

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

**For The Year Ended
June 30, 2018**



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MIKE HARMON
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To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Wil Cannon, Edmonson County Judge/Executive
Members of the Edmonson 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 Edmonson County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Edmonson 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.



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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 Edmonson 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 Edmonson County Fiscal Court as of June 30, 2018, 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 Edmonson County Fiscal Court as of June 30, 2018, 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 Edmonson 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2019, on our consideration of the Edmonson 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 Edmonson 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:

- 2018-001 The Edmonson County Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, Disbursements, Capitals Assets, And Reconciliations
- 2018-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information
- 2018-003 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account
- 2018-004 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll
- 2018-005 The Edmonson County Fiscal Did Not Properly Reconcile Retirement Reports With Payroll Reports
- 2018-006 The Edmonson County Fiscal Court Did Not Pay Tax Liabilities Timely Resulting In Penalties And Interest
- 2018-007 The Edmonson County Fiscal Court Did Not Properly Withhold Employees' Share Of Insurance And Did Not Properly Pay Other Voluntary Deductions
- 2018-008 The Edmonson County Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements
- 2018-009 The Edmonson County Fiscal Court Lacks Adequate Controls Over Procurement
- 2018-010 The Edmonson County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Schedules In Compliance With Regulatory Requirements
- 2108-011 The Edmonson County Fiscal Court Did Not Properly Disclose Debt On The Fourth Quarter Financial Report Or Budget And Record Amounts

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

July 19, 2019

EDMONSON COUNTY OFFICIALS**For The Year Ended June 30, 2018****Fiscal Court Members:**

Wil Cannon	County Judge/Executive
Bennie Simmons	Magistrate
Joe Durbin	Magistrate
Clark Wood	Magistrate
Charles "Edd" Rich	Magistrate
Johnny Brooks	Magistrate
Mark Woosley	Magistrate

Other Elected Officials:

Greg Vincent	County Attorney
Hank Vincent	Jailer
Kevin Alexander	County Clerk
Tanya Rich Hodges	Circuit Court Clerk
Shane Doyle	Sheriff
Kyle White	Property Valuation Administrator
Brentley Esters	Coroner

Appointed Personnel:

County Treasurers:	Period:
Margret Skaggs Page	July 1, 2017 through May 14, 2018
Tammi Willhite	May 14, 2018 through June 30, 2018
Finance Officers:	Period:
Melanie Woosley Vincent	July 1, 2017 through November 15, 2017
Devin Lindsey	November 20, 2017 through December 6, 2017
Tammi Willhite	January 29, 2018 through June 24, 2018
Jeanette Carroll	June 25, 2018 through June 30, 2018

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

For The Year Ended June 30, 2018

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

For The Year Ended June 30, 2018

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 1,060,874	\$	\$	\$
In Lieu Tax Payments	147,629			
Licenses and Permits	20,713			
Intergovernmental	1,059,727	1,248,680	84,707	8,569
Charges for Services	23,580		6,075	
Miscellaneous	61,373	6,011		
Interest	1,632	10,285	22	3
Total Receipts	<u>2,375,528</u>	<u>1,264,976</u>	<u>90,804</u>	<u>8,572</u>
DISBURSEMENTS				
General Government	1,492,320			
Protection to Persons and Property	269,609		406,411	
General Health and Sanitation	76,603			19,400
Social Services	3,000			4,700
Recreation and Culture	23,457			
Roads		1,016,815		
Debt Service	100,048	47,753		
Capital Projects		34,128		
Administration	256,679	195,579	13,720	
Total Disbursements	<u>2,221,716</u>	<u>1,294,275</u>	<u>420,131</u>	<u>24,100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>153,812</u>	<u>(29,299)</u>	<u>(329,327)</u>	<u>(15,528)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	183,592		325,500	15,075
Transfers To Other Funds	(485,625)	(182,497)		
Total Other Adjustments to Cash (Uses)	<u>(302,033)</u>	<u>(182,497)</u>	<u>325,500</u>	<u>15,075</u>
Net Change in Fund Balance	(148,221)	(211,796)	(3,827)	(453)
Fund Balance - Beginning	550,688	967,045	9,536	3,537
Fund Balance - Ending	<u>\$ 402,467</u>	<u>\$ 755,249</u>	<u>\$ 5,709</u>	<u>\$ 3,084</u>
Composition of Fund Balance				
Bank Balance	\$ 491,243	\$ 895,742	\$ 11,012	\$ 3,084
Less: Outstanding Checks	(88,776)	(140,493)	(5,303)	
Fund Balance - Ending	<u>\$ 402,467</u>	<u>\$ 755,249</u>	<u>\$ 5,709</u>	<u>\$ 3,084</u>

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

EDMONSON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2018
(Continued)

Budgeted Funds					
Room Tax Fund	Parks and Recreation Fund	Emergency 911 Fund	Emergency 911 Wireless Fund	Federal Community Development Block Grant Fund	Total Funds
\$ 85,306	\$	\$ 89,896	\$ 200,221	\$	\$ 1,436,297
					147,629
					20,713
				32,750	2,434,433
					29,655
	25,414	18			92,816
	13	124	229		12,308
<u>85,306</u>	<u>25,427</u>	<u>90,038</u>	<u>200,450</u>	<u>32,750</u>	<u>4,173,851</u>
					1,492,320
		92,543	70,300		838,863
					96,003
					7,700
100,153	122,338				245,948
					1,016,815
					147,801
				32,750	66,878
	18,022	7,579	15,728		507,307
<u>100,153</u>	<u>140,360</u>	<u>100,122</u>	<u>86,028</u>	<u>32,750</u>	<u>4,419,635</u>
					(245,784)
(14,847)	(114,933)	(10,084)	114,422		(245,784)
					677,128
20,000	125,050		7,911		(677,128)
		(9,006)			(677,128)
<u>20,000</u>	<u>125,050</u>	<u>(9,006)</u>	<u>7,911</u>		
5,153	10,117	(19,090)	122,333		(245,784)
18,539	6,252	96,702	172,282		1,824,581
<u>\$ 23,692</u>	<u>\$ 16,369</u>	<u>\$ 77,612</u>	<u>\$ 294,615</u>	<u>\$ 0</u>	<u>\$ 1,578,797</u>
					1,846,720
\$ 23,692	\$ 21,614	\$ 82,011	\$ 296,572	\$ 21,750	\$ 1,846,720
	(5,245)	(4,399)	(1,957)	(21,750)	(267,923)
<u>\$ 23,692</u>	<u>\$ 16,369</u>	<u>\$ 77,612</u>	<u>\$ 294,615</u>	<u>\$ 0</u>	<u>\$ 1,578,797</u>

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

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**EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT**

June 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Edmonson County includes all budgeted and unbudgeted funds under the control of the Edmonson 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.

The Edmonson County Tourist and Convention Commission, Edmonson County Industrial Authority, and Edmonson County Recreational Commission would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis they are no longer are required components of the reporting entity.

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.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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 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.

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.

Room Tax Fund - The primary purpose of this fund is to account for the transient room tax collected and submitted to the Edmonson County Tourism and Convention Commission. The primary source of receipts for this fund is the transient room tax from lodging establishments.

Parks and Recreation Fund - The primary purpose of this fund is to account for the expenses of the parks and recreation department. The primary sources of receipts for this fund are transfers from the general fund and recreation tax received from the Edmonson County Recreational Commission.

Emergency 911 Fund - The primary purpose of this fund is to account for the emergency 911 expenses of the county. The primary source of receipts for this fund is the 911 land line telephone surcharge. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Emergency 911 Wireless Fund - The primary purpose of this fund is to account for certain emergency 911 expenses of the county. The primary source of receipts for this fund is the 911 wireless telephone surcharge. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Federal Community Development Block Grant Fund - The primary purpose of this fund is to account for the community development block grant receipts and disbursements to build a satellite location for Lincoln Fire Department. The primary sources of receipts for this fund are grants from the federal government.

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.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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.

