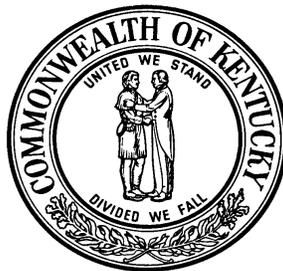


**REPORT OF THE AUDIT OF THE
EDMONSON COUNTY
FISCAL COURT**

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable 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, 2017, 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.



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

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, 2017, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2018, 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, which discusses the following report findings:

- 2017-001 The Edmonson County Fiscal Court Lacks Segregation Of Duties Over Cash, Receipts, Disbursements, Capitals Assets, And Reconciliations
- 2017-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information
- 2017-003 The Edmonson County Fiscal Court Did Not Perform Accurate Bank Reconciliations
- 2017-004 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account
- 2017-005 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll
- 2017-006 The Edmonson County Fiscal Did Not Properly Reconcile Retirement Reports With Payroll Reports
- 2017-007 The Edmonson County Fiscal Court Did Not Pay Tax Liabilities Timely Resulting In Penalties And Interest
- 2017-008 The Edmonson County Fiscal Court Did Not Properly Withhold Employees' Share Of Insurance
- 2017-009 The Edmonson County Fiscal Court Was Not In Compliance With Their Section 218 Social Security Agreement
- 2017-010 The Edmonson County Fiscal Court Did Not Have Adequate Internal Controls Over Disbursements
- 2017-011 The Edmonson County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Schedules In Compliance With Regulatory Requirements

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

May 1, 2018

EDMONSON COUNTY OFFICIALS**For The Year Ended June 30, 2017****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:

J.B. Hines	County Attorney (July 1, 2016 through February 27, 2017)
Gregory Vincent	County Attorney (February 28, 2017 through June 30, 2017)
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:

Margret Skaggs Page	County Treasurer
Melanie Woosley Vincent	Finance Officer

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

For The Year Ended June 30, 2017

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

For The Year Ended June 30, 2017

	Budgeted Funds			
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
RECEIPTS				
Taxes	\$ 992,686	\$	\$	\$
In Lieu Tax Payments	142,662			
Licenses and Permits	24,784			
Intergovernmental	1,080,571	1,455,155	90,075	7,884
Charges for Services	11,448		13,067	
Miscellaneous	52,039	19,998		
Interest	3,468	8,712	41	1
Total Receipts	<u>2,307,658</u>	<u>1,483,865</u>	<u>103,183</u>	<u>7,885</u>
DISBURSEMENTS				
General Government	1,476,344			
Protection to Persons and Property	205,684		288,546	
General Health and Sanitation	70,786			14,261
Social Services				4,350
Recreation and Culture	14,382			
Roads		1,082,123		
Debt Service	184,382	35,953		
Capital Projects		20,520		
Administration	359,340	159,605	15,395	
Total Disbursements	<u>2,310,918</u>	<u>1,298,201</u>	<u>303,941</u>	<u>18,611</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,260)</u>	<u>185,664</u>	<u>(200,758)</u>	<u>(10,726)</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds		300,000		
Transfers From Other Funds	172,462		180,000	12,989
Transfers To Other Funds	(310,636)	(171,960)	(464)	
Total Other Adjustments to Cash (Uses)	<u>(138,174)</u>	<u>128,040</u>	<u>179,536</u>	<u>12,989</u>
Net Change in Fund Balance	(141,434)	313,704	(21,222)	2,263
Fund Balance - Beginning (Restated)	692,122	653,341	30,758	1,274
Fund Balance - Ending	<u>\$ 550,688</u>	<u>\$ 967,045</u>	<u>\$ 9,536</u>	<u>\$ 3,537</u>
Composition of Fund Balance				
Bank Balance	\$ 558,151	\$ 982,780	\$ 26,817	\$ 3,537
Less: Outstanding Checks	(7,463)	(15,735)	(17,281)	
Fund Balance - Ending	<u>\$ 550,688</u>	<u>\$ 967,045</u>	<u>\$ 9,536</u>	<u>\$ 3,537</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, 2017
(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
\$ 50,902	\$	\$ 89,198	\$ 163,991	\$	\$ 1,296,777
					142,662
					24,784
					2,633,685
					24,515
	27,076		28,397		127,510
	16	86	155		12,479
<u>50,902</u>	<u>27,092</u>	<u>89,284</u>	<u>192,543</u>		<u>4,262,412</u>
					1,476,344
		39,628	145,083		678,941
					85,047
					4,350
50,675	127,806				192,863
					1,082,123
					220,335
					20,520
	10,702		17,237		562,279
<u>50,675</u>	<u>138,508</u>	<u>39,628</u>	<u>162,320</u>		<u>4,322,802</u>
					(60,390)
227	(111,416)	49,656	30,223		(60,390)
					300,000
	117,647				483,098
	(38)				(483,098)
	<u>117,609</u>				<u>300,000</u>
227	6,193	49,656	30,223		239,610
18,312	59	47,046	142,059		1,584,971
<u>\$ 18,539</u>	<u>\$ 6,252</u>	<u>\$ 96,702</u>	<u>\$ 172,282</u>	<u>\$ 0</u>	<u>\$ 1,824,581</u>
					300,000
	117,647				483,098
	(38)				(483,098)
	<u>117,609</u>				<u>300,000</u>
227	6,193	49,656	30,223		239,610
18,312	59	47,046	142,059		1,584,971
<u>\$ 18,539</u>	<u>\$ 6,252</u>	<u>\$ 96,702</u>	<u>\$ 172,282</u>	<u>\$ 0</u>	<u>\$ 1,824,581</u>
					300,000
	117,647				483,098
	(38)				(483,098)
	<u>117,609</u>				<u>300,000</u>
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<u>\$ 18,539</u>	<u>\$ 6,252</u>	<u>\$ 96,702</u>	<u>\$ 172,282</u>	<u>\$ 0</u>	<u>\$ 1,824,581</u>
					300,000
	117,647				483,098
	(38)				(483,098)
	<u>117,609</u>				<u>300,000</u>
227	6,193	49,656	30,223		239,610
18,312	59	47,046	142,059		1,584,971
<u>\$ 18,539</u>	<u>\$ 6,252</u>	<u>\$ 96,702</u>	<u>\$ 172,282</u>	<u>\$ 0</u>	<u>\$ 1,824,581</u>
					300,000
	117,647				483,098
	(38)				(483,098)
	<u>117,609</u>				<u>300,000</u>
227	6,193	49,656	30,223		239,610
18,312	59	47,046	142,059		1,584,971
<u>\$ 18,539</u>	<u>\$ 6,252</u>	<u>\$ 96,702</u>	<u>\$ 172,282</u>	<u>\$ 0</u>	<u>\$ 1,824,581</u>
					300,000
	117,647				483,098
	(38)				(483,098)
	<u>117,609</u>				<u>300,000</u>
227	6,193	49,656	30,223		239,610
18,312	59	47,046	142,059		1,584,971
<u>\$ 18,539</u>	<u>\$ 6,252</u>	<u>\$ 96,702</u>	<u>\$ 172,282</u>	<u>\$ 0</u>	<u>\$ 1,824,581</u>

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

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

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EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2017

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.

