



**Auditor of  
Public Accounts  
Allison Ball**

# Clay County Fiscal Court

## Audit

**FRANKFORT, Ky.** – State Auditor Allison Ball has released the audit of the financial statements of the Clay County Fiscal Court for the fiscal year ended June 30, 2024. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Clay County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 116 of 120 fiscal court audits in Kentucky.

### **Finding: The fiscal court did not accurately report financial information**

The fiscal court failed to implement strong internal controls to ensure financial statements were completed properly. The following reporting issues were noted: the original budget for all fund receipts was understated, the original budget for all fund disbursements was overstated, the county treasurer failed to submit an annual treasurer's settlement and failed to upload the fourth quarter report to the Department for Local Government, and the county failed to submit a financial report for the county clerk's storage fees.

### **Recommendations**

We recommend the fiscal court strengthen internal controls to help ensure accurate financial reporting by complying with the KRS and guidance located in the DLG policy manual.

### **County Officials Response**

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

### **Finding: The fiscal court's actual disbursements exceeded budgeted appropriations**

The fiscal court lacks strong internal controls over the budget process. The fiscal court exceeded its approved budgeted appropriations in the General Fund, Road Fund, Jail Fund, and Occupational Tax Fund. The fiscal court didn't have a budget for the Document Storage Fee Fund, Special Water Line Extension Fund, or the Opioid Fund but had expenses. Fiscal courts are required to maintain expenditures within budgeted appropriations in all operating funds.

### **Recommendations**

We recommend the Clay County Fiscal Court ensure all line items, as well as all funds, are properly budgeted. The budget should be reviewed periodically by management and department heads, and always before a purchase order is approved and the expenditure is completed. Budget transfers or budget amendments should be prepared and reported properly on the fourth quarterly report.

### **County Officials Response**

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

### **Finding: The fiscal court's Schedule of Expenditures of Federal Awards (SEFA) was materially misstated**

The fiscal court did not prepare a SEFA that accurately reflects the county's expenditures of federal awards for fiscal year ending June 30, 2024. The county's SEFA was materially misstated, and many adjustments were made, including FEMA expenditures and Natural Resources Conservation Services expenditures. Additionally, the fiscal court's SEFA had multiple errors and instances in which information was missing.

### **Recommendations**

We recommend the Clay County Fiscal Court develop policies and procedures for SEFA preparation, as well as strengthen internal controls over the preparation to ensure its completeness, accuracy, and compliance with reporting requirements.

### **County Officials Response**

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

### **Finding: The fiscal court did not perform bank reconciliations for revolving accounts**

The fiscal court did not prepare bank reconciliations for the revolving accounts which included a payroll account for employee deductions for federal, social security, state taxes, and retirement; a health insurance account to pay for employee medical expenses; and a previously used retirement account for employee retirement deductions, however, this account did not have any activity during the year. The fiscal court's revolving accounts are designed to be used as a clearing bank account for payroll processing and should reconcile to zero every month. Since bank reconciliations were not provided, the accuracy of the cash balances of these accounts as of June 30, 2024, could not be verified, and several issues were noted.

### **Recommendations**

We recommend the fiscal court establish procedures to prepare and review bank reconciliations for the payroll, health insurance, and retirement revolving accounts. Also, oversight procedures to review the bank reconciliations and financial reports prepared by the county treasurer should be implemented. The review should be conducted by an independent employee to verify accuracy and completeness.

### **County Officials Response**

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

### **Finding: The fiscal court does not have adequate segregation of duties over occupational tax receipts**

The tax administrator opens the mail, matches the checks to the occupational tax bill, stamps the checks for deposit only, makes a list of checks, and totals the checks for deposit. The occupational tax clerk prepares and sends out occupational tax bills, makes copies of the checks, posts receipts to the tax manager program, and compares the deposits to the receipt list and the report produced by the tax manager program. The deposit is taken to the bank, and the original deposit slip is attached to the receipt deposit report, which is maintained at the occupational tax office. The county treasurer posts receipts to the receipts ledger monthly from the occupational tax bank statement and prepares bank reconciliations. No documented review of the receipt process was noted.

### **Recommendations**

We recommend the fiscal court separate the duties involving mailing of the bills, opening mail, preparing the receipt list, collecting and depositing receipts, and preparing deposits. If this is not feasible, strong oversight over these areas could occur and involve an employee who is not currently performing any of those functions, and this oversight should be documented by dating and signing the documentation.

