

**REPORT OF THE AUDIT OF THE
FORMER CARLISLE COUNTY
CLERK**

**For The Year Ended
December 31, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, Carlisle County Clerk
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former County Clerk of Carlisle County, Kentucky, for the year ended December 31, 2017, and the related notes to the financial statement.

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 laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. 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 County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

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The Honorable Greg Terry, Carlisle County Judge/Executive
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Members of the Carlisle 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 former Carlisle County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, 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 each fund of the former Carlisle County Clerk, as of December 31, 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 receipts, disbursements, and excess fees of the former Carlisle County Clerk for the year ended December 31, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of the former Carlisle County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 former Carlisle County Clerk's internal control over financial reporting and compliance.

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, Carlisle County Clerk
Members of the Carlisle County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

- 2017-001 The Former Carlisle County Clerk Overspent Available Funds For 2017
- 2017-002 The Former Carlisle County Clerk Had Weak Internal Controls Over Timekeeping
- 2017-003 The Former Carlisle County Clerk Lacked Internal Controls Over Financial Reporting
- 2017-004 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2016
- 2017-005 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received In 2017
- 2017-006 The Carlisle County Clerk's Office Lacks Adequate Segregation Of Duties
- 2017-007 The Former Carlisle County Clerk Did Not Comply With KRS 64.535 By Paying His Own Salary In Advance
- 2017-008 The Former Carlisle County Clerk Had A Disallowed Disbursement During 2017

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 27, 2018

CARLISLE COUNTY
 MICHAEL TOON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Revenue Supplement	\$	66,599	
State Fees For Services			1,395
Fiscal Court			10,928
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	272,379	
Usage Tax		523,253	
Tangible Personal Property Tax		621,757	
Notary Fees		409	
Ad Valorem Tax Liens		3,255	
Other-			
Marriage Licenses		1,538	
Deed Transfer Tax		14,218	
Delinquent Tax		30,236	1,467,045
<hr/>			
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		3,937	
Real Estate Mortgages		6,776	
Chattel Mortgages and Financing Statements		18,193	
Powers of Attorney		253	
Affordable Housing Trust		4,878	
All Other Recordings		3,696	
Charges for Other Services-			
Candidate Filing Fees		1,100	
Copywork		999	
Postage		1,080	40,912
<hr/>			
Other:			
Web Renewals		815	
Miscellaneous		1,125	1,940
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The accompanying notes are an integral part of this financial statement.

CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Receipts (Continued)

Interest Earned		\$ 118
Total Receipts		1,588,937

Disbursements

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$ 210,122		
Usage Tax	510,029		
Tangible Personal Property Tax	259,046		
Licenses, Taxes, and Fees-			
Delinquent Tax	3,018		
Legal Process Tax	5,792		
Affordable Housing Trust	4,878	\$ 992,885	

Payments to Fiscal Court:

Tangible Personal Property Tax	55,426		
Delinquent Tax	3,952		
Deed Transfer Tax	13,787	73,165	

Payments to Other Districts:

Tangible Personal Property Tax	283,071		
Delinquent Tax	13,727	296,798	

Payments to Sheriff 2,428

Payments to County Attorney 4,000

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries	111,600		
Contracted Services-			
Printing and Binding	1,100		
Software Support	8,400		
Materials and Supplies-			
Office Supplies	1,669		

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

CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Disbursements (Continued)

Other Charges-		
Conventions and Travel	\$ 4,395	
Postage	62	
Bad Debt Expense	181	
Telephone Expense	1,855	
Miscellaneous	1,643	
Salary Repayment to Fiscal Court	<u>6,844</u>	<u>\$ 137,749</u>
Total Disbursements		1,507,025
Less: Disallowed Disbursement		
Travel Mileage Reimbursement		<u>169</u>
Total Allowable Disbursements		<u>\$ 1,506,856</u>
Net Receipts		82,081
Less: Statutory Maximum		<u>79,008</u>
Excess Fees		3,073
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,052</u>	<u>7,652</u>
Excess Of Disbursements Over Receipts		<u>\$ (4,579)</u>

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

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office 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).