E. Edmonson County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Edmonson 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 Edmonson 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. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Related Obligations

A related organization is an entity for which a primary government is not financially accountable. It does not impose 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 on this criteria, the following are considered related organizations of the Edmonson County Fiscal Court:

Edmonson County Ambulance Service
 Edmonson County Water District
 Edmonson County Planning Commission

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, 2018, 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 2018.

	General Fund	Road Fund	Emergency 911 Fund	Total Transfers In
General Fund	\$	\$ 182,497	\$ 1,095	\$ 183,592
Jail Fund	325,500			325,500
LGEA Fund	15,075			15,075
Room Tax Fund	20,000			20,000
Parks and Recreation Fund	125,050			125,050
Emergency 911 Wireless Fund			7,911	7,911
Total Transfers Out	\$ 485,625	\$ 182,497	\$ 9,006	\$ 677,128

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 3. Transfers (Continued)

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.

Note 4. Lease Agreement

On December 13, 2016, the fiscal court entered into a lease agreement to lease several vehicles for use by the Edmonson County Sheriff's Department. The agreement is a lease only and the fiscal court will not have right, title, or interest in or to the vehicles except for the use of the vehicles as described in the agreement. The lease term commences on the delivery date of the vehicle and ends 60 months after the first full month rental payment date with an option to continue month-to-month for an unlimited period of time. The fiscal court leased four vehicles with total monthly payments of \$2,392. During fiscal year 2018, the fiscal court paid total lease payments of \$28,701. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2019, and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2019	\$ 28,701
2020	28,701
2021	28,701
2022	<u>22,667</u>
Total Minimum Lease Payments	<u>\$ 108,770</u>

Note 5. Long-term Debt

A. General Obligation Refunding Lease, Series 2012

On August 13, 2012, the Edmonson County Fiscal Court entered into a General Obligation Refunding Lease Agreement, Series 2012, with Fifth Third Bank for \$750,983 to advance refund the First Mortgage Revenue Refunding Bonds, Series 2004, issued by the Edmonson County Public Properties Corporation. During fiscal year 2018, the Administrative Office of the Courts, Commonwealth of Kentucky, paid debt service of \$76,847 on behalf of the Edmonson County Fiscal Court.

Principal is payable annually on March 1 and interest is payable semiannually on September 1 and March 1. The interest rate is 2.17 percent. The maturity date of the lease is March 1, 2023. As of June 30, 2018, the principal balance outstanding was \$350,239. Future principal and interest requirements are:

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

A. General Obligation Refunding Lease, Series 2012 (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 71,757	\$ 7,600
2020	75,617	6,043
2021	79,178	4,402
2022	72,596	2,684
2023	51,091	1,109
Totals	<u>\$ 350,239</u>	<u>\$ 21,838</u>

B. Financing Obligation - Radio System

On June 28, 2016, the Edmonson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the acquisition and installment of a radio system. The principal amount of the lease was \$115,000. The agreement requires monthly principal and interest payments. The interest rate is 3.43 percent. The maturity date is December 20, 2018. As of June 30, 2018, principal balance outstanding was \$11,369. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 11,369	\$ 114
Totals	<u>\$ 11,369</u>	<u>\$ 114</u>

C. Financing Obligation - Trucks

On September 21, 2016, the Edmonson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the purchase of trucks. The principal amount of the lease was \$300,000. The agreement requires monthly principal and interest payments. The interest rate is 2.87 percent. The maturity date is September 20, 2023. As of June 30, 2018, principal balance outstanding was \$229,943. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 41,533	\$ 6,055
2020	42,571	4,850
2021	43,634	3,614
2022	44,725	2,348
2023	45,842	1,049
2024	11,638	56
Totals	<u>\$ 229,943</u>	<u>\$ 17,972</u>

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation					
Refunding Lease	\$ 418,016	\$	\$ 67,777	\$ 350,239	\$ 71,757
Financing Obligations	304,225		62,913	241,312	52,902
Total Long-term Debt	<u>\$ 722,241</u>	<u>\$</u>	<u>\$ 130,690</u>	<u>\$ 591,551</u>	<u>\$ 124,659</u>

Note 6. Commitments and Contingencies

The fiscal court is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the fiscal court's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the fiscal court cannot be made at this time.

Note 7. 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 2016 was \$213,956, FY 2017 was \$251,321, and FY 2018 was \$286,101.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 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 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 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 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Nonhazardous (Continued)

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 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 7. Employee Retirement System (Continued)

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous (Continued)

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

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 proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports 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 8. Deferred Compensation

The Edmonson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2018
(Continued)

Note 8. Deferred Compensation (Continued)

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2018, the Edmonson 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 10. Conduit Debt

From time to time, the fiscal court has issued bonds to provide financial assistance to industries in Edmonson County for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Edmonson County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2018, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

**EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis**

For The Year Ended June 30, 2018

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EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 978,000	\$ 978,000	\$ 1,060,874	\$ 82,874
In Lieu Tax Payments	122,000	131,354	147,629	16,275
Licenses and Permits	25,000	25,000	20,713	(4,287)
Intergovernmental	926,250	926,250	1,059,727	133,477
Charges for Services	11,000	11,000	23,580	12,580
Miscellaneous	49,500	49,500	61,373	11,873
Interest	5,000	5,000	1,632	(3,368)
Total Receipts	<u>2,116,750</u>	<u>2,126,104</u>	<u>2,375,528</u>	<u>249,424</u>
DISBURSEMENTS				
General Government	1,552,430	1,518,266	1,492,320	25,946
Protection to Persons and Property	264,516	275,265	269,609	5,656
General Health and Sanitation	82,750	86,997	76,603	10,394
Social Services	3,000	3,000	3,000	
Recreation and Culture	13,000	25,138	23,457	1,681
Debt Service	25,000	25,000	100,048	(75,048)
Administration	347,300	328,684	256,679	72,005
Total Disbursements	<u>2,287,996</u>	<u>2,262,350</u>	<u>2,221,716</u>	<u>40,634</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(171,246)</u>	<u>(136,246)</u>	<u>153,812</u>	<u>290,058</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	182,497	182,497	183,592	1,095
Transfers To Other Funds	<u>(404,655)</u>	<u>(404,655)</u>	<u>(485,625)</u>	<u>(80,970)</u>
Total Other Adjustments to Cash (Uses)	<u>(222,158)</u>	<u>(222,158)</u>	<u>(302,033)</u>	<u>(79,875)</u>
Net Change in Fund Balance	(393,404)	(358,404)	(148,221)	210,183
Fund Balance - Beginning	<u>393,404</u>	<u>393,404</u>	<u>550,688</u>	<u>157,284</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 35,000</u>	<u>\$ 402,467</u>	<u>\$ 367,467</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,316,759.0	\$ 1,316,759.0	\$ 1,248,680	\$ (68,079)
Miscellaneous	2,000	2,000	6,011	4,011
Interest	3,000	3,000	10,285	7,285
Total Receipts	<u>1,321,759</u>	<u>1,321,759</u>	<u>1,264,976</u>	<u>(56,783)</u>
DISBURSEMENTS				
Roads	930,261	1,216,982	1,016,815	200,167
Debt Service	54,000	54,000	47,753	6,247
Capital Projects	20,000	50,000	34,128	15,872
Administration	201,000	194,279	195,579	(1,300)
Total Disbursements	<u>1,205,261</u>	<u>1,515,261</u>	<u>1,294,275</u>	<u>220,986</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>116,498</u>	<u>(193,502)</u>	<u>(29,299)</u>	<u>164,203</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(182,497)</u>	<u>(182,497)</u>	<u>(182,497)</u>	
Total Other Adjustments to Cash (Uses)	<u>(182,497)</u>	<u>(182,497)</u>	<u>(182,497)</u>	
Net Change in Fund Balance	(65,999)	(375,999)	(211,796)	164,203
Fund Balance - Beginning	<u>65,999</u>	<u>375,999</u>	<u>967,045</u>	<u>591,046</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 755,249</u>	<u>\$ 755,249</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 111,100	\$ 111,100	\$ 84,707	\$ (26,393)
Charges for Services	13,100	13,100	6,075	(7,025)
Interest	25	25	22	(3)
Total Receipts	<u>124,225</u>	<u>124,225</u>	<u>90,804</u>	<u>(33,421)</u>
DISBURSEMENTS				
Protection to Persons and Property	386,400	411,099	406,411	4,688
Administration	17,400	17,701	13,720	3,981
Total Disbursements	<u>403,800</u>	<u>428,800</u>	<u>420,131</u>	<u>8,669</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(279,575)</u>	<u>(304,575)</u>	<u>(329,327)</u>	<u>(24,752)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>279,575</u>	<u>279,575</u>	<u>325,500</u>	<u>45,925</u>
Total Other Adjustments to Cash (Uses)	<u>279,575</u>	<u>279,575</u>	<u>325,500</u>	<u>45,925</u>
Net Change in Fund Balance		(25,000)	(3,827)	21,173
Fund Balance - Beginning			<u>9,536</u>	<u>9,536</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (25,000)</u>	<u>\$ 5,709</u>	<u>\$ 30,709</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 8,569	\$ (1,431)
Interest	25	25	3	(22)
Total Receipts	<u>10,025</u>	<u>10,025</u>	<u>8,572</u>	<u>(1,453)</u>
DISBURSEMENTS				
General Health and Sanitation	19,400	19,400	19,400	
Social Services	4,700	4,700	4,700	
Recreation and Culture	1,000	1,000		1,000
Total Disbursements	<u>25,100</u>	<u>25,100</u>	<u>24,100</u>	<u>1,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(15,075)</u>	<u>(15,075)</u>	<u>(15,528)</u>	<u>(453)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	15,075	15,075	15,075	
Total Other Adjustments to Cash (Uses)	<u>15,075</u>	<u>15,075</u>	<u>15,075</u>	
Net Change in Fund Balance			(453)	(453)
Fund Balance - Beginning			<u>3,537</u>	<u>3,537</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,084</u>	<u>\$ 3,084</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	ROOM TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 85,000	\$ 85,000	\$ 85,306	\$ 306
Total Receipts	85,000	85,000	85,306	306
DISBURSEMENTS				
Recreation and Culture	85,000	113,539	100,153	13,386
Total Disbursements	85,000	113,539	100,153	13,386
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(28,539)	(14,847)	13,692
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			20,000	20,000
Total Other Adjustments to Cash (Uses)			20,000	20,000
Net Change in Fund Balance		(28,539)	5,153	33,692
Fund Balance - Beginning		18,539	18,539	
Fund Balance - Ending	\$ 0	\$ (10,000)	\$ 23,692	\$ 33,692

