

**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
FISCAL COURT**

**For The Year Ended
June 30, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Richard C. Armstrong, Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clinton County Fiscal Court, for the year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Clinton County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky

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William M. Landrum III, Secretary

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The Honorable Richard C. Armstrong, Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Clinton County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Clinton County Fiscal Court as of June 30, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Clinton County Fiscal Court as of June 30, 2017, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Clinton County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Richard C. Armstrong, Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2018, on our consideration of the Clinton County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clinton County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

- 2017-001 The Fiscal Court Lacks Internal Controls Over Cash, Receipts, Disbursements, Capital Assets, Payroll, Record Keeping, Report Preparation, And Reconciliations
- 2017-002 The Fiscal Court And County Treasurer Did Not Accurately Report Financial Information, And The County Treasurer Did Not Maintain Accurate Financial Records
- 2017-003 Fiscal Court Disbursements Exceeded Budgeted Appropriations
- 2017-004 The Fiscal Court Lacks Internal Controls Over Cash Transfers
- 2017-005 The Fiscal Court Did Not Properly Reconcile All Bank Accounts
- 2017-006 The Fiscal Court Had Overdrawn Bank Balances In Numerous Bank Accounts During Fiscal Year 2017
- 2017-007 The Fiscal Court's Payroll Account Was Not Properly Reconciled
- 2017-008 The Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements
- 2017-009 The Fiscal Court Did Not Have Adequate Internal Controls Over Tourism Fund Disbursements
- 2017-010 The Fiscal Court Did Not Follow Correct Procedures For Approving Purchase Orders
- 2017-011 The Fiscal Court Did Not Have Adequate Internal Controls Over Receipts
- 2017-012 The Fiscal Court Did Not Have Adequate Internal Controls Over The Local Government Economic Assistance (LGEA) Fund
- 2017-013 The Fiscal Court Lacks Adequate Internal Controls Over Occupational Tax Receipts
- 2017-014 The County Judge/Executive And Jailer Were Overpaid Their Maximum Salaries
- 2017-015 The Fiscal Court Lacks Adequate Internal Controls Over Payroll
- 2017-016 The Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports
- 2017-017 The Fiscal Court Did Not Report And Pay Tax Liabilities Timely Or Accurately, Resulting In Penalties And Interest
- 2017-018 The Fiscal Court Did Not Maintain Accurate Capital Asset Records
- 2017-019 The Jail Commissary Does Not Have Strong Internal Controls Over Disbursements
- 2017-020 The Jailer Does Not Deposit Receipts Daily
- 2017-021 The Jailer Lacks Adequate Segregation Of Duties Over The Jail Commissary Fund And The Jail Inmate Account

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 9, 2018

CLINTON COUNTY OFFICIALS**For The Year Ended June 30, 2017****Fiscal Court Members:**

Richard C. Armstrong	County Judge/Executive
Johnny Russell	Magistrate
Patty Guinn	Magistrate
Ricky Craig	Magistrate
Mickey Riddle	Magistrate
Terry Buster	Magistrate
Hershel Key	Magistrate

Other Elected Officials:

Michael A. Rains	County Attorney
Johnny Thrasher	Jailer
Shelia Booher	County Clerk
Jake Staton	Circuit Court Clerk
James Guffey	Sheriff
Pat Campbell	Property Valuation Administrator
Steve Talbott	Coroner

Appointed Personnel:

Tuesday Davis	County Treasurer
Joanna Armstrong	Finance Officer

**CLINTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2017

CLINTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2017

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 390,449	\$	\$
In Lieu Tax Payments	106,514		
Excess Fees	19,993		
Licenses and Permits	23,011		
Intergovernmental	388,873	1,147,456	154,950
Charges for Services	21,204		2,432
Miscellaneous	167,218	11,753	1,263
Interest	103	725	22
Total Receipts	<u>1,117,365</u>	<u>1,159,934</u>	<u>158,667</u>
DISBURSEMENTS			
General Government	624,994	21,818	
Protection to Persons and Property	2,184		543,900
General Health and Sanitation	311,360		
Social Services			
Recreation and Culture			
Roads		954,786	
Administration	341,466	209,752	130,473
Total Disbursements	<u>1,280,004</u>	<u>1,186,356</u>	<u>674,373</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(162,639)</u>	<u>(26,422)</u>	<u>(515,706)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	409,445		512,000
Transfers To Other Funds	(266,600)	(30,000)	
Total Other Adjustments to Cash (Uses)	<u>142,845</u>	<u>(30,000)</u>	<u>512,000</u>
Net Change in Fund Balance	(19,794)	(56,422)	(3,706)
Fund Balance - Beginning (Restated)	<u>155,694</u>	<u>520,645</u>	<u>9,234</u>
Fund Balance - Ending	<u>\$ 135,900</u>	<u>\$ 464,223</u>	<u>\$ 5,528</u>
Composition of Fund Balance			
Bank Balance	\$ 140,698	\$ 467,054	\$ 13,481
Plus: Deposits In Transit			
Less: Outstanding Checks	(4,798)	(2,831)	(7,953)
Fund Balance - Ending	<u>\$ 135,900</u>	<u>\$ 464,223</u>	<u>\$ 5,528</u>

The accompanying notes are an integral part of the financial statement.

CLINTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

Budgeted Funds						
Local Government Economic Assistance Fund	Disaster and Emergency Services Fund	Ambulance Fund	Forestry Fund	Occupational Tax Fund	911 Fund	Tourism Fund
\$	\$	\$	\$	\$ 1,441,246	\$ 174,031	\$ 36,638
55	4,260	10,000				
		490,607			66,961	
27,425		161			20,981	
11	10	65		368	31	
<u>27,491</u>	<u>4,270</u>	<u>500,833</u>		<u>1,441,614</u>	<u>262,004</u>	<u>36,638</u>
50,963				34,731		
2,019	23,060	928,825	3,004		226,709	
2,002						
62,022						39,293
17,890	1,957	258,503	5	7,489	52,888	
<u>134,896</u>	<u>25,017</u>	<u>1,187,328</u>	<u>3,009</u>	<u>42,220</u>	<u>279,597</u>	<u>39,293</u>
<u>(107,405)</u>	<u>(20,747)</u>	<u>(686,495)</u>	<u>(3,009)</u>	<u>1,399,394</u>	<u>(17,593)</u>	<u>(2,655)</u>
112,000		656,000	3,000	10,000	37,600	
				(1,409,000)	(34,445)	
<u>112,000</u>		<u>656,000</u>	<u>3,000</u>	<u>(1,399,000)</u>	<u>3,155</u>	
4,595	(20,747)	(30,495)	(9)	394	(14,438)	(2,655)
(1,661)	20,782	72,789	17	8,669	33,789	6,463
<u>\$ 2,934</u>	<u>\$ 35</u>	<u>\$ 42,294</u>	<u>\$ 8</u>	<u>\$ 9,063</u>	<u>\$ 19,351</u>	<u>\$ 3,808</u>
\$ 4,649	\$ 35	\$ 43,583	\$ 8	\$ 9,063	\$ 19,540	\$ 3,808
(1,715)		(1,289)			(189)	
<u>\$ 2,934</u>	<u>\$ 35</u>	<u>\$ 42,294</u>	<u>\$ 8</u>	<u>\$ 9,063</u>	<u>\$ 19,351</u>	<u>\$ 3,808</u>

The accompanying notes are an integral part of the financial statement.

CLINTON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2017
(Continued)

<u>Unbudgeted Funds</u>		
<u>Homeland Security Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
\$	\$	\$ 2,042,364
		106,514
		19,993
		23,011
		1,705,594
		581,204
	6,458	235,259
		1,335
	<u>6,458</u>	<u>4,715,274</u>
		732,506
		1,729,701
		311,360
		2,002
	15,293	116,608
		954,786
		1,020,423
	<u>15,293</u>	<u>4,867,386</u>
	<u>(8,835)</u>	<u>(152,112)</u>
		1,740,045
		<u>(1,740,045)</u>
	<u>(8,835)</u>	<u>(152,112)</u>
<u>1,776</u>	<u>15,192</u>	<u>843,389</u>
<u>\$ 1,776</u>	<u>\$ 6,357</u>	<u>\$ 691,277</u>
\$ 1,776	\$ 8,650	\$ 712,345
	1,063	1,063
	<u>(3,356)</u>	<u>(22,131)</u>
<u>\$ 1,776</u>	<u>\$ 6,357</u>	<u>\$ 691,277</u>

The accompanying notes are an integral part of the financial statement.

