



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Clay County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Clay County Fiscal Court for the fiscal year ended June 30, 2016. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Clay County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

In accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have issued an unmodified opinion on the compliance requirements that are applicable to Clay County Fiscal Court's major federal programs: Emergency Watershed Protection Program (CFDA #10.923), Appalachian Area Development (CFDA #23.002), and Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036).

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Clay County Fiscal Court lacks internal controls over the environment of the county road department. The Clay County Fiscal Court lacks internal controls over the environment of the county road department. During the fiscal year ending June 30, 2016, the fiscal court did

not have internal controls in place to mitigate risks in several areas of the road department including labor, the use of equipment and vehicles, the use of fuel, and the use of materials such as gravel, steel, and pipe. Road department employees were not required to maintain documentation for the type of work performed, location of projects, where work was performed, or materials used in completing projects. Additionally, fuel logs were not maintained to document the use and addition of fuel.

The fiscal court did not require those charged with management of the road department to implement internal controls.

By not having proper controls in place, the county is at risk for the misuse and misappropriation over the use of labor, equipment and vehicles, fuel, and materials at the road department.

Strong internal controls would mitigate the risk associated with the use of fiscal court labor and assets.

We recommend the Clay County Fiscal Court implement internal controls at the road department over the use of equipment, vehicles, fuel, and materials such as gravel, steel, and pipe.

County Judge/Executive's response: Related information is now being documented by the County Road Foreman.

The Clay County Fiscal Court lacks internal controls ensuring that Federal Emergency Management Agency (FEMA) requirements are met when bidding FEMA projects. The Clay County Fiscal Court followed their normal bidding procedures when FEMA projects were bid. Compliance with 2 CFR 200 was not documented in the bidding process and multiple bid amounts were noted for the same work to be performed.

The fiscal court had two separate advertisements. One advertisement was for routine county work and the other advertisement was for FEMA work. On June 11, 2015, the fiscal court approved annual bids for routine county work to be completed for steel drilling, cribbing (guard rails), and backfill. On June 30, 2015, the fiscal court accepted and awarded additional bids for FEMA work to be performed on several roads and bridges in the county. The fiscal court minutes stated that FEMA projects must be bid separately. The new FEMA bids were for steel drilling, cribbing (guard rails), and backfill.

Auditors expanded testing on three FEMA invoices for two different companies. When comparing the bid amount the company submitted for the FEMA work with the bid the company submitted for routine work the county needed, the bid amount for the FEMA work was higher. Based on the three invoices, the fiscal court paid \$115,138 more than they would have if original bid amounts were used for FEMA projects.

Management did not have knowledge of the FEMA bid requirements.

Lack of internal controls over the bidding process resulted in the fiscal court bidding FEMA projects without ensuring they were in compliance with FEMA bidding standards required in 2

CFR 200. FEMA bids were significantly higher than the original bids the fiscal court accepted for the same work.

Lack of internal controls also resulted in bids being awarded at a significantly higher price when compared to original bids the fiscal court accepted and awarded on June 11, 2015.

Per 2 CFR 200.321:

- (a) The non-Federal entity must take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible.
- (b) Affirmative steps must include:
 - (1) Placing qualified small and minority businesses, and women's business enterprises on solicitation lists;
 - (2) Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources;
 - (3) Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women's business enterprises;
 - (4) Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority businesses, and women's business enterprises;
 - (5) Using the services and assistance, as appropriate, of such organization as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
 - (6) Requiring the prime contractor if subcontracts are to be let, to take the affirmative steps listed in paragraphs (1) through (5) of this section.

We recommend the Clay County Fiscal Court implement internal controls to ensure the county complies with FEMA bidding requirements as noted in 2 CFR 200.

County Judge/Executive's response: DES Coordinator was advised incorrectly by FEMA representative on past projects concerning the bidding. Future projects will use the current County bids, unless informed differently by FEMA.

The Clay County Fiscal Court lacks adequate segregation of duties over receipts. The county treasurer opens mail, prepares all deposits, posts to receipt ledgers, and prepares bank reconciliations.

A limited budget places restrictions on the number of employees the fiscal court can hire. When faced with a limited number of staff, strong compensating controls should have been implemented to offset the lack of segregation of duties.

Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

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

To adequately protect against undetected misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties involving the opening of mail, collecting and depositing of receipts, and preparation of reports and reconciliations. If this is not feasible due to a limited budget, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions. Additionally, the county judge/executive could provide this oversight and document it on the appropriate source documents.

County Judge/Executive's response: Two office staff are now recording receipts.