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

PARKS AND RECREATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 29,300	\$ 29,300	\$ 25,414	\$ (3,886)
Interest	25	25	13	(12)
Total Receipts	<u>29,325</u>	<u>29,325</u>	<u>25,427</u>	<u>(3,898)</u>
DISBURSEMENTS				
Recreation and Culture	116,930	120,817	122,338	(1,521)
Administration	22,400	18,513	18,022	491
Total Disbursements	<u>139,330</u>	<u>139,330</u>	<u>140,360</u>	<u>(1,030)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(110,005)</u>	<u>(110,005)</u>	<u>(114,933)</u>	<u>(4,928)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	110,005	110,005	125,050	15,045
Total Other Adjustments to Cash (Uses)	<u>110,005</u>	<u>110,005</u>	<u>125,050</u>	<u>15,045</u>
Net Change in Fund Balance			10,117	10,117
Fund Balance - Beginning			<u>6,252</u>	<u>6,252</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,369</u>	<u>\$ 16,369</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 93,600	\$ 93,600	\$ 89,896	\$ (3,704)
Miscellaneous			18	18
Interest	300	300	124	(176)
Total Receipts	<u>93,900</u>	<u>93,900</u>	<u>90,038</u>	<u>(3,862)</u>
DISBURSEMENTS				
Protection to Persons and Property	103,500	103,500	92,543	10,957
Administration	10,500	10,500	7,579	2,921
Total Disbursements	<u>114,000</u>	<u>114,000</u>	<u>100,122</u>	<u>13,878</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(20,100)</u>	<u>(20,100)</u>	<u>(10,084)</u>	<u>10,016</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(9,006)	(9,006)
Total Other Adjustments to Cash (Uses)			<u>(9,006)</u>	<u>(9,006)</u>
Net Change in Fund Balance	(20,100)	(20,100)	(19,090)	1,010
Fund Balance - Beginning	20,100	20,100	96,702	76,602
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 77,612</u>	<u>\$ 77,612</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

EMERGENCY 911 WIRELESS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 120,000	\$ 120,000	\$ 200,221	\$ 80,221
Intergovernmental	50,000	50,000		(50,000)
Interest	500	500	229	(271)
Total Receipts	<u>170,500</u>	<u>170,500</u>	<u>200,450</u>	<u>29,950</u>
DISBURSEMENTS				
Protection to Persons and Property	151,950	152,820	70,300	82,520
Administration	18,550	17,680	15,728	1,952
Total Disbursements	<u>170,500</u>	<u>170,500</u>	<u>86,028</u>	<u>84,472</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>114,422</u>	<u>114,422</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			7,911	7,911
Total Other Adjustments to Cash (Uses)			<u>7,911</u>	<u>7,911</u>
Net Change in Fund Balance			122,333	122,333
Fund Balance - Beginning			<u>172,282</u>	<u>172,282</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 294,615</u>	<u>\$ 294,615</u>

EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2018
(Continued)

FEDERAL COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 297,000	\$ 297,000	\$ 32,750	\$ (264,250)
Total Receipts	<u>297,000</u>	<u>297,000</u>	<u>32,750</u>	<u>(264,250)</u>
DISBURSEMENTS				
Capital Projects	297,000	297,000	32,750	264,250
Total Disbursements	<u>297,000</u>	<u>297,000</u>	<u>32,750</u>	<u>264,250</u>
Net Change in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

EDMONSON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2018

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 debt service exceeded budgeted appropriations by \$75,048 because the fiscal court did not budget \$76,847 in debt service payments on a general obligation refunding lease paid directly to the lender by the Administrative Office of the Courts. Road fund administration exceeded budgeted appropriations by \$1,300. Parks and recreation fund recreation and culture exceeded budgeted appropriations by \$1,521.

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

For The Year Ended June 30, 2018

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EDMONSON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2018

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 675,269	\$	\$	\$ 675,269
Buildings and Land Improvements	3,008,705			3,008,705
Equipment and Vehicles	2,376,757	115,627		2,492,384
Infrastructure	1,821,172	79,901		1,901,073
 Total Capital Assets	 \$ 7,881,903	 \$ 195,528	 \$ 0	 \$ 8,077,431

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

June 30, 2018

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 Improvements	\$ 25,000	10-60
Buildings	\$ 75,000	10-75
Building Improvements	\$ 50,000	10-60
Machinery and Equipment	\$ 15,000	3-25
Vehicles	\$ 15,000	3-10
Infrastructure	\$ 50,000	10-50
Office Equipment	\$ 10,000	3-15
Office Furniture	\$ 1,000	3-15

**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 Wil Cannon, Edmonson County Judge/Executive
Members of the Edmonson 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 Edmonson County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the Edmonson County Fiscal Court's financial statement and have issued our report thereon dated July 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Edmonson 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 Edmonson County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Edmonson 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 2018-001, 2018-002, 2018-003, 2018-004, 2018-008, 2018-009, and 2018-010 to be material weaknesses.

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 2018-05, 2018-006, and 2018-007 to be significant deficiencies.



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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Edmonson 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 2018-002, 2018-003, 2018-008, 2018-009, 2018-010, and 2018-011.