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CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Clinton County includes all budgeted and unbudgeted funds under the control of the Clinton County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Disaster and Emergency Services Fund - The primary purpose of this fund is to account for the disaster and emergency service expenses of the county. The primary source of receipts for this fund is the Kentucky State Treasurer.

Ambulance Fund - The primary purpose of this fund is to account for the ambulance activities of the county. The primary source of receipts for this fund is user fees paid by insurance companies.

Forestry Fund - The primary purpose of this fund is to account for the forestry expenses of the county. The primary source of receipts for this fund is the fire acres property tax.

Occupational Tax Fund - The primary purpose of this fund is to account for the occupational tax collections of the county.

911 Fund - The primary purpose of this fund is to account for the emergency dispatch activities of the county. The primary source of receipts for this fund is telephone 911 fees.

Tourism Fund - The primary purpose of this fund is to account for tourism receipts and disbursements.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Homeland Security Fund - The primary purpose of this fund is to account for some emergency equipment expenses of the county. The primary source of receipts for this fund is the federal government.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the jail commissary fund to be budgeted because the fiscal court does not approve the expenses of this fund.

E. Clinton County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Clinton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Clinton County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose its will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based upon this criteria, the Clinton County Tourist and Convention Commission and Industrial Development Agency are considered related organizations of the Clinton County Fiscal Court.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Related Organizations and Joint Ventures (Continued)

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Clinton County Fiscal Court: Parks and Recreation (with City of Albany and Clinton County Board of Education) and Animal Control (with Cumberland County and Wayne County).

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2017.

	General Fund	Road Fund	Occupational Tax Fund	911 Fund	Total Transfers In
General Fund	\$	\$	\$ 390,000	\$ 19,445	\$ 409,445
Jail Fund	185,000		327,000		512,000
LGEA Fund	15,000		92,000	5,000	112,000
Ambulance Fund	60,000	30,000	566,000		656,000
Forestry Fund			3,000		3,000
Occupational Tax Fund				10,000	10,000
911 Fund	6,600		31,000		37,600
Total Transfers Out	<u>\$ 266,600</u>	<u>\$ 30,000</u>	<u>\$ 1,409,000</u>	<u>\$ 34,445</u>	<u>\$ 1,740,045</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 4. Agency Trust Funds

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the jail inmate fund as of June 30, 2017, was \$828.

Note 5. Employee Retirement System

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2015 was \$255,376, FY 2016 was \$279,215, and FY 2017 was \$330,489.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 18.68 percent.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 5. Employee Retirement System (Continued)

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 6. Insurance

For the fiscal year ended June 30, 2017, the Clinton County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Related Party Transaction

For fiscal year ending June 30, 2017, the fiscal court paid a total of \$1,550 to a local electrical company. That company is owned by the brother of one of the magistrates.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2017
(Continued)

Note 8. Prior Period Adjustments

The beginning balances reported on the *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* for the following funds have been restated: general fund, road fund, jail fund, local government and economic assistance fund (LGEA), disaster and emergency services fund (DES), ambulance fund, 911 fund, and jail commissary fund.

The general fund was increased by \$13,253 to account for prior year voided checks of \$173 and to reverse an unknown adjustment to cash of \$13,080, which was offset by a decrease of \$9,852 to reverse a payroll balance of \$9,422 reported with the general fund and to include a prior year outstanding check not reported of \$430.

The road fund was increased by \$22,092 to account for prior year voided checks.

The jail fund was increased by \$2,664 to account for a prior year voided check of \$2,629 and to reverse an unknown adjustment to cash in the prior year by \$35.

The LGEA fund was increased by \$220 to account for a prior year voided check of \$208 and to reverse an unknown adjustment to cash in the prior year of \$12.

The DES fund was increased by \$128 to reverse an unknown adjustment to cash in the prior year.

The ambulance fund was decreased by \$931 to reverse an unknown adjustment to cash in the prior year.