B. Basis of Accounting

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

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

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

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

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

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

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from state government 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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

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

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 Tax Board.

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 the 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.

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.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

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

Note 3. Transfers

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

	General Fund	Road Fund	Jail Fund	Parks and Recreation Fund	Total Transfers In
General Fund	\$	\$ 171,960	\$ 464	\$ 38	\$ 172,462
Jail Fund	180,000				180,000
LGEA Fund	12,989				12,989
Parks and Recreation Fund	117,647				117,647
Total Transfers Out	<u>\$ 310,636</u>	<u>\$ 171,960</u>	<u>\$ 464</u>	<u>\$ 38</u>	<u>\$ 483,098</u>

Reason for transfers:

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

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 vendor will, on or about the date of delivery of each vehicle to the fiscal court, include a schedule covering the vehicle, which will include a description of the vehicle, the lease term, and the monthly rental and other payments due with respect to the vehicle. 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. During fiscal year 2017, the fiscal court leased four vehicles with total lease payments of \$6,033. The lease payments required under the leasing agreement for the fiscal years ending June 30, 2018, and thereafter are as follows:

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

Note 4. Lease Agreement (Continued)

Fiscal Year Ended June 30	Amount
2018	\$ 28,701
2019	28,701
2020	28,701
2021	28,701
2022	<u>22,667</u>
Total Minimum Lease Payments	<u>\$ 137,471</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 2017, the Administrative Office of the Courts, Commonwealth of Kentucky, paid debt service of \$99,967 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, 2017, principal balance outstanding was \$418,016. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 67,777	\$ 9,071
2019	71,757	7,600
2020	75,617	6,043
2021	79,178	4,402
2022	72,596	2,684
2023	<u>51,091</u>	<u>1,109</u>
Totals	<u>\$ 418,016</u>	<u>\$ 30,909</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, 2017, principal balance outstanding was \$33,761. Future principal and interest requirements are:

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

Note 5. Long-term Debt (Continued)

B. Financing Obligation - Radio System (Continued)

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 22,392	\$ 808
2019	11,369	114
Totals	<u>\$ 33,761</u>	<u>\$ 922</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, 2017, principal balance outstanding was \$270,464. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2018	\$ 40,521	\$ 7,232
2019	41,533	6,055
2020	42,571	4,850
2021	43,634	3,614
2022	44,725	2,348
2023-2024	57,480	1,105
Totals	<u>\$ 270,464</u>	<u>\$ 25,204</u>

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2017, was as follows:

	(*Restated) Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation					
Refunding Lease	\$ 506,982	\$	\$ 88,966	\$ 418,016	\$ 67,777
Financing Obligations*	115,000	300,000	110,775	304,225	62,913
Total Long-term Debt	<u>\$ 621,982</u>	<u>\$ 300,000</u>	<u>\$ 199,741</u>	<u>\$ 722,241</u>	<u>\$ 130,690</u>

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

Note 6. Litigation

A. Civil Action 12-CI-00039

On February 29, 2012, the former Edmonson County Judge/Executive and the Edmonson County Fiscal Court filed litigation in Edmonson County Circuit Court against the former Edmonson County Clerk, requesting a judgment in the amount of \$24,771. This amount is obtained from the audit report for calendar year 2010 released by the Auditor of Public Accounts, Commonwealth of Kentucky. A portion of this, \$20,103, is due to the former county clerk exceeding the deputies' maximum salary limitation set by the fiscal court for calendar year 2010 and \$4,668 of this amount is excess fees due to the fiscal court for calendar year 2010. In addition, the fiscal court seeks recovery of costs, expenses, attorney's fees, and recovery of prejudgment and post judgment interest as may be available under applicable law.

On May 22, 2012, the former Edmonson County Clerk countersued requesting declaratory judgments that the fiscal court is without authority to amend the county clerk's budget without his accord; and that the annual budgets of the Edmonson County Clerk's office passed by the Edmonson County Fiscal Court were arbitrary, unreasonable, and contrary to law thereby nullifying any claims of the fiscal court relative to overtures of the same. In addition, the countersuit seeks award of the former county clerk's costs and attorney's fees. Case 13-CI-00109 has been consolidated with this case. This case is currently pending in Edmonson County Circuit Court.

B. Civil Action 13-CI-00109

On September 4, 2013, the former Edmonson County Judge/Executive and the Edmonson County Fiscal Court filed litigation in Edmonson County Circuit Court against the former Edmonson County Clerk, requesting a judgment in the amount of \$13,061. This amount is obtained from the audit report for calendar year 2011 released by the Auditor of Public Accounts, Commonwealth of Kentucky. A portion of this, \$7,035 is due to the former county clerk exceeding the deputies' maximum salary limitation set by the fiscal court for calendar year 2011 and \$6,026 of this amount is excess fees due to the fiscal court for calendar year 2011. In addition, the fiscal court seeks recovery of costs, expenses, attorney's fees, and recovery of prejudgment and post judgment interest as may be available under applicable law.

On September 24, 2013, the former Edmonson County Clerk countersued requesting declaratory judgments that the fiscal court is without authority to amend the county clerk's budget without his accord; and that the annual budgets of the Edmonson County Clerk's office passed by the Edmonson County Fiscal Court were arbitrary, unreasonable, and contrary to law thereby nullifying any claims of the fiscal court relative to overtures of the same. In addition, the countersuit seeks award of the former county clerk's costs and attorney's fees. This case was consolidated with case 12-CI-00039 on December 20, 2016.

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 2015 was \$194,476, FY 2016 was \$213,956, and FY 2017 was \$251,321.

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

Note 7. Employee Retirement System (Continued)

Nonhazardous

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

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

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

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

Health Insurance Coverage

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

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

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

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

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

Note 7. Employee Retirement System (Continued)

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

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages/GASB.aspx>. 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

On March 12, 2003, 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.

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, 2017, 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. Related Party Transaction

For fiscal year ended June 30, 2017, the Edmonson County Fiscal Court paid a total of \$6,000 to a limited liability corporation for rent on the former county attorney's office. The former county attorney was a member of the limited liability corporation.

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

Note 11. 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, 2017, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

Note 12. Prior Period Adjustments

The beginning balances reported on the *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* for the general fund, road fund, jail fund, and emergency 911 fund have been restated. The general fund was increased by \$115,931 to account for debt proceeds of \$115,000 not recorded in the prior year and \$931 for prior year voided checks. The beginning balance of the financing obligations in the changes in long-term debt note 5(d) has also been restated by \$115,000 for this error. The road fund was increased by \$234 to reverse an unknown adjustment to cash in the prior year. The jail fund was increased by \$587 to account for a prior year voided check of \$10 and to reverse an unknown adjustment to cash in the prior year by \$577. The emergency 911 fund was increased by \$90 to account for prior year voided checks.