Views of Responsible Official and Planned Corrective Action

Edmonson County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

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 19, 2019

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

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**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Edmonson County Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, Disbursements, Capitals Assets, And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The Edmonson County Fiscal Court lacks adequate segregation of duties over receipts, disbursements, cash (specifically bank reconciliations), and capital assets. The Edmonson County Treasurer is responsible for recording receipts and disbursements in the ledgers, posting to the appropriations ledger, preparing checks, signing checks, and preparing bank reconciliations. Additionally, the county treasurer prepares the capital asset schedule and the monthly, quarterly, and annual financial reports on behalf of the fiscal court. The finance officer collects money, prepares and makes deposits, prepares the master claims list to present to the fiscal court, and occasionally signs checks. The fiscal court failed to establish adequate management oversight to ensure the completion of accurate bank reconciliations and the proper recording of receipts and capital assets. The fiscal court has implemented compensating controls over disbursements. Claims require supporting documentation and approval of the fiscal court prior to payment. The county judge/executive compares the checks to the supporting documentation for the majority of the claims. He then initials the payable cover sheet and signs the checks. The county judge/executive and the fiscal court review the financial statements prepared by the county treasurer. Copies of the financial statements are included in the fiscal court's minutes. However, during fiscal year 2018, the county judge/executive did not prepare checks or maintain an appropriations ledger or designate the finance officer to perform these duties as outline by the Department for Local Government (DLG) in the *County Budget Preparation and State Local Finance Officer Policy Manual*. The finance officer did not have access to the new accounting software to prepare checks or maintain the appropriations ledger.

The county treasurer stated that when the new accounting software was installed, the former county treasurer told the vendor not to put a copy of the accounting software on the finance officer's computer. The former county treasurer had the new accounting software only installed on the county treasurer's computer. The county treasurer also stated she was not aware until attending the DLG budget workshop on March 14, 2019, that the finance officer was required to maintain the appropriations ledger. The fiscal court failed to adequately segregate the duties involved in recording receipts, disbursements, and capital assets, and preparing monthly bank reconciliations. Management also failed to provide adequate oversight regarding the county treasurer's preparation of financial reports.

The lack of adequate segregation of 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 segregation of duties over these areas:

- The fiscal court did not accurately report financial information as reported in finding 2018-002.
- The fiscal court did not properly reconcile the payroll revolving account as reported in finding 2018-003.
- The fiscal court did not have adequate internal controls over disbursements as reported in finding 2018-008.
- The fiscal court did not maintain complete and accurate capital asset schedules as reported in finding 2018-010.
- The former county treasurer did not deposit \$23,145 payments from the sheriff for franchise taxes and monthly excess fees timely. Checks dated October 31, 2017, were not deposited until December 11, 2017.
- The road fund was overdrawn by \$11,248, on February 13, 2018, resulting in a \$25 overdraft fee.
- The parks and recreation fund was overdrawn by \$141, on September 15, 2017.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The Edmonson County Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, Disbursements, Capitals Assets, And Reconciliations (Continued)

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, timely financial reports. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which states the county judge/executive or his designee should, "[p]repare all checks on claims reviewed by the fiscal court" and "[m]aintain an appropriations ledger." The manual also requires, "[d]aily deposits intact into a federally insured banking institution."

We recommend the county judge/executive follow the requirements of DLG or designate the finance officer to prepare checks and maintain the appropriations ledger. Duties should be adequately segregated to ensure that no one person has complete control over the financial activity of the fiscal court. We recommend the fiscal court segregate the duties involved in recording receipts, disbursements, and capital assets, 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: Office was restructured after termination of previous Treasurer, we have implemented stronger internal controls with a much more strict and accurate check and balance system that includes all office personnel.

2018-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The Edmonson County Fiscal Court approved the fourth quarter financial report prepared and submitted by the Edmonson County Treasurer on July 9, 2018. The report was not reviewed by another employee to ensure accuracy. The fourth quarter financial report was misstated for budget amendments, receipts, disbursements, transfers in, transfers out, and ending book balance. The misstatements were as follows:

- The total amendments to the budgeted receipts and budgeted disbursements were understated by \$9,353 for all operating funds since the recorded amount was \$328,539 while DLG approved the amendments to the budgeted receipts and budgeted disbursements at \$337,892. This misstatement was an amendment to the budgeted receipts and budgeted disbursements of the general fund being understated by \$9,353.
- Receipts were overstated by \$25,170 for all operating funds since the recorded amount was \$4,124,499 while audited receipts were \$4,099,329. This misstatement was a combination of the receipts of the general fund being overstated by \$58,002 due to a reimbursement from other funds to correct an error being recorded; the general fund being understated by \$82 due unrecorded receipts; and the federal community development block grant fund being understated by \$32,750 due to unrecorded receipts of this grant.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information (Continued)

- Disbursements were overstated by \$5,237 for all operating funds since the recorded amount was \$4,348,025 while audited disbursements were \$4,342,788. This misstatement was a combination of the disbursements of the general fund being overstated by \$39,338 due to payroll disbursements for other funds being recorded to the general fund; the general fund being understated by \$1,351 due to unrecorded disbursements; and the federal community development block grant fund being understated by \$32,750 due to unrecorded disbursements of this grant.
- Transfers in and transfers out were overstated by \$2,235 for all operating funds since the recorded amount was \$679,363 while audited transfers in and transfers out were \$677,128. This misstatement is a combination of the transfers in of the room tax fund and jail fund overstated by \$700 and \$1,535, respectively, due to posting bank errors as a transfers in. Transfers out of the general fund are overstated by \$2,235 due to posting bank errors as transfers out.
- In addition, transfers in and transfers out were overstated by \$9,556 for all operating funds that have not been corrected and have been included as uncorrected misstatement. The uncorrected misstatement is a combination of the transfers in of the jail fund, parks and recreation fund, and the emergency 911 fund overstated by \$500, \$50, and \$9,006, respectively, due to posting bank errors as transfers in. Transfers out of the general fund and emergency 911 wireless fund are overstated by \$550 and \$9,006, respectively, due to posting bank errors as transfers out.
- The ending book balance as of June 30, 2018, was overstated by \$19,931 for all operating funds since the recorded amount was \$1,598,728 while the audited ending book balance was \$1,578,797. This misstatement was due to failure to transfer from the general fund to the payroll revolving account \$19,931 payroll disbursements recorded to the general fund.
- The former county treasurer inaccurately recorded payments from other governmental funds of \$58,002. General fund receipts reimbursements and payroll correction line items were misstated by \$36,938 and \$21,064, respectively, due to recording reimbursement from other funds to correct a payroll error in January 2018 to these line items. These amounts were removed from the general fund receipts intergovernmental revenues and miscellaneous revenues line items.
- The former county treasurer did not record payments of \$82 to general fund receipts. General fund miscellaneous revenues and interest earned line items were misstated by \$55 and \$27, respectively.
- The receipts and fund balance of the emergency 911 wireless fund are overstated by \$31,044 because five deposits were made to the emergency 911 wireless fund by mistake and not corrected by the former county treasurer. Two deposits in the amount of \$22,825 were deposited to the emergency 911 wireless fund instead of to the general fund understating the receipts and fund balance of the general fund by \$22,825. In addition, three deposits totaling \$8,219 for emergency 911 phone surcharges were deposited to the emergency 911 wireless fund instead of to the emergency 911 fund understating the receipts and fund balance of the emergency 911 fund by \$8,219. We have not corrected these misstatements in the financial statement.
- The former county treasurer inaccurately recorded payments from the state of \$22,825 to emergency 911 fund receipts taxes wireless E911 surcharge line item. This misstatement was due to recording reimbursement under homeland security grant of \$22,800 and drug testing reimbursement of \$25 to this line item. These amounts should have been recorded to general fund receipts intergovernmental revenues line item for homeland security grant and general fund receipts miscellaneous revenue line items, respectively. We have not corrected these misstatements in the financial statement.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information (Continued)