The 911 fund was decreased by \$110 to reverse an unknown adjustment to cash in the prior year.

The jail commissary fund was increased by \$302 to account for prior year voided checks.

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

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CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 407,000	\$ 407,000	\$ 390,449	\$ (16,551)
In Lieu Tax Payments	170,000	170,000	106,514	(63,486)
Excess Fees	15,500	15,500	19,993	4,493
Licenses and Permits	30,500	30,500	23,011	(7,489)
Intergovernmental	221,904	221,904	388,873	166,969
Charges for Services	500	500	21,204	20,704
Miscellaneous	5,000	5,000	167,218	162,218
Interest	100	100	103	3
Total Receipts	<u>850,504</u>	<u>850,504</u>	<u>1,117,365</u>	<u>266,861</u>
DISBURSEMENTS				
General Government	564,430	611,759	624,994	(13,235)
Protection to Persons and Property	2,700	2,200	2,184	16
General Health and Sanitation	334,300	303,101	311,360	(8,259)
Administration	334,850	342,220	341,466	754
Total Disbursements	<u>1,236,280</u>	<u>1,259,280</u>	<u>1,280,004</u>	<u>(20,724)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(385,776)</u>	<u>(408,776)</u>	<u>(162,639)</u>	<u>246,137</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	382,276	382,276	409,445	27,169
Transfers To Other Funds			(266,600)	(266,600)
Total Other Adjustments to Cash (Uses)	<u>382,276</u>	<u>382,276</u>	<u>142,845</u>	<u>(239,431)</u>
Net Change in Fund Balance	(3,500)	(26,500)	(19,794)	6,706
Fund Balance - Beginning (Restated)	<u>3,500</u>	<u>3,500</u>	<u>155,694</u>	<u>152,194</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (23,000)</u>	<u>\$ 135,900</u>	<u>\$ 158,900</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 911,000	\$ 911,000	\$ 1,147,456	\$ 236,456
Miscellaneous	1,500	1,500	11,753	10,253
Interest	250	250	725	475
Total Receipts	<u>912,750</u>	<u>912,750</u>	<u>1,159,934</u>	<u>247,184</u>
DISBURSEMENTS				
General Government	22,000	21,925	21,818	107
Roads	923,700	946,405	954,786	(8,381)
Administration	232,529	209,899	209,752	147
Total Disbursements	<u>1,178,229</u>	<u>1,178,229</u>	<u>1,186,356</u>	<u>(8,127)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(265,479)</u>	<u>(265,479)</u>	<u>(26,422)</u>	<u>239,057</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(137,521)</u>	<u>(137,521)</u>	<u>(30,000)</u>	<u>107,521</u>
Total Other Adjustments to Cash (Uses)	<u>(137,521)</u>	<u>(137,521)</u>	<u>(30,000)</u>	<u>107,521</u>
Net Change in Fund Balance	(403,000)	(403,000)	(56,422)	346,578
Fund Balance - Beginning (Restated)	<u>403,000</u>	<u>403,000</u>	<u>520,645</u>	<u>117,645</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 464,223</u>	<u>\$ 464,223</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 141,000	\$ 141,000	\$ 154,950	\$ 13,950
Charges for Services	40,000	40,000	2,432	(37,568)
Miscellaneous	1,000	1,000	1,263	263
Interest	50	50	22	(28)
Total Receipts	<u>182,050</u>	<u>182,050</u>	<u>158,667</u>	<u>(23,383)</u>
DISBURSEMENTS				
Protection to Persons and Property	516,980	528,030	543,900	(15,870)
Administration	139,760	128,710	130,473	(1,763)
Total Disbursements	<u>656,740</u>	<u>656,740</u>	<u>674,373</u>	<u>(17,633)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(474,690)</u>	<u>(474,690)</u>	<u>(515,706)</u>	<u>(41,016)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	473,590	473,590	512,000	38,410
Total Other Adjustments to Cash (Uses)	<u>473,590</u>	<u>473,590</u>	<u>512,000</u>	<u>38,410</u>
Net Change in Fund Balance	(1,100)	(1,100)	(3,706)	(2,606)
Fund Balance - Beginning (Restated)	<u>1,100</u>	<u>1,100</u>	<u>9,234</u>	<u>8,134</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,528</u>	<u>\$ 5,528</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 55	\$ (149,945)
Miscellaneous	10,500	10,500	27,425	16,925
Interest	50	50	11	(39)
Total Receipts	<u>160,550</u>	<u>160,550</u>	<u>27,491</u>	<u>(133,059)</u>
DISBURSEMENTS				
General Government	52,750	51,100	50,963	137
Protection to Persons and Property	3,000	2,100	2,019	81
Social Services	16,900	4,800	2,002	2,798
Recreation and Culture	59,900	69,700	62,022	7,678
Administration	28,000	19,650	17,890	1,760
Total Disbursements	<u>160,550</u>	<u>147,350</u>	<u>134,896</u>	<u>12,454</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>13,200</u>	<u>(107,405)</u>	<u>(120,605)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			112,000	112,000
Total Other Adjustments to Cash (Uses)			<u>112,000</u>	<u>112,000</u>
Net Change in Fund Balance		13,200	4,595	(8,605)
Fund Balance - Beginning (Restated)			<u>(1,661)</u>	<u>(1,661)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 13,200</u>	<u>\$ 2,934</u>	<u>\$ (10,266)</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

