



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, 2019. 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.

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 Kentucky Infrastructure Authority debt payments were not paid as required by the debt Agreement: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The Kentucky Infrastructure Authority (KIA) debt payments were not made in accordance with the debt schedule as required by the agreement with KIA. The schedule requires 12 monthly payments of \$12,582 plus varying monthly servicing fees to be made the first of each month; however, payments were made not made in accordance with the amortization schedule during the fiscal year. Total payments of \$53,000, comprised of principal payments of \$6,387 and interest payments of \$46,613 were made during the fiscal year. The amortization schedule required total payments of \$150,984, comprised of principal payments of \$120,904 and interest payments

of \$30,080. In addition, servicing fees of \$2,039 were required to be paid. The total past due principal balance is \$163,851 as of June 30, 2019, based upon county records.

The Clay County Fiscal Court entered into the debt with KIA in order to obtain funding for waterlines on behalf of North Manchester Water Association. The fiscal court further entered into a lease agreement with North Manchester Water Association where they would make lease payments equaling the debt service payments directly to KIA. North Manchester made payments up through January 2018, but then failed to make the required monthly payments. The Clay County Fiscal Court now requires North Manchester Water Association to pay payments to the fiscal court and they in turn make the payments to KIA. However, the county is not receiving the payments from North Manchester in accordance with the amortization schedule; therefore, the proper payment amount is not being submitted to KIA by the fiscal court.

The county is in default on the debt agreement with KIA by not ensuring proper debt payments were made in accordance with their agreement. The loan agreement the county entered into with KIA requires monthly loan payments to be made the first of each month in accordance with the debt amortization schedule.

We recommend the Clay County Fiscal Court comply with the terms of the KIA agreement by making all required debt payments in the future. We further recommend the fiscal court contact KIA in order to become in compliance with the terms of the agreement regarding unpaid principal and interest payments. If the original agreement is amended, a new written agreement should be entered into outlining the responsibilities and required payments of all parties. The county should consult with the county attorney for legal guidance on this issue.

County Judge/Executive's Response: The North Manchester Water Association is currently issuing a check for \$7,000.00, toward their payment per month. This is being paid toward their interest and the remainder toward the principal. At this time KIA is accepting this payment.

The Clay County Fiscal Court lacks adequate segregation of duties over occupational tax receipts: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. The Clay County Fiscal Court does not have adequate segregation of duties over occupational tax receipts. The occupational tax clerk sends out occupational tax bills, opens mail, matches the checks to the occupational tax bills, prepares a list of receipts, prepares deposits, posts receipt to the tax manager program, and compares the deposits to the receipt list and the report produced by the tax manager program. The deposit is taken to the bank by the occupational tax clerk or the tax administrator. The original deposit slip is provided to the county treasurer who compares the deposit slip to the bank statement and prepares bank reconciliations. No documented review of the receipt process was noted.

The county has two employees working in the occupational tax office. Occupational tax information is restricted and can only be accessed by authorized personal. In addition, 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.

A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

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 mailing of the bills, opening of mail, preparing the receipt list, collecting and depositing of receipts, and preparation of the deposit. 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.

County Judge/Executive's Response: This is due to a limited budget and a low office staff of the Clay Co. Tax Administrators Office. The privacy issue also effects this office, since private incomes are exposed to the Tax Administrators Office and his staff.

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

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