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

For The Year Ended June 30, 2017

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EDMONSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 930,000	\$ 930,000	\$ 992,686	\$ 62,686
In Lieu Tax Payments	111,000	128,647	142,662	14,015
Licenses and Permits	25,000	25,000	24,784	(216)
Intergovernmental	989,050	1,050,551	1,080,571	30,020
Charges for Services	11,000	11,000	11,448	448
Miscellaneous	49,500	49,500	52,039	2,539
Interest	5,000	5,000	3,468	(1,532)
Total Receipts	<u>2,120,550</u>	<u>2,199,698</u>	<u>2,307,658</u>	<u>107,960</u>
DISBURSEMENTS				
General Government	1,421,110	1,414,275	1,476,344	(62,069)
Protection to Persons and Property	314,600	309,961	205,684	104,277
General Health and Sanitation	78,450	96,060	70,786	25,274
Recreation and Culture	13,000	13,314	14,382	(1,068)
Debt Service	25,001	86,502	184,382	(97,880)
Administration	344,500	369,614	359,340	10,274
Total Disbursements	<u>2,196,661</u>	<u>2,289,726</u>	<u>2,310,918</u>	<u>(21,192)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(76,111)</u>	<u>(90,028)</u>	<u>(3,260)</u>	<u>86,768</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	171,960	171,960	172,462	502
Transfers To Other Funds	(360,539)	(360,539)	(310,636)	49,903
Total Other Adjustments to Cash (Uses)	<u>(188,579)</u>	<u>(188,579)</u>	<u>(138,174)</u>	<u>50,405</u>
Net Change in Fund Balance	(264,690)	(278,607)	(141,434)	137,173
Fund Balance - Beginning (Restated)	<u>264,690</u>	<u>295,790</u>	<u>692,122</u>	<u>396,332</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 17,183</u>	<u>\$ 550,688</u>	<u>\$ 533,505</u>

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

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,271,419	\$ 1,271,419	\$ 1,455,155	\$ 183,736
Miscellaneous	2,000	2,000	19,998	17,998
Interest	3,000	3,000	8,712	5,712
Total Receipts	<u>1,276,419</u>	<u>1,276,419</u>	<u>1,483,865</u>	<u>207,446</u>
DISBURSEMENTS				
Roads	1,012,807	1,004,437	1,082,123	(77,686)
Debt Service	66,000	66,000	35,953	30,047
Capital Projects	30,612	30,612	20,520	10,092
Administration	167,000	175,370	159,605	15,765
Total Disbursements	<u>1,276,419</u>	<u>1,276,419</u>	<u>1,298,201</u>	<u>(21,782)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>185,664</u>	<u>185,664</u>
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds			300,000	300,000
Transfers To Other Funds	(171,960)	(171,960)	(171,960)	
Total Other Adjustments to Cash (Uses)	<u>(171,960)</u>	<u>(171,960)</u>	<u>128,040</u>	<u>300,000</u>
Net Change in Fund Balance	(171,960)	(171,960)	313,704	485,664
Fund Balance - Beginning (Restated)	<u>171,960</u>	<u>171,960</u>	<u>653,341</u>	<u>481,381</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 967,045</u>	<u>\$ 967,045</u>

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

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 93,000	\$ 93,000	\$ 90,075	\$ (2,925)
Charges for Services	13,100	13,100	13,067	(33)
Interest	25	25	41	16
Total Receipts	<u>106,125</u>	<u>106,125</u>	<u>103,183</u>	<u>(2,942)</u>
DISBURSEMENTS				
Protection to Persons and Property	351,400	344,336	288,546	55,790
Administration	10,400	17,000	15,395	1,605
Total Disbursements	<u>361,800</u>	<u>361,336</u>	<u>303,941</u>	<u>57,395</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(255,675)</u>	<u>(255,211)</u>	<u>(200,758)</u>	<u>54,453</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	255,675	255,675	180,000	(75,675)
Transfers To Other Funds			(464)	(464)
Total Other Adjustments to Cash (Uses)	<u>255,675</u>	<u>255,675</u>	<u>179,536</u>	<u>(76,139)</u>
Net Change in Fund Balance		464	(21,222)	(21,686)
Fund Balance - Beginning (Restated)			<u>30,758</u>	<u>30,758</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 464</u>	<u>\$ 9,536</u>	<u>\$ 9,072</u>

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

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 20,000	\$ 20,000	\$ 7,884	\$ (12,116)
Interest	25	25	1	(24)
Total Receipts	<u>20,025</u>	<u>20,025</u>	<u>7,885</u>	<u>(12,140)</u>
DISBURSEMENTS				
General Health and Sanitation	19,014	19,014	14,261	4,753
Social Services	8,000	8,000	4,350	3,650
Recreation and Culture	1,000	1,000		1,000
Total Disbursements	<u>28,014</u>	<u>28,014</u>	<u>18,611</u>	<u>9,403</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(7,989)</u>	<u>(7,989)</u>	<u>(10,726)</u>	<u>(2,737)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	7,989	7,989	12,989	5,000
Total Other Adjustments to Cash (Uses)	<u>7,989</u>	<u>7,989</u>	<u>12,989</u>	<u>5,000</u>
Net Change in Fund Balance			2,263	2,263
Fund Balance - Beginning			<u>1,274</u>	<u>1,274</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,537</u>	<u>\$ 3,537</u>

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

	ROOM TAX FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 85,000	\$ 85,000	\$ 50,902	\$ (34,098)
Total Receipts	<u>85,000</u>	<u>85,000</u>	<u>50,902</u>	<u>(34,098)</u>
DISBURSEMENTS				
Recreation and Culture	85,000	85,000	50,675	34,325
Total Disbursements	<u>85,000</u>	<u>85,000</u>	<u>50,675</u>	<u>34,325</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>227</u>	<u>227</u>
Net Change in Fund Balance			227	227
Fund Balance - Beginning			<u>18,312</u>	<u>18,312</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,539</u>	<u>\$ 18,539</u>

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

	PARKS AND RECREATION FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 27,800	\$ 27,800	\$ 27,076	\$ (724)
Interest	25	25	16	(9)
Total Receipts	<u>27,825</u>	<u>27,825</u>	<u>27,092</u>	<u>(733)</u>
DISBURSEMENTS				
Recreation and Culture	110,900	131,641	127,806	3,835
Administration	13,800	10,706	10,702	4
Total Disbursements	<u>124,700</u>	<u>142,347</u>	<u>138,508</u>	<u>3,839</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(96,875)</u>	<u>(114,522)</u>	<u>(111,416)</u>	<u>3,106</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	96,875	96,875	117,647	20,772
Transfers To Other Funds	<u> </u>	<u> </u>	<u>(38)</u>	<u>(38)</u>
Total Other Adjustments to Cash (Uses)	<u>96,875</u>	<u>96,875</u>	<u>117,609</u>	<u>20,734</u>
Net Change in Fund Balance		(17,647)	6,193	23,840
Fund Balance - Beginning			<u>59</u>	<u>59</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (17,647)</u>	<u>\$ 6,252</u>	<u>\$ 23,899</u>