DISASTER AND EMERGENCY SERVICES FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 15,969	\$ 15,969	\$ 4,260	\$ (11,709)
Interest	25	25	10	(15)
Total Receipts	<u>15,994</u>	<u>15,994</u>	<u>4,270</u>	<u>(11,724)</u>
DISBURSEMENTS				
Protection to Persons and Property	12,544	26,444	23,060	3,384
Administration	3,450	2,750	1,957	793
Total Disbursements	<u>15,994</u>	<u>29,194</u>	<u>25,017</u>	<u>4,177</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>(13,200)</u>	<u>(20,747)</u>	<u>(7,547)</u>
Net Change in Fund Balance		(13,200)	(20,747)	(7,547)
Fund Balance - Beginning (Restated)			<u>20,782</u>	<u>20,782</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (13,200)</u>	<u>\$ 35</u>	<u>\$ 13,235</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	AMBULANCE FUND			
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$	\$ 10,000	\$ 10,000	\$
Charges for Services	656,000	646,000	490,607	(155,393)
Miscellaneous			161	161
Interest	5,000	5,000	65	(4,935)
Total Receipts	<u>661,000</u>	<u>661,000</u>	<u>500,833</u>	<u>(160,167)</u>
DISBURSEMENTS				
Protection to Persons and Property	834,400	936,400	928,825	7,575
Administration	297,911	209,311	258,503	(49,192)
Total Disbursements	<u>1,132,311</u>	<u>1,145,711</u>	<u>1,187,328</u>	<u>(41,617)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(471,311)</u>	<u>(484,711)</u>	<u>(686,495)</u>	<u>(201,784)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	466,411	466,411	656,000	189,589
Total Other Adjustments to Cash (Uses)	<u>466,411</u>	<u>466,411</u>	<u>656,000</u>	<u>189,589</u>
Net Change in Fund Balance	(4,900)	(18,300)	(30,495)	(12,195)
Fund Balance - Beginning (Restated)	<u>4,900</u>	<u>4,900</u>	<u>72,789</u>	<u>67,889</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (13,400)</u>	<u>\$ 42,294</u>	<u>\$ 55,694</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	FORESTRY FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 900	\$ 900	\$	\$ (900)
Total Receipts	900	900		(900)
DISBURSEMENTS				
Protection to Persons and Property	900	900	3,004	(2,104)
Administration			5	(5)
Total Disbursements	900	900	3,009	(2,109)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			(3,009)	(3,009)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			3,000	3,000
Total Other Adjustments to Cash (Uses)			3,000	3,000
Net Change in Fund Balance			(9)	(9)
Fund Balance - Beginning			17	17
Fund Balance - Ending	\$ 0	\$ 0	\$ 8	\$ 8