- The former county treasurer inaccurately recorded payments from the state of \$11,595. General fund receipts line items were misstated due to these recording errors, which we have not corrected in the financial statement, as follows:
 - \$329 recorded to taxes tangible personal property tax line item instead of intergovernmental revenues omitted tangible line item.
 - \$7,085 taxes motor vehicle property tax line item should be intergovernmental revenues motor vehicle ad valorem other counties line item.
 - \$45 license and permits telecommunications franchise line item should be miscellaneous revenues drug testing reimbursement line item.
 - \$4,136 intergovernmental revenues emergency management director reimbursement line item should be license and permits telecommunications franchise line item.
- The former county treasurer inaccurately recorded payments from the sheriff of \$124,327. General fund receipts real property taxes line item was misstated by \$101,555 due to recording monthly fees of \$100,819 and franchise taxes of \$736 received from the sheriff to this line item. General fund receipts miscellaneous revenues line item was misstated by \$22,772 due to recording monthly fees received from the sheriff to this line item. \$123,591 and \$736 were reclassified to general fund receipts line items for sheriff fees (pooling) and franchise taxes, respectively.
- The former county treasurer inaccurately recorded payments from the county clerk of \$210,792. General fund receipts excess fees line item was misstated by \$210,792 due to recording monthly fees received from county clerk to this line item. This amount was reclassified to general fund receipts intergovernmental revenues line item for county clerk fees (pooling).
- The former county treasurer inaccurately recorded disbursements payments of \$39,338. General fund disbursements administration line items were misstated by \$39,338 due to recording transfers to the payroll revolving account for payroll expenses of other funds to employer's share social security and employer's share of retirement line items. These line items were misstated by \$28,890 and \$10,448, respectively. The other funds refunded the general fund for these payroll expenses but the disbursements recorded were not reversed. These amounts were removed from the general fund disbursements administration line items.
- The former county treasurer inaccurately recorded disbursements payments of \$1,351. General fund disbursements general government line items were misstated by \$1,351 due to recording payroll and other disbursements wrong. This amount was added to the general fund disbursements general government line items.

In addition, quarterly financial reports for the first and second quarters of fiscal year 2018 were not filed timely with the Department for Local Government (DLG). The first quarter financial report due October 20, 2017, was filed February 1, 2018, and the second quarter financial report due January 20, 2018, was filed February 20, 2018.

The misstatements noted above are the result of a weak internal control system over the financial reporting system. The fiscal court failed to realize 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 was not reviewed by another employee to ensure accuracy. The former county treasurer stated she misclassified disbursements because she booked the disbursements to line items that had sufficient budget available.

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information (Continued)

Because of this weak internal control system, the amounts reported on the quarter financial reports are not always in agreement with the actual budgeted amounts and the actual transaction amounts. When the amounts reported on the quarter financial reports do not agree with the actual budgeted amounts and the actual transaction amounts, these misstatements occur. In addition, budgeted amounts being misstated could result in over spending budgeted line items. The weak internal control system has also resulted in receipts and 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. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government’s *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” and “requires the report to be submitted by the 20th of the month following the close of the quarters ending September 30, December 31, March 31 and June 30.” 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 total available in each line item. 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’s reporting requirements.

We recommend the fiscal court implement stronger internal controls over financial accounting and reporting. 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 on the reports to the original budget and budget amendments approved by DLG. This review should also include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include 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 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 strengthen its internal control system, and help ensure accurate financial reporting.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: All Financials Information is now being correctly reported.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account

This is a repeat finding and was included in the prior year audit report as finding 2017-004. The Edmonson County Fiscal Court's payroll revolving account did not reconcile to a zero balance as of June 30, 2018, and the payroll revolving account had a deficit balance. The bank balance as of June 30, 2018, was \$80,144 with outstanding checks of \$4,633, outstanding liabilities of \$93,897, and unpaid liabilities of \$1,544, leaving a deficit balance of \$19,930, for fiscal year 2018. On June 24, 2019, the county treasurer transferred \$19,930 from the general fund to the payroll revolving account to eliminate this deficit. Negative audited reconciled book balances were also noted for January 2018, February 2018, March 2018, April 2018, and May 2018 in the amount of \$21,983, \$23,392, \$10,807, \$9,048, and \$9,515, respectively. The payroll revolving account was not properly reconciled every month. The bank balance on the bank reconciliations for July 2017 through November 2017 did not agree to the bank statements. These bank reconciliations were not reviewed by another employee to ensure accuracy. Bank reconciliations were not prepared for December 2017 through June 2018. In addition, during fiscal year 2018, the amount transferred to the payroll revolving account from the operating funds did not agree to the total payroll per the payroll register. Transfers to the payroll revolving account booked to the appropriations ledger were \$39,338 more than the total payroll per the payroll register. Other control deficiencies were noted:

- Payroll records show \$189,147 due to the payroll revolving account for January 2018. The former county treasurer transferred \$157,592 to the payroll revolving account. \$31,555 was not transferred to the payroll revolving account.
- Employer's matching health insurance of \$1,807 was paid from the payroll revolving account and not booked to the appropriations ledger.
- A check written from general fund on March 2, 2018, for \$10,000 to cover the retirement report without supporting documentation.

The fiscal court failed to realize the importance of strong internal controls over the payroll revolving account, and instead relied on a single employee without sufficient oversight. The former county treasurer incorrectly prepared the bank reconciliations for July through November 2017. The errors were not detected because the reconciliations were not reviewed by another employee to ensure accuracy. The county treasurer stated that bank reconciliations were not prepared by the former treasurer from December 2017 through April 2018 so she was unable to prepare bank reconciliations for May 2018 and June 2018. The county treasurer also stated she transferred funds of \$4,518 to the general fund on June 29, 2018, to bring the payroll revolving account to the \$1,000 balance approved by the fiscal court on May 25, 2018. She did not understand how to account for outstanding liabilities and also did not realize the former treasurer had failed to pay the IRS \$14,227 for the pay period November 27, 2017 through December 8, 2017.

The unreconciled payroll revolving account resulted in the fiscal court having insufficient funds to meet payroll requirements. The fiscal court had surplus and deficits during fiscal year 2018 as follows:

- \$4,617 surplus for period July 1, 2017 through September 30, 2017.
- \$512 surplus for period October 1, 2017 through November 30, 2017.
- \$1,324 deficit for December 2017.
- \$30,535 deficit for January 2018.
- \$1,409 deficit for February 2018.
- \$12,585 surplus for March 2018.
- \$1,759 surplus for April 2018.
- \$467 deficit for May 2018.
- \$10,416 deficit for June 2018.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account
 (Continued)

In addition, the unreconciled payroll revolving account and lack of oversight over the payroll revolving account resulted in the following:

- The fiscal court paid \$11,009 more for withholdings and matching than amount per payroll register.
- The fiscal court paid \$1,608 less for gross payroll than the amount per payroll register.
- The fiscal court paid penalties of \$149 in fiscal year 2018 for late federal tax deposits.
- The fiscal court failed to make a federal tax payment of \$14,227 for the pay period November 27, 2017 through December 8, 2017.
- The fiscal court paid penalties and interest of \$6,675 in fiscal year 2019 for late federal tax deposits for November 2017 and December 2017.
- The fiscal court paid penalties and interest of \$66 for late state tax deposits.
- The fiscal court improperly withheld employee's share of retirement from twelve employees' payroll checks as reported in finding 2018-005.
- The fiscal court withheld \$937 too much for the employee's share for various insurances from 27 employees' payroll checks as reported in finding 2018-007.
- The fiscal court paid \$779 for the employee's share for various insurances without properly withholding from 12 employees' payroll checks as reported in finding 2018-007.
- The fiscal court failed to pay \$607 to vendors for the employee's share for voluntary deductions from three employees' payroll checks as reported in finding 2018-007.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires the county treasurer to prepare monthly bank reconciliations. 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 \$0, or possibly a small reserve balance if the fiscal court so chooses. Strong internal controls over the account should be implemented to ensure that proper amounts are transferred timely. Should a balance accrue in the payroll revolving account, the fiscal court should allocate this balance to the appropriate fund(s).