The Clay County Fiscal Court lacks internal controls over community center receipts. The Clay County Fiscal Court lacks internal controls over community center receipts. No supporting documentation was available for money collected for the reservation of the community center during fiscal year ended June 30, 2016. Money was either collected in the judge/executive's office or by an employee at the community center. Citizens who paid for reservation of the community center at the judge/executive's office were issued a receipt. However, no receipts were issued to citizens who paid directly to an employee at the community center. Daily checkout sheets were not maintained at either the judge/executive's office or the community center. Per the receipts ledger, the recorded community center reservation receipts totaled \$13,825 for fiscal year ending June 30, 2016.

A former county employee was responsible for the collection of funds and scheduling reservations of the community center. The fiscal court did not require supporting documentation to be maintained.

Without supporting documentation, the fiscal court cannot determine if the proper amount of receipts were collected from the use of the community center. This could result in the undetected misappropriation of assets or incorrect reporting.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual* establishes several procedures to institute a strong internal control environment, including issuing pre-numbered three-part receipts, utilization of daily check-out sheets, and ensuring that deposits are made intact daily.

KRS 64.840(1) states, "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer[.]"

We recommend the Clay County Fiscal Court issue a receipt for all money collected for use of the community center.

County Judge/Executive's response: All receipts for the Community Building now come thru the County Judges Office.

The Clay County Fiscal Court did not properly collect past due ambulance service bills. The Clay County Fiscal Court did not attempt to collect past due ambulance service accounts. After six billing statements the county no longer attempts to collect receivables for the ambulance service. The following amounts have been written off as "adjustments" to receivables:

- Fiscal Year Ending June 30, 2013: \$698,531
- Fiscal Year Ending June 30, 2014: \$671,092
- Fiscal Year Ending June 30, 2015: \$394,749
- Fiscal Year Ending June 30, 2016: \$221,721

The total amount of ambulance service receivables that have been written off from fiscal year 2013 to fiscal year 2016 is \$1,986,093.

When an ambulance service bill becomes delinquent, the fiscal court sends a letter to the patient stating that the account will be turned over to collections. However, after six billing statements, the patient is not rebilled and the fiscal court does not turn over any accounts to collections.

The practice of forgiving delinquent ambulance bills not only results in lost revenue for the ambulance service but results in preferential management of those accounts.

Section 52 of the Kentucky Constitution prohibits the fiscal court from forgiving debt in which the amount can be precisely determined and which is not in dispute, as is the case with these ambulance bills.

We recommend the Clay County Fiscal Court implement procedures in order to collect past due ambulance service billings and discontinue the practice of forgiving debts owed.

County Judge/Executive's response: The Clay County Fiscal Court is in the process of contacting a collection agency. The Court to approve contracting with an agency at the June 2017 court meeting.

The Clay County Fiscal Court did not have sufficient internal controls over credit card disbursements. The Clay County Fiscal Court has not implemented proper internal control procedures over credit card disbursements, which resulted in the following:

- Invoices were not paid timely and late fees were paid in the amount of \$109.
- Twenty-five instances where the original receipt was not attached to the credit card statement.

Lack of internal controls over credit card disbursements allowed for the deficiencies noted above to occur.

The fiscal court paid late charges and disbursed funds without supporting documentation which supports the disbursement as a valid expense of the county and a proper use of county funds.

KRS 65.140(2) states, in part, “all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” Furthermore, good internal controls require proper supporting documentation be maintained to support disbursements.

We recommend the Clay County Fiscal Court strengthen internal controls over credit card disbursements to ensure that late fees are not incurred. All credit card purchases should be supported by original receipts to ensure that disbursements are proper.

County Judge/Executive’s response: Notified all department heads and Jailer they are required to turn in all receipts.

The Clay County Fiscal Court paid additional compensation to the county attorney for performance of regular job duties. The Clay County Fiscal Court paid the county attorney additional compensation for performance of regular job duties. The Clay County Attorney received \$2,994 in additional compensation related to the Clay County Water Line Extension, a project authorized by the Clay County Fiscal Court pursuant to a grant agreement with the Kentucky Infrastructure Authority. The project budgeted \$10,000 in legal expenses, of which the county paid \$2,994 to the county attorney.

The fiscal court was unaware that legal work performed in relation to the Clay County Water Line Extension project was within the normal scope of duties for the county attorney and that additional compensation was not necessary or allowable.

The Clay County Attorney was paid additional compensation for performance of regular job duties resulting in the misappropriation of county funds.