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

	EMERGENCY 911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 90,000	\$ 90,000	\$ 89,198	\$ (802)
Interest	300	300	86	(214)
Total Receipts	<u>90,300</u>	<u>90,300</u>	<u>89,284</u>	<u>(1,016)</u>
DISBURSEMENTS				
Protection to Persons and Property	60,300	60,300	39,628	20,672
Administration	60,000	60,000		60,000
Total Disbursements	<u>120,300</u>	<u>120,300</u>	<u>39,628</u>	<u>80,672</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>49,656</u>	<u>79,656</u>
Net Change in Fund Balance	(30,000)	(30,000)	49,656	79,656
Fund Balance - Beginning (Restated)	<u>30,000</u>	<u>30,000</u>	<u>47,046</u>	<u>17,046</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 96,702</u>	<u>\$ 96,702</u>

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

EMERGENCY 911 WIRELESS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 117,345	\$ 117,345	\$ 163,991	\$ 46,646
Intergovernmental	60,000	60,000		(60,000)
Miscellaneous			28,397	28,397
Interest	500	500	155	(345)
Total Receipts	<u>177,845</u>	<u>177,845</u>	<u>192,543</u>	<u>14,698</u>
DISBURSEMENTS				
Protection to Persons and Property	156,900	157,459	145,083	12,376
Administration	20,945	20,386	17,237	3,149
Total Disbursements	<u>177,845</u>	<u>177,845</u>	<u>162,320</u>	<u>15,525</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>30,223</u>	<u>30,223</u>
Net Change in Fund Balance			30,223	30,223
Fund Balance - Beginning			<u>142,059</u>	<u>142,059</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 172,282</u>	<u>\$ 172,282</u>

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

FEDERAL COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Intergovernmental	\$ 297,000	\$ 297,000	\$	\$ (297,000)
Total Receipts	<u>297,000</u>	<u>297,000</u>		<u>(297,000)</u>
DISBURSEMENTS				
Capital Projects	<u>297,000</u>	<u>297,000</u>		<u>297,000</u>
Total Disbursements	<u>297,000</u>	<u>297,000</u>		<u>297,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
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, 2017

Note 1. Budgetary Information

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

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

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

Note 2. Excess of Disbursements Over Appropriations

General fund general government exceeded budgeted appropriations by \$62,069 because the fiscal court did not budget \$115,000 disbursed by a lender directly to the vendor for a radio system. General fund recreation and culture exceeded budgeted appropriations by \$1,068 because a theatre system purchased for a park was misclassified as general fund administration. General fund debt service exceeded budgeted appropriations by \$97,880 because the fiscal court did not budget \$99,967 in debt service payments on a general obligation refunding lease paid directly to the lender by Administrative Office of the Courts. Road fund roads exceeded budgeted appropriations by \$77,686 because the fiscal court did not budget \$300,000 disbursed by a lender directly to the vendor for new trucks.

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

For The Year Ended June 30, 2017

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EDMONSON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2017

The fiscal court reports the following Schedule of Capital Assets:

	(*Restated) Beginning Balance	Additions	Deletions	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Land	\$ 675,269	\$	\$	\$ 675,269
Buildings and Land Improvements	3,008,705			3,008,705
Equipment and Vehicles*	1,890,062	486,695		2,376,757
Infrastructure*	<u>1,821,172</u>	<u> </u>	<u> </u>	<u>1,821,172</u>
 Total Capital Assets	 <u>\$ 7,395,208</u>	 <u>\$ 486,695</u>	 <u>\$</u>	 <u>\$ 7,881,903</u>

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

June 30, 2017

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as supplementary 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

Note 2. Prior Period Adjustments

The beginning balances reported on the Schedule of Capital Assets for equipment and vehicles and infrastructure have been restated. Equipment and vehicles increased by \$29,288 for a vehicle erroneously not included in the prior year. Infrastructure decreased by \$389,450 due to prior year errors that included roads below the capitalization threshold.

**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, 2017, 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 May 1, 2018.

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 2017-001, 2017-002, 2017-005, 2017-006, and 2017-011 to be material weaknesses.



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

Internal Control Over Financial Reporting (Continued)

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 2017-003, 2017-004, 2017-007, 2017-008, and 2017-010 to be significant deficiencies.

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 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-009, 2017-010, and 2017-011.

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

May 1, 2018

**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

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**EDMONSON COUNTY
SCHEDULE OF FINDINGS AND RESPONSES**

For The Year Ended June 30, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 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 2016-003. The Edmonson County Fiscal Court lacks adequate segregation of duties over receipts, disbursements, cash (specifically bank reconciliations), and capital assets. The Edmonson County Treasurer was responsible for recording receipts and disbursements in the ledgers, preparing checks, signing checks, and preparing bank reconciliations. Additionally, the county treasurer prepared the capital asset schedule, monthly, quarterly, and annual financial reports on behalf of the fiscal court. The fiscal court failed to establish adequate management oversight to ensure proper recording of receipts, disbursements, and capital assets and the completion of accurate bank reconciliations.

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 2017-002.
- The fiscal court did not perform accurate bank reconciliations as reported in finding 2017-003.
- The fiscal court did not properly reconcile the payroll revolving account as reported in finding 2017-004.
- The fiscal court did not have adequate internal controls over disbursements as reported in finding 2017-010.
- The fiscal court did not maintain complete and accurate capital asset schedules as reported in finding 2017-011.

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.

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: Treasurer was terminated effective May 14, 2018. We are currently restructuring our office to have better internal control and implementing a more structured and strict check and balance system to reduce the amount of errors found in our audit.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information

The Edmonson County Fiscal Court approved the fourth quarter financial report prepared and submitted by the Edmonson County Treasurer on July 7, 2017. The county treasurer submitted this report to the Department for Local Government (DLG) on August 8, 2017, by exporting an electronic file. However, transfers out and disbursements in this electronic file did not agree to the report approved by the fiscal court due to the county treasurer removing transfers out in the amount of \$4,000 and voiding checks in the amount \$1,421 after presenting the report to the fiscal court. Neither the report nor the electronic file was reviewed by another employee to ensure accuracy. The fourth quarter financial report was misstated for original budget, budget amendments, budget transfers, beginning book balance, receipts, disbursements, transfers in, transfers out, and ending book balance. The misstatements were as follows:

- The total original budgeted receipts were understated by \$42,353 for all operating funds since the recorded amount was \$4,625,386 while DLG approved the budgeted receipts per the original budget at \$4,667,739. This misstatement was a combination of the budgeted receipts of the general fund being overstated by \$17,647 and the emergency 911 fund being understated by \$60,000.
- The total amendments to the budgeted receipts were understated by \$43,854 for all operating funds since the recorded amount was \$66,394 while DLG approved the amendments to the budgeted receipts at \$110,248. This misstatement was a combination of the amendments to the budgeted receipts of the general fund being understated by \$61,501 and the parks and recreation fund being overstated by \$17,647.
- The total original budgeted disbursements were overstated by \$1,000 for all operating funds since the recorded amount was \$4,668,739 while DLG approved the budgeted disbursements per the original budget at \$4,667,739. This misstatement was to the original budgeted disbursements of the road fund.
- The total amendments to budgeted disbursements was understated by \$61,501 for all operating funds since the recorded amount was \$48,747 while DLG approved the amendments to budgeted disbursements at \$110,248. This misstatement was a combination of the amendments to the budgeted disbursements of the general fund being understated by \$43,854 and the parks and recreation fund being understated by \$17,647.
- Budgeted transfers for disbursements of the general fund were understated by \$35,294 and the parks and recreation fund were overstated by \$35,294.
- The beginning book balance as of July 1, 2016 was overstated by \$689 for all operating funds since the recorded amount was \$1,470,660 while the audited beginning book balance was \$1,469,971. This misstatement was a combination of the beginning balance of the general fund and the emergency 911 fund being understated by \$916 and \$90, respectively, due to voiding outstanding prior year checks and the room tax fund being overstated by \$1,695 due to unposted disbursements in fiscal year 2016.
- Receipts were understated by \$284 for all operating funds since the recorded amount was \$4,162,160 while audited receipts were \$4,162,444. This misstatement of receipts was due to recreational tax being posted incorrectly in the general fund as transfers in.
- Disbursements were overstated by \$1,903 for all operating funds since the recorded amount was \$3,809,737 while audited disbursements were \$3,807,834. This misstatement was a combination of the disbursements of the general fund being understated by \$304 in unrecorded gross payroll disbursements due to not recording a transfer to the payroll revolving account; the general fund, the road fund, and the jail fund being overstated by \$1,079, \$170, and \$173, respectively, due to voiding outstanding checks between the fourth quarter financial report approved by the fiscal court on July 7, 2017, and the exports file submitted to DLG on August 8, 2017; and the general fund, the road fund, and the parks and recreation fund being overstated by \$36, \$124, and \$625, respectively, due to voiding outstanding checks during the fiscal year and not removing them from the quarter financial report.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information (Continued)

- Transfers in were overstated by \$8,682 for all operating funds since the recorded amount was \$491,780 while audited transfers in were \$483,098. This misstatement is a combination of the transfers in of the general fund and the emergency 911 fund being overstated by \$284 and \$4,000, respectively, due to posting a bank error as a transfers in and the general fund, the parks and recreation fund, and the emergency 911 wireless fund being overstated by \$199, \$199, and \$4,000, respectively, due to recording transfers in that did not occur.
- Transfers out were overstated by \$4,682 for all operating funds since the recorded amount was \$487,780 while audited transfers out were \$483,098. This misstatement is a combination of the transfers out of the parks and recreation fund being overstated by \$284 due to posting a bank error as a transfers out and the general fund and the emergency 911 fund being overstated by \$199 and \$4,199, respectively, due to recording transfers out that did not occur.
- The ending book balance as of June 30, 2017, was overstated by \$2,503 for all operating funds since the recorded amount was \$1,827,084 while the audited ending book balance was \$1,824,581. This misstatement was a combination of the ending balance of the general fund, the room tax fund, and the emergency 911 wireless fund being overstated by \$304, \$1,695, and \$4,000, respectively, due to recording deposits in transit that did not exist; the parks and recreation fund being understated by \$84 due to the recorded bank balance not agreeing to the bank statement; the parks and recreation fund being understated by \$405 due to reducing the recorded bank balance for outstanding checks that have not cleared the bank; the emergency 911 fund being understated by \$199 due to reducing the bank balance for a transfer out that did not occur; the general fund, the road fund, the jail fund, the parks and recreation fund, and the emergency 911 fund being understated by \$1,995, \$170, \$173, and \$90, respectively, due to voiding outstanding checks; and the general fund, road fund, and the parks and recreation fund being understated by \$36, \$124, and \$220, respectively, due to voiding outstanding checks during the fiscal year and not removing them from the quarterly financial report.
- General fund disbursements general government courthouse renewal and repairs AOC line item was misstated by \$5,000 due to recording a transfer to the payroll revolving account to this line item. This amount was reclassified to general fund disbursements administration.
- General fund disbursements administration employer's share social security was misstated by \$8,002 due to recording the remaining payment on a radio system for the sheriff's department to this line item. This amount was reclassified to general fund disbursements general government.
- General fund disbursements administration workman's compensation line item was misstated by \$4,000 due to recording a transfer to the payroll revolving account to this line item. This amount was not reclassified since both line items are general fund disbursements administration.
- General fund disbursements administration workman's compensation line item was misstated by \$2,000 due to recording the remaining balance on a backyard theatre system for the parks department to this line item. This amount was reclassified to general fund disbursements recreation and culture.
- Road fund disbursements debt service principal was misstated by \$8,850 due to recording the remaining payment on new trucks to this line item. This amount was reclassified to road fund disbursements roads because amounts paid to vendor to purchase a truck should not be recorded to debt service.

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

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Edmonson County Fiscal Court Did Not Accurately Report Financial Information (Continued)

because the fourth quarter financial report was not reviewed by another employee to ensure accuracy. The county treasurer stated she misclassified disbursements because she booked the disbursements to line items that had sufficient budget available.

Because of this weak internal control system, the amounts reported on the quarterly financial reports are not always in agreement with the actual budgeted amounts and the actual transaction amounts. When the amounts reported on the quarterly 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 disbursements being posted to the wrong line items reducing the usefulness of the financial reports to the public as well as to the fiscal court. The fiscal court needs accurate financial information to oversee the financial condition of the government as well as to prepare future budgets.

KRS 68.020(4) states the county treasurer, “shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.” KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the DLG’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.” 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. 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: Have implemented stronger internal controls.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Edmonson County Fiscal Court Did Not Perform Accurate Bank Reconciliations

Bank reconciliations provided for the audit did not accurately reflect the Edmonson County Fiscal Court's financial condition. Bank reconciliations provided for the audit included inaccurate balances because they did not include all necessary information. Errors included incorrect beginning balances, voided checks not being removed from the financial report, voided checks being included on the outstanding check list, voided checks being deducted from the bank balance, and actual outstanding checks being omitted from the outstanding check lists.