We recommend the fiscal court implement strong internal controls over the payroll revolving account. These controls should include reconciling the payroll revolving account balance each month, bank reconciliations being reviewed by an independent employee to verify accuracy and completeness, and an individual independent of the payroll function verifying proper payroll amounts are transferred to the payroll revolving account from the corresponding operating funds prior to each pay period. These controls should also include verifying that withholdings amounts and county contributions are handled properly, and paid over to the proper agencies timely, and that any accumulated balance in the payroll revolving account is properly allocated and reflected on the fiscal court's financial statement.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Payroll Account is reconciled on a monthly basis.

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2017-005. The Edmonson County Fiscal Court lacks adequate 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 2018-003.
- The fiscal court did not properly reconcile retirement reports with payroll reports as reported in finding 2018-005.
- The fiscal court did not pay tax liabilities timely resulting in penalties and interest as reported in finding 2018-006.
- The fiscal court did not properly withhold city occupational tax as reported in finding 2018-006.
- The fiscal court did not properly withhold employees' share of insurance and did not properly pay other voluntary deductions as reported in finding 2018-007.
- Accident insurance coverage deductions were being removed from FICA income resulting in FICA being underpaid.
- Leave balances are not being maintained by the fiscal court for all employees.
- Employee authorization forms in employee folders are not up to date.
- One employee included 123 hours of overtime worked in a single pay period without sufficient documentation for 119 hours. The overtime documentation does not show dates or times worked.
- Five employees' timesheets were not signed by the supervisor, two of these employees did not maintain a timecard, and one employee's timecard appeared to be stamped instead of signed.
- One employee listed hours worked each day, but there was no way to determine the actual dates worked on the timecard.
- One employee was categorized as a salary exempt employee, but was required to use vacation or compensatory leave time. This employee's timecard did not include the required 80 hours per week.
- One employee was categorized as a salary exempt employee, but did not appear to meet the salary exempt requirements.
- One employee earned a total of four and a half hours of compensatory time on a timesheet, but did not provide sufficient documentation to show the days on which this time was earned.
- Twelve hourly employees did not use a timeclock to maintain hours worked.
- All employee's W-2s for calendar year 2017 were incorrect due to errors with FICA and local wage figures.
- Employee pay rates were not approved properly by the fiscal court. A raise was approved by the fiscal court, but no amounts or percentages were documented in the fiscal court orders. After applying the normal annual raise to employee rates, three employees' pay rates did not agree to the calculated amounts.
- The former finance officer's pay rate was never approved by the fiscal court.
- The rates used for employee withholdings and the employer's share of health insurance payments were not calculated properly.

Rather than implement a strong internal control system to monitor the payroll process, the fiscal court relied on individual employees to perform specific functions of payroll without sufficient oversight to ensure accuracy of work performed. As a result, the aforementioned findings occurred and the fiscal court's administrative code was not followed.

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll (Continued)

Strong internal controls over payroll and timekeeping are vital in ensuring 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 helping make certain the fiscal court is in compliance with state statutes.

KRS 337.320 states, "[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee[.]" Additionally, the *Edmonson County Administrative Code* section 340.10 states, "[a]ll hourly employees paid by county funds are required to use time clocks with the exception of elected officials secretaries."

The *Edmonson County Administrative Code* section 340.3 states, "[e]ach Supervisor shall keep records of vacation time allowance, vacation time taken, and the balance of vacation time allowance for each employee under his supervisor." Also, the *Edmonson County Employee Policy And Procedure Handbook* states, "[t]he Personnel Officer or his/her designee shall ensure that accurate records are kept for vacation leave allowance and vacation leave taken." In addition, the *Edmonson County Employee Policy and Procedure Handbook* states, "[n]on-supervisory, full-time employees shall work a minimum of 40 hours per week."

We recommend the following improvements:

- Review all deductions and make sure they are being coded correctly for pre-tax and after-tax deductions.
- Leave balances should be maintained for all employees.
- Personnel files should be complete as to all withholding authorizations and updated when any changes occur. Also, any adjustments to employees' pay should be properly included in employees' personnel files.
- All timesheets should be signed by the employee and his or her supervisor.
- An individual independent of the payroll process should review payroll transactions, including amounts to be paid to employees electronically for payroll to verify that amounts have been calculated properly and that they are properly supported. This review can be documented by signing or initialing the payroll report.
- Ensure all employees follow the administrative code.
- Ensure all full-time employees are working their correct amount of time to receive their salary pay.
- Ensure that W-2s are prepared correctly and verified before being issued to employees.

By implementing the above recommendations, the fiscal court can strengthen its internal control system over payroll and timekeeping and reduce the risks of non-compliance and payroll errors. Such procedures will also protect the fiscal court against potential payroll disputes.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Payroll is processed by an outsourced vendor, with Treasurer and Finance Officer reviewing and reconciling all payroll reports.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Edmonson County 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 2017-006. The Edmonson County Fiscal Court reports retirement to the County Employees Retirement System (CERS) and can print the retirement reports. Discrepancies were noted between these reported amounts and the payroll reports. The reported amounts are not reconciled to the payroll reports when preparing the monthly CERS report. The fiscal court did not have adequate controls implemented to ensure the retirement reports were reconciled to the payroll reports. The following errors or problems were noted with the fiscal court's CERS 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.
- The employees' retirement withholdings on the original payroll records were incorrect for January 2018 for five employees. These differences were corrected by the county treasurer. The employees had the amounts that were under withheld from their paychecks in January 2018, withheld from their paychecks in April 2018. The corrections were made on the April 2018 retirement report.
- One employee had the correct amount of retirement withholdings withheld from his paycheck, but this amount was not reported properly on the retirement report and invoices. This correction was made on the January 2018 invoice.
- Seven road department employees' overtime pay was not processed correctly. Due to this error, no retirement withholdings were withheld from these employees' paychecks for the wages in May 2018. This error was discovered and corrected on the June 2018 invoice.

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 under paid retirement on others, although some of these issues were eventually corrected. This deficiency also explains the problems associated with a proper reconciliation of the payroll revolving account, since 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.

A strong internal control system over retirement is essential in ensuring that retirement benefits are calculated, reported, and paid over 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(1) 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." KRS 78.610(2) provides, "[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."

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Edmonson County Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

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. This reconciliation should include tying all wage and retirement amounts on the retirement report to the payroll summary. This reconciliation 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 on a timely basis. 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. Other errors should be corrected by reporting and submitting the correct amount to CERS and obtaining amounts not withheld from employees.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Retirement reports are being reconciled to the payroll reports on a monthly basis prior to payment being submitted.

2018-006 The Edmonson County Fiscal Court Did Not Pay Tax Liabilities Timely Resulting In Penalties And Interest

This is a repeat finding and was included in the prior year audit report as finding 2017-007. During fiscal year 2018, federal tax withholdings and employer contributions were not properly turned over to the Internal Revenue Service (IRS) timely. The form 941 tax return for the tax period ending December 31, 2017, was not submitted to the IRS until July 24, 2018. This tax return showed \$14,261 due to the IRS. \$14,227 of the amount due to the IRS was federal tax withholdings and employer contributions not reported or paid by the former county treasurer for the pay period November 27, 2017 through December 8, 2017. In addition, the fiscal court failed to make a proper federal tax deposit for three other pay periods. The state tax return for July 1 to 15, 2017, was also not filed properly. The check was written to the state for \$200 less than the amount due. Local taxes were computed incorrectly. Eight of nine employees tested for pay date September 7, 2017, had the incorrect city tax withheld from their paychecks. For the nine employees tested for this pay date, calculated city tax was \$116, but city tax withheld was \$33, for a difference of \$83. For the ten employees tested for pay date April 25, 2018, city tax was correctly computed and paid.