The salary of county attorneys is set by the fiscal court in the year of the county attorney’s election pursuant to KRS 64.530. That compensation “shall not be changed during the term[.]” According to the Kentucky Court of Appeals in James v. Duffy, 131 S.W. 489 (1910), “[i]f the compensation is a salary, the salary must remain the same throughout that official’s term, whether or not the scope of his official duties have been increased or lessened.” *Id.* at 490; see also Ky. Const. § 161. The duties of the county attorney include attending the fiscal court, advising it on all matters, and “conduct[ing] all business touching the rights or interest of the county[.]” KRS 69.210. The county attorney may not contract with the fiscal court to determine his duties or salary, the former being set by statute and the latter being set by the fiscal court. KY OAG 78-13 (1978).

We recommend the Clay County Fiscal Court not pay additional compensation for work that is within the normal scope of job duties for employees or officials.

County Judge/Executive's response: This was on a special water project. We will advise the engineers, no additional compensation may be given to the County Attorney for his work, on these projects.

The Clay County Fiscal Court does not have adequate internal controls over the purchase order system. The Clay County Fiscal Court is not properly utilizing a purchase order system. The purchasing procedures in place do not comply with the required purchase order system required by the state local finance officer. In addition, the internal controls over the purchase order system allowed the system to be circumvented. As a result, the following occurred:

- One disbursement caused a line item to be over budget when the check was issued.
- Forty-five disbursements were paid without a purchase order.
- Six disbursements had a purchase order issued after the date of the invoice.
- The encumbrance list was misstated because a list of outstanding purchase orders was not available to compile an accurate listing of encumbered monies.

Internal controls over purchase orders were not operating as intended during fiscal year 2016.

As a result of not monitoring controls, the deficiencies above occurred. In addition, encumbrances were misstated. These deficiencies could result in inaccurate financial reporting and misappropriation of assets.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government, "purchases shall not be made without approval by the judge/executive (or designee) and/or 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."

We recommend the Clay County Fiscal Court strengthen internal controls by ensuring that purchase orders are issued for all disbursements and sufficient funds are available prior to issuing a purchase order.

County Judge/Executive's response: Current County Judge has advised all Department heads and Jailer to call for purchase orders.

The Clay County Fiscal Court did not obtain bids when required. The Clay County Fiscal Court failed to acquire bids for all purchases in excess of \$20,000. The fiscal court expended over \$20,000 for fuel and a used ambulance and failed to advertise for bids. This is a repeat finding. The prior year audit noted the county did not advertise for bids on all items over \$20,000.

The fiscal court did not follow the bidding requirements for purchases in excess of \$20,000 as stated in the prior-year audit. Without bidding, the fiscal court is not aware of all price options available and the process of awarding contracts lacks transparency.

KRS 424.260(1) states, in part, “[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 twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” In addition, fiscal court’s own administrative code requires that purchases over \$20,000 be bid.

We recommend the Clay County Fiscal Court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260.

County Judge/Executive’s response: Additional bidding will be done for FY 2017-2018.

The Clay County Fiscal Court paid the county treasurer as a salaried and hourly employee. The county treasurer is receiving wages as a salaried employee for her position as executive secretary while also receiving hourly and overtime pay as the county treasurer. However, the time sheet only reflects hours for her position as county treasurer.

The Clay County Fiscal Court is paying this employee under the same budgeted line item titled county treasurer’s salary. This line item has the budget to pay for both positions.

The Clay County Fiscal Court is not in compliance with U.S. Department of Labor regulation 29 CFR Part 541.

U.S. Department of Labor Fact Sheet #17G states “[b]eing paid on a ‘salary basis’ means an employee regularly receives a predetermined amount of compensation each pay period on a weekly, or less frequent, basis. The predetermined amount cannot be reduced because of variations in the quality or quantity of the employee’s work. Subject to exceptions listed, an exempt employee must receive the full salary for any week in which the employee performs any work, regardless of the number of days or hours worked.”

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

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

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

- The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than \$455 per week;
- The employee’s primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer’s customers; and
- The employee’s primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.

We recommend the Clay County Fiscal Court seek guidance from the Clay County Attorney to determine if the employee is qualified as an hourly or salaried employee. In addition, we recommend the timesheet reflect actual hours worked in each position.

County Judge/Executive’s response: Additional compensation was given, monthly, when the employee took on additional duties of the County Treasurer. Change to be made.