In addition, the reconciliation section included on the financial cover sheet of the quarterly financial report did not agree to the bank reconciliations prepared by the county treasurer. Errors include incorrect bank balances, deposits in transit being included that did not exist, ending cash balances not agreeing to the bank reconciliation prepared by the county treasurer, and ending cash balances not agreeing to the cash balance per the financial report section. The following errors were noted:

- The bank balance per bank statement did not agree to the bank balance per the fourth quarter financial report or bank reconciliation for the parks and recreation fund and emergency 911 fund. The actual bank balance for June 30, 2017, was more than reported on the fourth quarter financial report and bank reconciliations by \$489 and \$199, respectively. In addition, the bank balance per bank statements did not agree to the quarterly financial reports for the second quarter and third quarter for the general fund and room tax fund.
- Total deposits in transit of \$5,999 that did not exist were erroneously included on the fourth quarter financial report to balance the general fund, room tax fund, and parks and recreation fund. Total deposits in transit of \$629, \$124, and \$4,393 that did not exist were also included on the first, second, and third quarter financial reports, respectively.
- The ending cash balances per the fourth quarter financial report did not agree to the cash balances per the bank reconciliations for the general fund, room tax fund, and emergency 911 wireless fund. The actual ending cash balance for June 30, 2017, was less than reported on the fourth quarter financial report by \$304, \$1,695, and \$4,000, respectively. In addition, the cash balances per the bank reconciliations did not agree to the ending cash balance per the quarter financial reports for the road fund in the first quarter, and the general fund, room tax fund, and emergency 911 wireless fund in the third quarter.
- The ending cash balances per the reconciliations included on the financial cover sheet of the quarterly financial reports did not agree to the cash balances per the financial report section for the room tax fund by \$1,641 in the first quarter and the road fund by \$7 in the second quarter.

The bank reconciliations and financial cover sheet of the quarterly financial reports were not reviewed by another employee to ensure accuracy. The fiscal court failed to establish appropriate oversight of the county treasurer's reconciliation activities. The fiscal court did not establish relevant review procedures to determine if the county treasurer was submitting complete and accurate reconciliations on a monthly basis as well as correctly reporting amounts on the quarterly financial reports.

The fiscal court's failure to establish a review of the county treasurer's reconciliations resulted in incorrect financial reporting for the fiscal year ending June 30, 2017. The fiscal court also did not have accurate financial information in order to plan for the subsequent fiscal year. In addition, lack of accurate reconciliations allowed the parks and recreation fund to be overdrawn by \$585 on July 7, 2016, resulting in a \$25 overdraft fee.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 The Edmonson County Fiscal Court Did Not Perform Accurate Bank Reconciliations (Continued)

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires officials handling public funds to prepare monthly bank reconciliations. The example of the financial cover sheet of the quarterly financial report included in the manual indicates that the bank reconciliation should include the bank balance and a listing of all outstanding reconciling items (deposits in transit, outstanding checks, investments, etc.). Strong internal controls over the bank reconciliations should be implemented to ensure that proper amounts are reported to the fiscal court monthly and on the financial cover sheet of the financial reports quarterly.

We recommend the fiscal court establish oversight procedures for all reconciliations and financial reports prepared by the county treasurer to be reviewed by an independent employee to verify accuracy and completeness.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: Current reconciliations are being processed for all banking statement.

2017-004 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account

The Edmonson County Fiscal Court's payroll revolving account did not reconcile to a zero balance as of June 30, 2017, and the remaining balance could not be readily explained. The bank balance as of June 30, 2017, was \$41,667, with outstanding checks of \$1,270, and outstanding liabilities of \$35,651, leaving an unexplained balance of \$4,746 for fiscal year 2017. The payroll revolving account was not properly reconciled every month. The bank balance on the bank reconciliations for nine months did not agree to the bank statements. The actual bank balance for June 30, 2017, was \$5,335 more than reported on the bank reconciliation. The outstanding liabilities reported by the county treasurer were also misstated by \$4,492. The bank reconciliations were not reviewed by another employee to ensure accuracy.

The reconciliation process also did not include reconciling the appropriation expenditure ledger and warrant distribution ledger to the bank. The following recording errors were noted on the appropriation expenditure ledger and warrant distribution ledger for the payroll revolving account:

- Retirement payments for May and June 2017 were booked incorrectly by \$1,417 because credits taken on retirement reports were not deducted.
- A check written July 1, 2016, for \$2,095 for state tax withholdings was not recorded.
- A check written for \$132 was recorded to the wrong life insurance line item.
- A check written for \$4,806 for state tax withholdings was misclassified as federal tax deposit.
- A check written for \$2,526 for state tax withholdings was recorded twice.
- Two payments totaling \$28,020 for federal tax deposits were dated 3/16/2014 instead of 3/16/2017 so the transactions were not booked to the appropriation expenditure ledger.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account
 (Continued)

In addition, during fiscal year 2017 the amount transferred to the payroll revolving account from the operating funds did not agree to the total payroll per payroll register. Actual transfers to the payroll revolving account were \$30,781 more than the total payroll per payroll register. The following five checks were written to the payroll revolving account without any supporting documentation:

- Check written from the general fund on October 6, 2016, for \$10,000 to cover overdraft.
- Check written from the general fund on March 10, 2017, for \$14,541 to cover federal tax owed for fiscal year 2016.
- Check written from the jail fund on March 10, 2017, for \$209 to cover federal tax owed for fiscal year 2016.
- Check written from the general fund on April 24, 2017, for \$4,000 for unknown reason.
- Check written from the general fund on May 3, 2017, for \$5,000 to cover shortage.

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 county treasurer incorrectly prepared the bank reconciliations, appropriation expenditure ledger, and warrant distribution ledger. The errors were not detected because the reconciliations and ledgers were not reviewed by another employee to ensure accuracy.

The unreconciled payroll revolving account resulted in the fiscal court having insufficient funds to meet payroll requirements. The payroll revolving account was overdrawn by \$5,112 on October 15, 2016, resulting in a \$25 overdraft fee. In addition, the unreconciled payroll revolving account and lack of oversight over the payroll revolving account resulted in the following:

- The fiscal court paid \$16,249 more for withholdings and matching than amount per payroll register.
- The fiscal court paid \$363 more for gross payroll than the amount per payroll register.
- The fiscal court paid penalties of \$3,329 for late federal tax deposits.
- The fiscal court paid the employee's share of retirement without properly withholding from seven employees' payroll checks as reported in finding 2017-006.
- The fiscal court improperly withheld employee's share of retirement from two employees' payroll checks as reported in finding 2017-006.
- The fiscal court paid \$520 on a life insurance policy for 11 months after the employee cancelled the policy.
- The fiscal court withheld \$182 too much for the employee's share for vision insurance.
- The fiscal court paid \$1,428 for the employee's share for life, dental, and health insurances without properly withholding from 11 employees' payroll checks as reported in finding 2017-008.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires 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 zero or a small reserve balance. 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).