### **County Officials Response**

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

### **Finding: The fiscal court's internal controls over receipts were not operating effectively**

The following issues were noted with regards to the fiscal court's receipts: receipts were not deposited timely, several state payment receipts were not posted to ledgers with accuracy, the final payment received for the AOC building could not be traced back to being posted on the ledger, Opioid Funds were incorrectly posted to the General Fund, and multiple receipts from the county clerk were not posted consistently on the treasurer's receipts ledger.

### **Recommendations**

We recommend the fiscal court strengthen controls to help ensure accurate financial reporting by complying with the KRS and guidance located in the DLG policy manual by making daily deposits, maintaining daily deposit records, and ensuring accurate posting to the receipts ledger.

### **County Officials Response**

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

### **Finding: The Kentucky Infrastructure Authority debt payments were not paid as required by the debt agreement**

The debt payment schedule requires 12 monthly payments of \$12,582, plus varying monthly servicing fees to be made on the first of each month. A payment of \$7,000 was made in May 2024 and applied to the prior year's principal balance. The amortization schedule required total payments of \$151,720, which was comprised of principal payments of \$140,093 and interest payments of \$10,889. In addition, servicing fees of \$738 were required to be paid. The total past due principal balance is \$571,605, and the total past due interest is \$63,524 as of June 30, 2024, based upon county records.

### **County Officials Response**

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

### **Recommendations**

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

### **Finding: The fiscal court submitted inaccurate retirement reports for employees and did not remit retirement payments properly**

The fiscal court did not properly pay the County Employees Retirement System for retirement contributions and submitted inaccurate retirement reports for employees during the fiscal year ending June 30, 2024. A review of payroll records, retirement reports, and bank statements noted several inaccuracies. View the report for full details.

### **Recommendations**

We recommend the Clay County Fiscal Court implement internal controls over payroll liabilities for retirement contributions to ensure retirement reports submitted to CERS are correct based upon the county's payroll reports and payments to KRS for retirement are submitted timely. This finding will be referred to the Kentucky Retirement System.

### **County Officials Response**

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

### **Finding: The fiscal court did not properly remit local and state tax payments**

The fiscal court did not remit payments monthly from July 2023 through June 2024 to the Clay County Occupational Tax Administrator for employee occupational tax withholdings, totaling \$22,630. Furthermore, the fiscal court had not properly paid the Kentucky Department of Revenue (DOR) for state income tax withheld from employees and failed to submit bi-monthly tax returns consistently and accurately from July 2023 through January 14, 2024; from April 2024 through June 2024, files were returned but not paid. A review of payroll records, tax reports, and bank statements noted several issues, including bi-monthly returns not getting filed, penalties owed, returns not filed, and overpayment amounts.

### **Recommendations**

We recommend the fiscal court implement internal controls over payroll liabilities to ensure compliance with KRS 141.310(1) and the occupational tax ordinance and remit amounts due to the DOR and the Clay County Occupational Tax Administrator timely. We also recommend that the fiscal court contact the DOR to determine if employee state tax withholdings were overpaid and to request a refund for the overpayment.

### **County Officials Response**

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

### **Finding: The fiscal court did not have strong internal controls over disbursements**

Internal controls over disbursements were not operating as intended during fiscal year 2023. Proper procedures were not followed over disbursements. During audit procedures, 100 disbursements were tested. Numerous exceptions were noted, including disbursements getting paid with no invoice, late payments, missing invoices, and missing purchase orders. There were also several exceptions noted during the testing of bidding requirements. To see the full list of exceptions noted, see the report.

### **Recommendations**

We recommend the Clay County Fiscal Court implement proper internal controls over disbursements and ensure they are operating effectively.

### **County Officials Response**

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

### **Finding: The fiscal court did not require the depository institution to pledge or provide sufficient collateral to protect deposits**

On June 30, 2024, the fiscal court and jail commissary had total deposits in the amount of \$6,134,007 and had the FDIC coverage of \$250,000 for checking accounts and \$250,000 for a certificate of deposits, plus a pledge of securities in the amount of \$3,253,966, leaving \$2,380,041 of the fiscal court deposits of public funds uninsured and unsecured. The fiscal court and depository institution had a written agreement stating that the depository institution would provide adequate collateral to protect the deposits; however, the depository institution did not provide enough collateral.

### **Recommendations**

We recommend the fiscal court require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

### **County Officials Response**

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

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