The Clay County Fiscal Court lacks internal controls over payroll. The Clay County Fiscal Court does not have proper internal controls over the payroll process. During the fiscal year ending June 30, 2016, the following issues were noted:

- One employee listed additional hours for on-call work without specification of when hours were worked.
- Three full-time employee timecards did not reflect a 40-hour work week.
- Seven timecards were approved without employee signatures.
- Thirteen timecards were processed without supervisor approval.
- Five employees were paid without timecard documentation.
- Employees do not clock in and out for lunch, which has allowed for extended lunch periods.
- Ten employees were paid as salary regardless of the hours worked.
- Four of the salaried employees did not submit a time sheet to the fiscal court.
- Pre-taxed items were not being properly exempted prior to calculating individual withholding taxes.

Weak internal controls over payroll have allowed these issues to go undetected.

The fiscal court is not in compliance with federal and state labor regulations or the county’s administrative code.

KRS 337.320(1) requires every employer to “keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.”

Clay County Administrative Code Section XII: Personnel Policies and Procedures (1)(a) states, “Hours of Work (a) The work day shall consist of not less than eight (8) consecutive hours, and the work week shall consist of at least forty (40) hours in five (5) consecutive days.”

Timesheets should be kept for payroll verification, as a record of leave time used, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance.

The United States Department Of Labor - Wage and Hour Division defines Kentucky's "Minimum Length of Meal Period Required under State Law for Adult Employees in Private Sector" as "[r]easonable off-duty period, ordinarily ½ hour but shorter period permitted under special conditions, between 3rd and 5th hour of work. Not counted as time worked. Coffee breaks and snack time not to be included in meal period."

Section 213(a)(1) of the Fair Labor Standards Act exempts bona fide executive, administrative, and professional employees, outside sales employees, and certain skilled computer professionals from both the minimum wage and overtime pay requirements.

Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and the employee in which the employee agrees to contribute a portion of his or her salary on a pre-tax basis to pay for the qualified benefits. Salary reduction contributions are not actually or constructively received by the participant. Therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums generally are not subject to FICA and FUTA. See 26 U.S. Code Sections 3121(a)(5)(G) and 3306(b)(5)(G) of the Internal Revenue Code.

The above discussion provides only the most basic rules governing a cafeteria plan. For a complete understanding of the rules, see the proposed regulations under 26 U.S. Code § 125 – Cafeteria plans.

We recommend the Clay County Fiscal Court strengthen internal controls over payroll by requiring employees and supervisors to sign timecards, ensure timecards reflect actual hours worked, require all employees to maintain timecards, and require employees to document lunch periods on timecards. We recommend the payroll officer ensure all cafeteria plan items are taxed appropriately. We further recommend the Clay County Fiscal Court obtain a legal opinion from the Clay County Attorney as to whether county employees considered salaried qualify as such under labor laws.

County Judge/Executive's response: Have required three of the salaried employees to change their time card documentation. We will notify department heads and the Jailer to make sure all time cards are signed. Will document additional called-out hours. Will try to watch discrepancies on time cards.

A Clay County employee was paid for hours not worked and time not accrued. During the Fiscal Year 2016 audit, information came to the auditors' attention regarding a payroll issue in the prior fiscal year. An employee logged a total of 80.5 hours for the pay period of February 9, 2015 to February 22, 2015. Of the time logged during that pay period, eight hours were listed as a holiday, 11 hours listed as a personal day, two hours listed as an additional personal day, and a total of 59.5 hours of actual hours worked. Per Section XII of the Clay County Fiscal Court Administrative Code, new employees must first complete a six month probationary period of

employment before earning personal time. Additionally, the employee may not meet the federal requirements for a salaried employee.

The supervisor did not properly review the supporting documentation for payroll and approved the timecard that indicated two personal days. In addition, internal controls were overridden by the former county judge/executive who signed and issued the payroll check for the employee because the employee was salaried.

Disregarding county policy and overriding internal controls has resulted in the preferential treatment of an employee and the county paying for services that were not owed.

According to the Clay County Administrative Code Section XII: Personnel Policies and Procedures, “(10)(c) All new employees will be on a six months probationary period[.]” and “(8) (b) Probationary and part-time employees do not accumulate vacation leave.”

We recommend the Clay County Fiscal Court pay employees for time worked or for leave time earned in accordance with the Clay County Administrative Code.

County Judge/Executive’s response: Advised the Employee’s Supervisor of this error and, in the future, pay could not be given, if no time is accumulated.

The Clay County Fiscal Court incorrectly amended the budget of the Road and Local Government Economic Assistance Fund. The budget line items should not show a negative balance. Since the amendment created a negative line item it created the impression that the county did not have funds to transfer although transfers had been made within the available funds. The fiscal court nor the Department for Local Government should approve an amendment indicating a negative line item budget.