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	OCCUPATIONAL TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,320,000	\$ 1,320,000	\$ 1,441,246	\$ 121,246
Interest	500	500	368	(132)
Total Receipts	<u>1,320,500</u>	<u>1,320,500</u>	<u>1,441,614</u>	<u>121,114</u>
DISBURSEMENTS				
General Government	32,100	34,720	34,731	(11)
Administration	10,590	7,770	7,489	281
Total Disbursements	<u>42,690</u>	<u>42,490</u>	<u>42,220</u>	<u>270</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,277,810</u>	<u>1,278,010</u>	<u>1,399,394</u>	<u>121,384</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			10,000	10,000
Transfers To Other Funds	(1,284,910)	(1,284,910)	(1,409,000)	(124,090)
Total Other Adjustments to Cash (Uses)	<u>(1,284,910)</u>	<u>(1,284,910)</u>	<u>(1,399,000)</u>	<u>(114,090)</u>
Net Change in Fund Balance	(7,100)	(6,900)	394	7,294
Fund Balance - Beginning	<u>7,100</u>	<u>7,100</u>	<u>8,669</u>	<u>1,569</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 200</u>	<u>\$ 9,063</u>	<u>\$ 8,863</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	911 FUND			
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 200,000	\$ 200,000	\$ 174,031	\$ (25,969)
Charges for Services	16,500	16,500	66,961	50,461
Miscellaneous	500	500	20,981	20,481
Interest	50	50	31	(19)
Total Receipts	<u>217,050</u>	<u>217,050</u>	<u>262,004</u>	<u>44,954</u>
DISBURSEMENTS				
Protection to Persons and Property	243,625	230,225	226,709	3,516
Administration	74,579	51,779	52,888	(1,109)
Total Disbursements	<u>318,204</u>	<u>282,004</u>	<u>279,597</u>	<u>2,407</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(101,154)</u>	<u>(64,954)</u>	<u>(17,593)</u>	<u>47,361</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	100,154	100,154	37,600	(62,554)
Transfers To Other Funds			<u>(34,445)</u>	<u>(34,445)</u>
Total Other Adjustments to Cash (Uses)	<u>100,154</u>	<u>100,154</u>	<u>3,155</u>	<u>(96,999)</u>
Net Change in Fund Balance	(1,000)	35,200	(14,438)	(49,638)
Fund Balance - Beginning (Restated)	<u>1,000</u>	<u>1,000</u>	<u>33,789</u>	<u>32,789</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 36,200</u>	<u>\$ 19,351</u>	<u>\$ (16,849)</u>

CLINTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2017
(Continued)

	TOURISM FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 20,000	\$ 20,000	\$ 36,638	\$ 16,638
Total Receipts	<u>20,000</u>	<u>20,000</u>	<u>36,638</u>	<u>16,638</u>
DISBURSEMENTS				
Recreation and Culture	20,000	20,000	39,293	(19,293)
Total Disbursements	<u>20,000</u>	<u>20,000</u>	<u>39,293</u>	<u>(19,293)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>(2,655)</u>	<u>(2,655)</u>
Net Change in Fund Balance			(2,655)	(2,655)
Fund Balance - Beginning			<u>6,463</u>	<u>6,463</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,808</u>	<u>\$ 3,808</u>

CLINTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2017

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

General fund general government disbursements exceeded budgeted appropriations by \$13,235.

General fund general health and sanitation disbursements exceeded budgeted appropriations by \$8,259.

Road fund roads disbursements exceeded budgeted appropriations by \$8,381.

Jail fund protection to persons and property disbursements exceeded budgeted appropriations by \$15,870.

Jail fund administration disbursements exceeded budgeted appropriations by \$1,763.

Ambulance fund administration disbursements exceeded budgeted appropriations by \$49,192.

Forestry fund protection to persons and property disbursements exceeded budgeted appropriations by \$2,104.

Forestry fund administration disbursements exceeded budgeted appropriations by \$5.

Occupational tax fund general government disbursements exceeded budgeted appropriations by \$11.

911 fund administration disbursements exceeded budgeted appropriations by \$1,109.

Tourism fund recreation and culture disbursements exceeded budgeted appropriations by \$19,293.