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Edmonson County Fiscal Court Did Not Properly Reconcile The Payroll Revolving Account
(Continued)

In the future, we recommend the fiscal court implement strong internal controls over the payroll revolving account. These controls should include reconciling the payroll revolving account balance to zero each month, bank reconciliations reviewed by an independent employee to verify accuracy and completeness, reconciling the appropriation expenditure ledger and warrant distribution ledger to the bank, 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 authorities 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: Finance Officer is reconciling retirement payments prior to payment being submitted with Treasurer reviewing. Finance Officer is reconciling payroll report after each payroll to ensure the proper amounts are being deposited into Payroll Account to balance with Treasurer. Payroll is currently out sourced, they are now responsible for all tax reporting liabilities and payments. All benefits and retirement payments are now being coded by Finance Officer with Treasurer reviewing and processing payments to ensure there is more internal control. All discrepancies have been corrected with benefits effective February 2018.

2017-005 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll

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 2017-004.
- The fiscal court did not properly reconcile retirement reports with payroll reports as reported in finding 2017-006.
- The fiscal court did not pay tax liabilities timely resulting in penalties and interest as reported in finding 2017-007.
- The fiscal court did not properly withhold employees' share of insurance as reported in finding 2017-008.
- Deferred compensation balance is not being counted as 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's timesheet was not signed by the supervisor.
- Road employees received ten hours holiday pay when administrative code states all employees are to only receive eight for holidays.
- Of individuals selected for testing, one employee's timesheet did not agree with the payroll earnings report. The employee was paid \$50 more for overtime hours than overtime hours worked per timesheet.
- County judge/executive's office employees are not clocking in and out with a time clock as required by the Edmonson County Administrative Code.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll (Continued)

- The county treasurer has not been working 40 hours every week but has been receiving full salary pay. For pay periods ending February 3, 2017, and March 3, 2017, the county treasurer's time cards showed hours worked as 76 and 77, respectively, yet the payroll report showed the county treasurer was paid for 80 hours each pay period.

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.

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.

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." However, on May 23, 2016, the fiscal court approved installing a time clock "in the Judge's Office to maintain time worked by the office's two employees."

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."

The *Edmonson County Administrative Code* section 340.4 states, "[a]ll county employees will be paid eight (8) hours holiday pay observed by the County Judge/Executive office of the given year. When it is essential for an employee to work on a declared holiday, he/she shall be paid time and a half hourly pay not to exceed holiday pay of twelve hours at time and a half."

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.
- All employees should only receive eight hours of holiday pay.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Edmonson County Fiscal Court Lacks Adequate Controls Over Payroll (Continued)

- An individual independent of the payroll process should review payroll transactions, including payroll checks, 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 administrative code and county judge/executive's office employees clock in and out for the day using a time clock.
- Ensure all full-time employees are working their correct amount of time to receive their salary pay.

By implementing the above recommendations, the fiscal court can strengthen its internal control system over payroll and timekeeping and reduce the risks of noncompliance 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 currently being processed by an outside company who is now responsible for tax reporting and liabilities. The Finance Officer is reviewing and balancing to their reports on a pay period basis and monthly basis. The correct amounts of insurance is being withheld from employee pay, and benefit bills being reconciled prior to payment being submitted. Updated benefit forms are now up to date on all employees. All aspects of payroll are being reconciled, balanced and reviewed by Finance Officer and Treasurer.

2017-006 The Edmonson County Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports

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 for two of 18 employees tested.
- Two employees had the additional 1 percent employee contribution for employees hired on or after September 1, 2008, withheld from their wages even though they were hired before September 1, 2008.
- One employee did not have the additional 1 percent employee contribution for employees hired on or after September 1, 2008, withheld from their wages even though they were hired after September 1, 2008.
- One employee had withholdings and matching reported on the monthly CERS reports, but correct amounts were not withheld from the employee's wages. Only the additional 1 percent was withheld instead of 6 percent.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Edmonson County Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

- One employee had the 5 percent employee contribution withheld from his wages even though he did not participate in CERS because he was a Kentucky Retirement System retiree.
- For five part-time employees, retirement was calculated and paid on the wages reported on the monthly CERS report. The wages reported agreed to the payroll reports, but retirement was not withheld from the employees' paychecks. The fiscal court's records indicate these employee worked under 100 hours per month and did not participate in retirement; therefore, retirement should not have been paid on these employees.
- Six employees' wages were included on the monthly CERS report that were not on the payroll earning report. The fiscal court paid employer's share of retirement on one of these individuals.
- The employer's share of retirement was calculated wrong on the payroll reports and the wrong amounts were transferred over to the payroll revolving account. The percentage for employer's share of retirement was 18.68 for fiscal year 2017, however, the employer's share was being figured with previous year's percentages on some of the payroll reports.

The fiscal court did not devote sufficient resources to 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. 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. In addition, retirement withheld from the employees at the wrong rate has been noted and the employees are due a refund.

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 states "[e]ach employee shall, commencing on August 1, 1990, contribute, for each pay period for which he receives compensation, five percent (5%) of his creditable compensation[.]" and "[t]he agency reporting official of a participating county shall cause to be deducted from the 'creditable compensation' of each employee for each and every payroll period subsequent to the date the county participated in the system the contribution payable by the member as provided in KRS 78.510 to 78.852. The agency reporting official shall promptly pay the deducted employee contributions to the system in accordance with KRS 78.625." Furthermore, KRS 61.702(2)(b)(1.) states "[e]ach employer described in paragraph (a) of this subsection shall deduct from the creditable compensation of each member having a membership date on or after September 1, 2008, an amount equal to one percent (1%) of the member's creditable compensation. The deducted amounts shall be credited to accounts established pursuant to 26 U.S.C. sec. 401(h), within the funds established in KRS 16.510, 61.515, and 78.520."

In order to strengthen internal controls over retirement, we recommend an individual independent of the payroll process reconcile the monthly retirement reports to monthly payroll summaries. 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.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Edmonson County Fiscal Court Did Not Properly Reconcile Retirement Reports With Payroll Reports (Continued)

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 by the Finance Officer with the Treasurer reviewing.

2017-007 The Edmonson County Fiscal Court Did Not Pay Tax Liabilities Timely Resulting In Penalties And Interest

During fiscal year 2017, federal tax withholdings and employer contributions were not properly turned over to the Internal Revenue Service (IRS) timely. For the pay periods from July 3, 2016 through March 13, 2017, payments for federal tax withholdings and employer contributions were being misapplied to the amounts due for prior pay periods. When the fiscal court failed to make a federal payment in the previous fiscal year, the IRS misapplied current payments to previous pay periods until the fiscal court made an additional payment on March 13, 2017, to cover the payment missed. Additionally, the state tax return for February 1 to 15, 2017, was filed in August 2017. Local taxes were computed incorrectly and the fiscal court is paying city tax on four employees that was not withheld from the employees' checks. Eleven of 12 employees tested had the incorrect city tax withheld from their paychecks. For the 12 employees tested, calculated city tax was \$198, but city tax withheld was \$66, for a difference of \$132.

The Edmonson County Fiscal Court failed to make a federal tax payment in the previous fiscal year causing the IRS to misapply current payments to previous pay periods. 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. 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 \$3,329 to the IRS due to late payments.

