job duties. Further, management should ensure that staff overseeing controls and compliance related to federal funds are continually and adequately trained to allow them to meet internal control and compliance requirements.

We recommend the fiscal court, in regards to controls over compliance for federal programs:

1. Implement procedures to ensure that expenditures related to the federal program meet all federal compliance requirements, including documented review procedures to ensure that all federal expenditures are allowable and fall within the correct period of performance,
2. Document job descriptions for all employees and significant processes that explain the flow of transactions, controls to address key risk areas, and related reporting responsibilities, and
3. Ensure that all employees receive sufficient training in relevant areas to ensure that they develop, and retain sufficient and competent personnel to oversee the federal program compliance.

County Judge/Executive's Response: Since the period under audit, there have been several personnel and position changes. We will work to adequately segregate these duties and will implement compensating controls when adequate segregation is not possible.

The Clark County Fiscal Court submitted ineligible expenses for reimbursement for the COVID-19 Coronavirus Relief Fund:
Federal Program: 21.019 COVID-19 Coronavirus Relief Fund
Award Number and Year: 2100000312, 2020
Name of Federal Agency and Pass-Through Agency: U.S. Department of the Treasury and Kentucky Department for Local Government
Compliance Requirements: Activities Allowed/Unallowed
Type of Finding: Noncompliance
Amount of Questioned Costs: $19,773

The Clark County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the U.S. Department of Treasury's Coronavirus Relief Fund (CRF) passed through from the Commonwealth of Kentucky's Department of Local Government (DLG). During testing, the following questioned costs were noted, totaling $19,773:

- FICA employer match calculation was incorrect on report submitted for reimbursement. When calculating FICA on the report submitted the former treasurer and finance officer did not use what was on the actual payroll summaries, but instead used a calculation in Excel. This calculation didn't take into account anything that needed to be backed out of FICA and resulting in $668 too much being requested in reimbursement, and
- There was one instance of the wrong amount being submitted for retirement for an employee totaling $19,105 too much requested.

FICA Calculation:
While comparing the documentation sent to DLG for reimbursement and payroll summaries the auditor noted that for 27 employees there was a calculation for FICA on the reimbursement report that did not match the payroll summary reports. It was determined that FICA was overstated on the report submitted to DLG for reimbursement in the amount of $668.

Retirement Calculation:
While comparing the documentation sent to DLG for reimbursement and payroll summaries the auditor noted that for one employees there was an error on the reimbursement report that did not match the payroll summary reports for the amount of retirement paid by the employer for the employee. It was determined that retirement was overstated on the report submitted to DLG for reimbursement in the amount of $19,105.

The fiscal court did not have controls in place to ensure that staff knew the federal program requirements and did not monitor or review documentation to make sure requirements were followed as further described in Finding 2020-008.

As a result, the Clark County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the Coronavirus Relief Fund, resulting in $19,773 of questioned costs.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the Coronavirus Relief Fund (the "Fund") and appropriated $150 billion for payments by Treasury to states, tribal governments, and certain local governments. The CARES Act provides that payments from the fund may only be used to cover costs that—

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);

2. were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and

3. were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021.

Initial guidance released on April 22, 2020, provided that the cost of an expenditure is incurred when the recipient has expended funds to cover the cost. Upon further consideration and informed by an understanding of state, local, and tribal government practices, Treasury is clarifying that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need not be made during that time (though it is generally expected that this will take place within 90 days of a cost being incurred)."

Additionally, CFR 200.303 states, "[t]he non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the Clark County Fiscal Court contact DLG for guidance on how to resolve these issues. We also recommend the Clark County Fiscal Court strengthen controls over federal awards by implementing a review process to catch and resolve these matters going forward.

County Judge/Executive's Response: This was an error in the spreadsheets provided for reimbursement. We will contact DLG for further guidance on this issue. Controls will be in place to prevent these errors in the future.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.