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**CLINTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2017

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CLINTON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	(*Restated) Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land and Land Improvements	\$ 123,907	\$	\$	\$ 123,907
Building and Building Improvements	5,673,662			5,673,662
Vehicles*	904,898	71,114	22,000	954,012
Equipment*	1,264,260	172,538		1,436,798
Infrastructure	6,035,992	393,743		6,429,735
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Assets	\$ 14,002,719	\$ 637,395	\$ 22,000	\$ 14,618,114
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

CLINTON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2017

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-60
Building and Building Improvements	\$ 25,000	10-75
Vehicles	\$ 5,000	3-25
Equipment	\$ 5,000	2-20
Infrastructure	\$ 20,000	10-50

Note 2. Prior Period Adjustments

The beginning balances reported on the Schedule of Capital Assets for equipment and vehicles have been restated. Equipment was increased by \$140,181 for equipment erroneously not included in the prior year. Vehicles have been decreased by \$203,568 for vehicles not removed due to vehicles sold or junked in the prior year.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Richard C. Armstrong, Clinton County Judge/Executive
Members of the Clinton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Clinton County Fiscal Court for the fiscal year ended June 30, 2017, and the related notes to the financial statement which collectively comprise the Clinton County Fiscal Court's financial statement and have issued our report thereon dated July 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Clinton County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clinton County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clinton County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, 2017-009, 2017-011, 2017-013, 2017-015, 2017-016, 2017-017, 2017-018, 2017-019, and 2017-021 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-010, 2018-012, and 2018-014 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clinton County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-002, 2017-003, 2017-004, 2017-006, 2017-008, 2017-009, 2017-010, 2017-011, 2017-012, 2017-013, 2017-014, 2017-015, 2017-016, 2017-017, 2017-018, 2017-019, and 2017-020.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 9, 2018

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-001 The Fiscal Court Lacks Internal Controls Over Cash, Receipts, Disbursements, Capital Assets, Payroll, Record Keeping, Report Preparation, And Reconciliations (Continued)

- 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.

Views of Responsible Official and Planned Corrective Action:

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

2017-002: 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Fiscal Court And County Treasurer Did Not Accurately Report Financial Information And The County Treasurer Did Not Maintain Accurate Financial Records (Continued)

- 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 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Fiscal Court And County Treasurer Did Not Accurately Report Financial Information, And The County Treasurer Did Not Maintain Accurate Financial Records (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-003 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 Fiscal Court Disbursements Exceeded Budgeted Appropriations (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-004 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Fiscal Court Lacks Internal Controls Over Cash Transfers (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-005 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."

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Fiscal Court Did Not Properly Reconcile All Bank Accounts (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-006 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		Jail Fund (Continued)		LGEA Fund	
10/26/2016	(\$10,263)	10/03/2016	(\$11,787)	07/05/2016	(\$1,260)
11/07/2016	(\$12,832)	10/04/2016	(\$11,967)	07/08/2016	(\$58)
11/08/2016	(\$13,082)	10/07/2016	(\$22,073)	07/15/2016	(\$86)
11/09/2016	(\$15,095)	10/11/2016	(\$22,096)	11/17/2016	(\$1,405)
11/10/2016	(\$15,375)	10/12/2016	(\$1,009)	11/18/2016	(\$1,438)
11/14/2016	(\$14,660)	10/17/2016	(\$1,245)	11/21/2016	(\$3,483)
11/15/2016	(\$14,758)	10/18/2016	(\$1,288)	01/17/2017	(\$259)
11/16/2016	(\$57,758)	11/16/2016	(\$17,667)	01/18/2017	(\$292)
11/17/2016	(\$85,131)	11/17/2016	(\$35,461)	01/19/2017	(\$363)
11/21/2016	(\$81,970)	12/02/2016	(\$13,689)		
12/02/2016	(\$8,494)	12/05/2016	(\$13,803)	<u>Ambulance Fund</u>	
12/05/2016	(\$9,670)	12/06/2016	(\$13,403)	11/21/2016	(\$8,781)
		12/07/2016	(\$2,846)		
		12/14/2016	(\$3,197)	<u>Payroll Account</u>	
<u>Jail Fund</u>		04/20/2017	(\$5,313)	07/14/2016	(\$18,666)
07/07/2016	(\$4,941)	05/04/2017	(\$5,217)	09/30/2016	(\$15,473)
07/11/2016	(\$2,183)	05/10/2017	(\$5,817)	10/06/2016	(\$17,176)
07/14/2016	(\$3,285)	05/11/2017	(\$5,857)	10/13/2016	(\$24)
07/15/2016	(\$22,187)	05/12/2017	(\$6,116)	10/17/2016	(\$265)
07/19/2016	(\$24,367)	05/15/2017	(\$5,991)	10/18/2016	(\$799)
07/22/2016	(\$24,680)	05/17/2017	(\$6,304)	10/19/2016	(\$29,230)
07/26/2016	(\$14,324)	05/18/2017	(\$22,183)	10/20/2016	(\$34,936)
09/22/2016	(\$5,287)			11/15/2016	(\$2,005)
09/23/2016	(\$9,618)			11/16/2016	(\$4,075)
09/26/2016	(\$10,536)	<u>Forestry Fund</u>		12/12/2016	(\$1,616)
09/27/2016	(\$11,340)	08/08/2016	(\$1,490)	12/13/2016	(\$39,485)
09/28/2016	(\$11,382)	08/31/2016	(\$1,490)	01/11/2017	(\$2,946)
09/29/2016	(\$11,626)	09/30/2016	(\$1,490)	03/06/2017	(\$13,266)
09/30/2016	(\$11,761)	06/01/2017	(\$1,492)		