The Edmonson County Fiscal Court failed to make a federal tax payment for the pay period November 27, 2017 through December 8, 2017, causing the amount owed to the IRS. The fiscal court also failed to implement internal controls to monitor that tax liabilities are reported correctly and instead relied on a single employee without sufficient oversight. The fiscal court also has no set policies on how city occupational tax should be withheld from employee wages.

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Edmonson County Fiscal Court Did Not Pay Tax Liabilities Timely Resulting In Penalties And Interest (Continued)

As a result, 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. In addition, state taxes were paid late and city taxes were underpaid. As a result, the fiscal court paid penalties and interest of \$6,675 on October 10, 2018, to the IRS due to late payments and failure to file reports timely. In addition, penalties and interest of \$66 were owed to the state due to late or incorrect payments. Additional interest was owed to the state because the fiscal court did not pay the additional \$200 due until the second notice.

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:

1. . . .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.'
2. 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.
3. 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.

City of Brownsville Ordinance No. 1-08 states, "[t]he occupational license tax shall be measured by 1% of: (a) All wages and compensation paid or payable in the city for work done or services performed or rendered in the city by every resident and nonresident who is an employee, whether temporary, transient, or permanent without regard to home office location or address of payroll issuer."

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 and 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: All tax liabilities are now being processed and paid by the Payroll company with Treasurer verifying and confirming payments.

2018-007 The Edmonson County Fiscal Court Did Not Properly Withhold Employees' Share Of Insurance And Did Not Properly Pay Other Voluntary Deductions

This is a repeat finding and was included in the prior year audit report as finding 2017-008. The Edmonson County Fiscal Court did not properly withhold from employees' paychecks for employee deductions such as health, life, accidental, vision, and dental insurance. The fiscal court paid the employees' share for vision, life, dental, and health insurances without properly withholding from the employees' payroll checks as follows:

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The Edmonson County Fiscal Court Did Not Properly Withhold Employees' Share Of Insurance And Did Not Properly Pay Other Voluntary Deductions (Continued)

- \$22 was paid on life insurance policies for two employees.
- \$20 was paid on dental insurance on behalf of a former magistrate.
- \$737 was paid on health insurance for nine employees.

In addition, the fiscal court withheld too much from employees' payroll checks as follows:

- \$47 too much was withheld on vision insurance for one employee.
- \$188 too much was withheld on dental insurance for three employees including \$116 and \$11, respectively, for the sheriff and former county treasurer.
- \$128 too much was withheld on life insurance for four employees including \$69 for the former county treasurer.
- \$574 too much was withheld on health insurance on nineteen employees including \$75 and \$77, respectively, for the sheriff and the former county treasurer. This amount also includes \$25 each for the county clerk, two magistrates, a former magistrate, and the former road supervisor.

Additionally, the fiscal court failed to pay amounts due for voluntary deductions from employees' payroll checks as follows:

- \$375 was not paid to the credit union for two employees including \$225 on behalf of the former county treasurer.
- \$40 was paid twice to deferred compensation for two employees.
- \$232 was not paid to a credit agency for one employee.

The various invoices for insurance and other voluntary deductions are not being compared to the employee withholding to ensure proper withholdings are being made from employees' paychecks and actually paid to the appropriate vendors. The fiscal court is paying additional insurance on some employees since those employees are not paying the proper portion. As a result, the fiscal court was unable to reconcile the payroll revolving account to zero.

Good internal controls require original supporting documentation for all payments and reconciliation of the amount withheld to the amount due for voluntary deductions. In addition, the fiscal court should only pay disbursements they are responsible for from the operating funds.

We recommend the fiscal court require someone to verify that employees' withholdings cover their required portion of insurance premiums and all voluntary deductions are paid to vendors. This review can be documented by printing a deduction report and comparing it to the invoices prior to paying. In addition, we recommend the fiscal court refunded amounts over withheld from employees' paychecks.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All deductions are being withheld properly and all voluntary deductions are paid in a prompt and correct manner.

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The Edmonson County 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 2017-010. Internal controls over disbursements were not operating as intended during fiscal year 2018. The following control deficiencies were noted:

- One disbursement of \$600 was paid by a bank withdrawal without a second signature from the county judge/executive or finance officer.
- Six disbursements tested included late charges or penalties of \$654.
- Five disbursements tested totaling \$28,139 were not presented to the fiscal court before payment.
- Twenty-five disbursements tested were recorded to the wrong account codes: 21 disbursements tested totaling \$73,297 were recorded to the wrong minor object codes and four disbursements tested totaling \$19,530 were recorded to the wrong major object codes.
- Four disbursements tested totaling \$51,826 did not have supporting documentation that matched the amount paid. Two of these disbursements totaling \$50,835 were payments from the room tax fund to the tourism commission paid from supporting documentation that was incorrect due to a mathematical error. The other two disbursements totaling \$991 were charges on the fiscal court's credit card paid from the general fund for supplies for the animal control officer. However, the supporting documentation attached to the credit card statement did not agree to the amount charged on the fiscal court's credit card.
- Four claims tested totaling \$32,812 were approved and paid by the fiscal court without sufficient budget available in the line items when the claims were approved and paid.
- One disbursement tested totaling \$265 per the invoice and cancelled check was recorded incorrectly on the appropriations ledger and warrant distribution ledger as \$199.
- Two disbursements totaling \$45 were not paid timely. Both disbursements not paid timely were charges on the fiscal court's credit card that were not paid with the credit card statement including the charge.

The deficiencies listed above were able to occur due to lack of monitoring of controls. These deficiencies could result in line items being over budget, claims being paid not related to the fiscal court, inaccurate reporting and misappropriation of assets. For fiscal year 2018, these deficiencies resulted in road fund administration exceeding budgeted appropriations by \$1,300 and parks and recreation fund recreation and culture exceeding budgeted appropriations by \$1,521.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, proper supporting documentation is being maintained, payments are posted to the correct accounts, and claims are presented to the fiscal court. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards 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 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 manual also states disbursements are to be made by check only and "[a]ll counties must use the account numbers from the chart of accounts. Codes used must identify the revenue or expenditure."

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The Edmonson County Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements
 (Continued)

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.” KRS 68.275 requires claims within budget line items and presented to the fiscal court be paid by a check drawn on an account of the fiscal court. KRS 68.020(1) states, “[a]ll warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive.” In addition, the Edmonson County Administrative Code Section 230.1 states “[c]ounty funds shall be paid out only on order of the Fiscal Court.”

We recommend the fiscal court improve internal controls over disbursements to ensure they are operating effectively.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive’s Response: All disbursements are reviewed by Finance Officer, Treasurer and Judge/Executive. We have implemented a stronger process of disbursements.

2018-009 The Edmonson County Fiscal Court Lacks Adequate Controls Over Procurement

The Edmonson County Fiscal Court opened road materials bids on June 12, 2017. According to the fiscal court minutes, three bids were submitted, opened, and read for road materials. Then, a motion was made “to, as in the past, approve all bids and be able to use wherever and whenever applicable” and the fiscal court vote was unanimous on this motion. This method of selecting a vendor is not in compliance with KRS 45A. The minutes do not document the amount of the bids or what materials were included on the bids; therefore, acceptance of the winning or lowest bid was not documented. During fiscal year 2018, the fiscal court paid \$524,523 to vendors for road materials who submitted bids.

In addition, the fiscal court did not follow the procurement process for purchases from the same vendor that over the course of the year were above the \$20,000 threshold set by Edmonson County Administrative Code. The following purchases were noted as being above the \$20,000 threshold without being bid or without documentation as to the reason the purchases were not bid:

- During fiscal year 2017, the fiscal court entered into a lease agreement to rent vehicles for the sheriff’s department. This agreement was not bid or documented as being made under the state bid contract. During fiscal year 2018, the fiscal court paid \$28,715 on this agreement.
- Two vendors were paid \$29,319 and \$61,304, respectively, for gasoline. Gasoline was not bid or purchased under the state bid contract. The fiscal court budgeted \$104,500 for gasoline in their original budget.
- One vendor was paid \$32,170 to work on the communications towers and the sheriff’s frequency on radios without documenting making the purchase under the state bid contract.
- One vendor was paid \$26,373 for fees for E911 routing costs without documenting the vendor was the single source for the service provided.
- One vendor was paid \$36,001 for materials such as tiles and galvanized bands for road projects. These road materials were not bid.