The fiscal court followed usual protocol and used the account to balance its budget. There was a transfer account also budgeted; however, there were not sufficient funds to make the budgeted transfers and they were not made. Both the fiscal court and the Department for Local Government approved the budget amendments. No funds were transferred beyond those available and there was no ending deficit in the fund balance. Although the overall budget variance was not affected, the amendment did affect line items.

The negative budget line item gives the impression that no funds were available for transfer and that the transferred funds were not actually available and the budget was exceeded. The county made the actual cash transfers properly.

The *County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government, states, “the fiscal court should be constantly monitoring receipts and expenditures.”

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 that Clay County Fiscal Court not approve budget amendments that create negative line items.

County Judge/Executive’s response: Department of Local Government approved the amendment. The negative number resulted from an over estimate of income, not due to over spending of the budget. Will try to estimate more closely, if possible.

The Clay County Jail commissary does not have adequate internal controls over jail commissary inventory. The Clay County jail commissary does not have adequate internal controls over inventory. Commissary inventory consists of food, hygiene products, and other various items useful to inmates. The jail commissary uses a vendor to supply the jail commissary and the vendor delivers ordered items to the jail. When inventory is received at the jail, there are no procedures in place to verify that goods purchased are received by the jail commissary.

The Clay County Jailer failed to implement adequate internal controls over the receipt of jail commissary inventory.

As a result, the inventory levels could be misstated or goods purchased could not be received by the jail.

Effective internal control requires that processes be in place to ensure that inventory purchased by the jail commissary agrees to the inventory actually received.

We recommend the Clay County Jailer ensure that all invoices for items purchased agree to items added to the commissary inventory. Also, periodic physical inventory counts should occur by an individual with no other commissary duties.

County Jailer’s response: Monthly Inventory will continue to be done. All incoming inventory will be signed by two employees and checked off accordingly and added to jail inventory on computer.

The Clay County Jail commissary uses a debit card for purchases. The Clay County Jail uses a debit card to make some purchases for the jail commissary. During Fiscal Year 2016, disbursements totaling \$1,220 were made using a debit card.

Jail management was unaware that use of a debit card which allows immediate electronic payment of expenses was an unacceptable form of disbursement.

The Department for Local Government, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds.

According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, disbursements are to be made by check only.

We recommend the Clay County Jailer ensure that disbursements are made by check only, in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

County Jailer's response: I was not aware we could not have debit card. My plan of corrective action is we will no longer use debit card. We will find another resource to purchase needed items.

The Clay County Fiscal Court did not adequately identify federal grants or maintain an accurate Schedule of Expenditures of Federal Awards (SEFA). The Clay County Fiscal Court did not adequately identify federal grants or accurately maintain a Schedule of Expenditures of Federal Awards. The original SEFA provided to auditors was materially incorrect. Several adjustments totaling \$527,755 were made to correctly document federal expenditures for fiscal year 2016.

The accounting personnel do not appear to have been properly trained to maintain an accurate SEFA with the required information such as the Catalog of Federal Domestic Assistance (CFDA) numbers.

Failure to maintain an accurate SEFA could result in a failure to properly obtain a single audit in accordance with Uniform Guidance. This could endanger future federal funding.

Per 2 CFR 200.501(a), “[a] non-Federal entity that expends \$750,000 or more during the non-Federal entity’s fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

The Clay County Fiscal Court should implement internal controls to immediately recognize all federal awards and keep track of the federal grant information including the identifying CFDA number. An employee should be assigned to track federal expenditures while maintaining an accurate SEFA.

County Judge/Executive's response: DES Coordinator and Co. Treasurer will try to record all FEMA expenditures.

The Clay County Fiscal Court did not properly declare an emergency. During Fiscal Year 2015, the Clay County Judicial Center flooded. The flooding happened over a weekend and when discovered was treated as an emergency. The work performed was not bid or declared an emergency in accordance with state procurement laws, which would have allowed the county to waive competitive bid requirements. During fiscal year 2016, the fiscal court paid vendors for work to repair the damage. This work was performed without the fiscal court advertising and accepting bids.

The fiscal court failed to ensure that an emergency declaration was officially declared and documented in writing.

The fiscal court performed work that was not in accordance with normal procurement procedures, but would have been appropriate had an emergency been properly declared.

According to KRS 424.260(4), competitive bids do not apply in an emergency if the county judge/executive certifies that an emergency exists and has filed a copy of the declaration in his office.

We recommend the Clay County Fiscal Court ensure that emergency declarations are properly documented.

County Judge/Executive's response: Will strive to document all emergencies correctly in the future.

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

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