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Fiscal Court Had Overdrawn Bank Balances In Numerous Bank Accounts During Fiscal Year 2017 (Continued)

<u>Payroll Account (Continued)</u>	
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.

Views of Responsible Official and Planned Corrective Action:

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

2017-007 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007 The Fiscal Court's Payroll Account Was Not Properly Reconciled (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-008 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-008 The Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements (Continued)

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'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.

Views of Responsible Official and Planned Corrective Action:

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

2017-009 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-009 The Fiscal Court Did Not Have Adequate Internal Controls Over Tourism Fund Disbursements
 (Continued)

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'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.

Views of Responsible Official and Planned Corrective Action:

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

2017-010 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-010 The Fiscal Court Did Not Follow Correct Procedures For Approving Purchase Orders (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-011 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-011 The Fiscal Court Did Not Have Adequate Internal Controls Over Receipts (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-012 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.”

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-012 The Fiscal Court Was In Noncompliance And Did Not Have Adequate Internal Controls Over The Local Government Economic Assistance (LGEA) Fund (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-013 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'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.

Views of Responsible Official and Planned Corrective Action:

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

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-014 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.

Views of Responsible Official and Planned Corrective Action:

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

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

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-015 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."

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-015 The Fiscal Court Lacks Adequate Internal Controls Over Payroll (Continued)

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.

Views of Responsible Official and Planned Corrective Action:

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

2017-016 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-016 The Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

- 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 System 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 System 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-016 The Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

Views of Responsible Official and Planned Corrective Action:

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

2017-017 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.

Views of Responsible Official and Planned Corrective Action:

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

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-018 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.

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-018 The Fiscal Court Did Not Maintain Accurate Capital Asset Records (Continued)

Views of Responsible Official and Planned Corrective Action:

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

2017-019 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.

Views of Responsible Official and Planned Corrective Action:

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

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

**CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-020 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.

Views of Responsible Official and Planned Corrective Action:

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

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

2017-021 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.

CLINTON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-021 The Jailer Lacks Adequate Segregation Of Duties Over The Jail Commissary Fund And The Jail Inmate Account (Continued)

Views of Responsible Official and Planned Corrective Action:

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

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

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CLINTON COUNTY FISCAL COURT

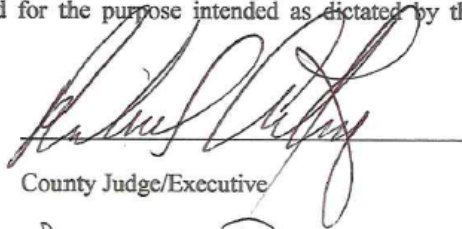
For The Year Ended June 30, 2017

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
CLINTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

The Clinton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

NOTE: Please see Finding 2017-012 which discusses the fiscal court not having adequate internal controls over the LGEA fund.