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Edmonson County Fiscal Court Lacks Adequate Controls Over Procurement (Continued)

The county judge/executive stated he was not aware the fiscal court could not accept all bids as part of the bidding process for all bids related to the construction or maintenance of county roads and bridges. He was not informed of this requirement until the prior year exit on May 1, 2018. The county judge/executive also stated he was not aware the fiscal court was required to bid the lease agreement, work on the communications towers and the sheriff's frequency on radios, and E911 routing cost. He was not aware they had spent over \$20,000 with the same vendor on gasoline and materials for road projects. The emergency management director stated he was not aware the E911 routing costs and the work on the communications towers and the sheriff's frequency on radios were subject to the bidding process. He stated he believed that both items were purchased from vendors who were the single sources for those items in Edmonson County. As a result, the fiscal court was not in compliance with procurement laws or their administrative code. In addition, the fiscal court might not have received the best value for services or products provided.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with procurement laws, and keep good records of all bid and other procurement transactions. KRS 178.140(1) states, "[a]ll bids for the construction or maintenance of county roads and bridges shall be received at the time and place specified in the advertisement, and shall be opened publicly at the time of awarding, and the amount of items comprising each bid shall be publicly announced." In addition, KRS 178.140(2) states "[t]he contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county."

KRS 45A.365(1) states, "[a]ll contracts and purchases shall be awarded by competitive seal bidding, which may include the use of a reverse auction, except as otherwise provided by KRS 45A.370 to 45A.385." Additionally, KRS 45A.365(2) states, "[t]he invitation for bids shall state that the award shall be made on the basis of the lowest bid price or the lowest evaluated bid price. If the latter is used, the objective measurable criteria to be utilized shall be set forth in the invitation for bids. The invitation for bids shall include the reciprocal preference for resident bidders described in KRS 45A.494."

KRS 45A.355(1) states, "[e]very determination required by this code shall be in writing and based upon written findings of the public official making the determination. These determinations and written findings shall be retained in the official contract file."

KRS 45A.380 states, "[a] local public agency may contract or purchase through noncompetitive negotiation only when a written determination is made that completion is not feasible and it is further determined in writing by a designee of the local public agency that: (2) [t]here is a single source within a reasonable geographical area of the product or service to be procured[.]"

Additionally, the Edmonson County Administrative Code Sections 420.4 and 420.5 regarding selection of vendors and contracts state, "[s]ealed bidding procedures shall be followed under the circumstances, conditions and in the manner as set forth by KRS 45A.365" and "[a]ll purchases in excess of twenty thousand dollars (\$20,000.00) are required to be advertised for bids as set forth by KRS 424.260." The Edmonson County Administrative Code Section 420.8 regarding selection of vendors and contracts states, "[t]he County Judge/Executive shall submit the bid selected to the Fiscal Court for approval and thereafter shall notify in writing all bidders of the award. If the lowest bid is not selected, the reasons for the selection shall be stated in writing."

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The Edmonson County Fiscal Court Lacks Adequate Controls Over Procurement (Continued)

We recommend the fiscal court monitor all disbursements to ensure that procurement procedures are followed for all qualifying disbursements. We further recommend the fiscal court document these procedures in the fiscal court minutes and in the bid files including documenting the acceptance of the winning bid in writing in accordance with their administrative code and to be in compliance with KRS 178.140 as it relates to construction or maintenance of county roads and bridges. If the fiscal court does not accept the lowest bid for road materials, they should document the reason in the fiscal court minutes. Furthermore, we recommend the fiscal court maintain documentation when making purchases under a state bid contract or from a vendor who is the single source for the purchase or service.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All Procurement requirements are being followed.

2018-010 The Edmonson County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Schedules In Compliance With Regulatory Requirements

This is a repeat finding and was included in the prior year audit report as finding 2017-011. Material weaknesses existed over the reporting of capital assets and infrastructure of Edmonson County. The beginning balances of the fiscal court's schedule of capital assets and infrastructure for the period of the audit did not agree to the prior year schedule of capital assets ending balances.

Land and buildings were overstated \$71,347 due to equipment being recorded as land and buildings by mistake. Vehicles and equipment beginning balances were understated by \$1,053,819 due to not including all assets reported in the prior year. Infrastructure had to be restated by \$122,141 due to including roads that did not meet the fiscal court's capitalization policy.

The fiscal court lacks adequate internal controls over reporting of capital assets. Each department is required to submit inventory listings to the fiscal court; however, these were not being reconciled with the capital asset schedules maintained by the county treasurer. The county treasurer stated she was not given a capital asset schedule, was not trained on how to properly maintain the schedule, and what documentation was required to be maintained. By having weak internal controls over capital assets, assets are left vulnerable to misappropriation or misstatement. In this case, 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. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *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. An 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 the authorized personnel and documented accordingly."

EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-010 The Edmonson County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Schedules In Compliance With Regulatory Requirements (Continued)

In order to strengthen internal controls over capital assets, we recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government requirements. Procedures should be implemented that will identify and track beginning balances, additions, and deletions for the purpose of the capital asset schedule with adequate supporting documentation and any additions or deletions should be reconciled to the department inventory records annually for insurance coverage.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Created a new Capitalization plan to properly record and maintain all Capital Assets.

2018-011 The Edmonson County Fiscal Court Did Not Properly Disclose Debt On The Fourth Quarter Financial Report Or Budget And Record Amounts

The Edmonson County Fiscal Court did not report the correct amount of liabilities on the fourth quarter financial report. The fiscal court reported \$67,777 principal and \$4,535 interest for the general obligation refunding lease, series 2012 (courthouse) while the correct balance should have been \$350,239 principal and \$21,838 interest. In addition, the Administrative Office of the Courts (AOC) paid debt service of \$76,847 on behalf of the Edmonson County Fiscal Court which was not included in the budget or recorded on the financial report.

The county judge/executive and county treasurer stated they were not aware they needed to budget or record these payments since AOC was directly making payments to the bank. By not correctly reporting outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year. Total principal debt obligations as of June 30, 2018, were understated by \$282,462 and total interest obligations as of June 30, 2018, were understated by \$17,303 on the liabilities section of the fourth quarter financial report. In addition, since the fiscal court did not budget or record all debt related transactions, the general fund debt service disbursements exceeded budgeted appropriation amounts by \$75,048 after adjustments. Also, the fourth quarter financial report was misstated by \$76,847 for receipts and disbursements.

KRS 68.280 states, “[t]he fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby.” KRS 68.240(1) states, “[t]he county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.” KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* which requires all borrowed money received and repaid must be reflected in the county budget. Any borrowed money that is not reflected in the original budget estimate must be amended into the budget and be properly reflected on the financial report as a receipt as well as an “expenditure” for repayment of borrowed funds. Furthermore, all funds disbursed on the fiscal court’s behalf by third parties should be recorded in receipts and appropriation ledgers. DLG’s manual also requires the liabilities section of the fourth quarter financial report to be utilized for reporting all current long-term debt.

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2018
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-011 The Edmonson County Fiscal Court Did Not Properly Disclose Debt On The Fourth Quarter
Financial Report Or Budget And Record Amounts (Continued)

We recommend the fiscal court properly disclosure all debt on the quarterly financial reports. We also recommend the fiscal court ensure all debt is properly budgeted or prepare budget amendments if necessary, and report the receipts and disbursements of debt on the quarterly financial reports.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All Debt is properly being disclosed on required reporting.

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

EDMONSON COUNTY FISCAL COURT

For The Year Ended June 30, 2018

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CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
EDMONSON COUNTY FISCAL COURT

For The Year Ended June 30, 2018

The Edmonson 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.

Wil S. Cannon

County Judge/Executive

Janni Willhite

County Treasurer