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.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-007 The Edmonson County Fiscal Court Did Not Pay Tax Liabilities Timely Resulting In Penalties And Interest (Continued)

103 KAR 18:150 Section 2(4)(a) states in part, “any employer who withheld income tax of \$50,000 or more during the lookback period shall report and pay the tax twice monthly using Revenue Form K-1, ‘Employer's Return of Income Tax Withheld.’ Revenue Form K-1 and the income tax withheld during the first through the 15th day of each month of the calendar year shall be reported and paid on or before the 25th day of that month. Revenue Form K-1 and the income tax withheld during the 16th through the last day of each month of the calendar year shall be reported and paid on or before the tenth day of the following month.” 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 Finance Officer verifying and balancing.

2017-008 The Edmonson County Fiscal Court Did Not Properly Withhold Employees' Share Of Insurance

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 employee's share for vision, life, dental, and health insurances without properly withholding from the employees' payroll checks as follows:

- \$729 was paid on life insurance policies for four employees including \$317 on behalf of the county treasurer.
- \$492 was paid on dental insurance for three employees including \$166 on behalf of a magistrate.
- \$207 was paid on health insurance for two employees including \$140 on behalf of a magistrate.

In addition, the fiscal court withheld \$182 too much on vision insurance for two employees and the fiscal court paid \$520 on a life insurance policy for 11 months after the employee cancelled the policy.

The various insurance invoices are not compared to the employee withholding to ensure proper withholdings are being made from employees' paychecks. 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. Additionally, the fiscal court was required to transfer an additional \$30,781 to the payroll revolving account without documentation.

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.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-008 The Edmonson County Fiscal Court Did Not Properly Withhold Employees' Share Of Insurance
(Continued)

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

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: An internal detailed audit was completed by the Fiscal Court in February 2018 to ensure that all employees were having the correct amount of voluntary insurance amounts withheld from their paychecks. This has been corrected and is verified on a pay period basis to ensure proper amounts are being withheld.

2017-009 The Edmonson County Fiscal Court Was Not In Compliance With Their Section 218 Social Security Agreement

This is a repeat finding and was included in the prior year audit report as finding 2016-001. Prior year testing revealed the county treasurer (former finance officer) is now subject to Social Security withholdings since she moved into a new position as of January 2015. Two Edmonson County employees have not been subject to Social Security coverage upon approval by the State Social Security Office. The county judge/executive and county treasurer stated they had started paying FICA on the county treasurer starting December 7, 2016 pay check for pay period November 14, 2016 to November 25, 2016. They had not contacted the State Social Security Office to determine how to handle wages paid to employee from January 1, 2015 to November 13, 2016.

This noncompliance occurred due to failure to follow up on the prior year audit report finding. No documented evidence existed that the prior year finding had been addressed to properly withhold, report, and pay FICA on the county treasurer's wages for the period January 1, 2015 to November 13, 2016.

Edmonson County's Section 218 Agreement with the State Social Security Office revealed that on February 7, 2007, Modification 855 providing Social Security/Medicare coverage for the employees of the County of Edmonson was approved and became in force on April 1, 2007. The employees who voted no remained in the original retirement coverage group. As of July 1, 2014, only two of these employees remained employed by the fiscal court. Since Social Security coverage is contingent upon the position and not the employee, as long as the two employees who opted to waive Social Security remain in the position they held when the election was conducted, they are not subject to Social Security coverage. If they assume any other position with this employer, they are subject to Social Security coverage and become part of the coverage group who received Social Security coverage. In January 2015, one of these employee moved to a new position as noted above.

We recommend the fiscal court contact the State Social Security Office to determine how to handle wages paid to the county treasurer from January 1, 2015 to November 13, 2016.

Views of Responsible Official and Planned Corrective Action:

County Judge/Executive's Response: All county employees are currently in compliance under The Social Security Agreement. We are also researching an isolated incident that was not in compliance and correcting it.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-010 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 report as finding 2016-002. Internal controls over disbursements were not operating as intended during fiscal year 2017. The following control deficiencies were noted:

- The fiscal court approved one claim without sufficient budget available in the parks and recreation fund for the recreation supplies and equipment line item when the claim was approved and paid.
- One invoice of \$30 for travel reimbursement on a meal while attending training was not detailed. Documentation included the signed credit card slip only.
- Nine disbursements tested were recorded to the wrong account codes. One of these payments had two different check numbers when comparing to the warrant distribution ledger and the bank statement. This was check #23501 on the warrant distribution ledger was actually check #23502 on the bank statement copy of the cancelled check.
- Seven disbursements tested were not presented to the fiscal court.
- One disbursement tested for asphalt in the amount of \$5,917 was paid to vendor twice in error. This error was later credited to the fiscal court's account; however, the vendor was still showing the fiscal court owing an additional \$15,038.

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.

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. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which states "purchases shall not be made without approval by the Judge/Executive (or designee), and/or 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."

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 the county judge/executive and co-signed by the county treasurer.

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: Finance Officer and Treasurer both double check all bills to include proper documentation, as well as both are double checking account codes for proper codes.

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

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-011 The Edmonson County Fiscal Court Did Not Maintain Complete And Accurate Capital Asset Schedules In Compliance With Regulatory Requirements

Material weaknesses existed over the reporting of capital assets and infrastructure of Edmonson County. The schedule of capital assets and infrastructure for the audit period did not recognize all asset purchases that occurred throughout the year and the beginning balances did not agree to the prior year schedule of capital assets ending balances.

The county treasurer is responsible for maintaining the schedule and had several workbooks from the former county treasurer in which she included additions and deletions from the prior year in error. Vehicles and equipment additions were understated by \$179,795 for not including the purchase of a new radio system and a new computer aided dispatch system. Infrastructure had to be restated by \$389,450 due to errors in the prior year audit, including roads that did not meet the fiscal court's capitalization policy. In addition, the county treasurer included four vehicles totaling \$140,000 for the sheriff's office which were leased vehicles, not fiscal court owned vehicles. Two vehicles purchased in fiscal year 2018 were included in error and two more vehicles were added which did not meet the fiscal court's capitalization threshold. Furthermore, capital asset records did not include any supporting documentation, such as invoices, to support amounts recorded for assets included on the fiscal court's capital asset schedule.

The fiscal court lacks adequate controls over reporting of capital assets. Each department is required to submit inventory listings to the fiscal court; however, these were not reconciled with the capital asset schedules maintained by the county treasurer. The county treasurer stated she was never trained on how to properly maintain the capital asset 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. The uniform system of accounts is set forth in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "[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."

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 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 new Capitalization plan.

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

EDMONSON COUNTY FISCAL COURT

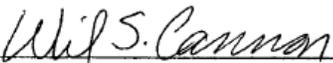
For The Year Ended June 30, 2017

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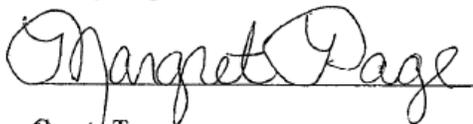
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
EDMONSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2017

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.



County Judge/Executive



County Treasurer