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have 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.

CARLISLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

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. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

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 members contribute five percent of their annual creditable compensation and 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 Board 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 nonhazardous 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.

Health Insurance Coverage

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

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

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

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

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

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 3. Deposits

The former Carlisle County Clerk 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 former county clerk 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.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former county clerk's deposits may not be returned. The former Carlisle County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2017

Assets

Cash in Bank		\$ 49,616
Deposit in Transit		13,642
Collected Receivables:		
Deposit Error	\$ 8,159	
Refund of Usage Tax Overpayment	2,090	
Refund of 2016 Usage Tax Paid From 2017 Fee Account	1,345	
Web Renewals	815	
Refund of Payroll Overpayment	755	
Reimbursement of Disallowed Disbursement	169	
Interest	5	13,338
Uncollected Receivables		
Salary Overpayment	150	150
Total Assets		76,747

Liabilities

Paid Obligations:		
Outstanding Checks	\$ 50,143	
Motor Vehicle Licenses	7,982	
Usage Tax	5,466	
Web Renewals	815	
Total Paid Obligations		64,406
Unpaid Obligations:		
Delinquent Tax-		
State Treasurer	846	
County	338	
Other Districts	2,288	
Sheriff	176	
County Attorney	251	
Refund of Partial Payment on Delinquent Taxes	207	
Refund of 2017 Usage Tax Paid From 2018 Fee Account	4,655	
Deposit Error Correction Due To 2018 Fee Account	8,159	
Total Unpaid Obligations		16,920
Total Liabilities		81,326
Total Fund Deficit as of December 31, 2017		\$ (4,579)

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

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The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, Carlisle County Clerk
Members of the Carlisle 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 Excess Fees - Regulatory Basis of the former Carlisle County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated November 27, 2018. The former Carlisle County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Carlisle County Clerk'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 former Carlisle County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Carlisle County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 a certain deficiency in internal control that we consider to be material weakness 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.

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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 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, and 2017-008 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Carlisle County Clerk'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The former Carlisle County Clerk's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Carlisle County Clerk'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

November 27, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The Former Carlisle County Clerk Overspent Available Funds For 2017

The former Carlisle County Clerk overspent the funds that were available to him in 2017. For calendar year 2017, the former county clerk had recognized receipts of \$1,588,937, and recognized disbursements of \$1,593,516. As a result, the former Carlisle County Clerk's 2017 fee account has a deficit of \$4,579, and the office is unable to pay its financial obligations.

This was due to the former county clerk having weak internal controls over his budget and bookkeeping. Monthly reconciliations were not accurate, which resulted in the former county clerk not knowing the true balance of his fee account. Additionally, the former county clerk deposited 2018 funds into the 2017 fee account, which masked the deficit amount.

Proper internal controls should ensure that disbursements do not exceed receipts. Proper internal controls should also ensure that receipts and disbursements ledgers, as well as monthly bank reconciliations are accurate. We recommend the former Carlisle County Clerk use his personal funds to pay the office's obligations that are currently outstanding.

Former County Clerk's Response: No Comment

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2017-002 The Former Carlisle County Clerk Had Weak Internal Controls Over Timekeeping

This is a repeat finding and was included in the prior year audit report as finding 2016-003. The former Carlisle County Clerk did not require employees to maintain timesheets: they only keep track of days off. Payroll summaries are signed by the employee, but do not have a breakdown of hours worked each day.

The former Carlisle County Clerk implemented a process that lacked internal controls. A lack of internal controls over timekeeping increases the risk of improperly compensating employees. Additionally, failure to record the number of hours worked each day results in the former county clerk being noncompliant with KRS 337.320. Strong internal controls over timekeeping are important to ensure that employees are being compensated for hours actually worked and that leave balances are being maintained and used in accordance with county policy. Also, KRS 337.320 states, "[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; [and] (b) [t]he hours worked each day and each week by each employee[.]"

We recommend the county clerk's office strengthen internal controls by requiring timesheets recording the hours worked by each employee, each pay period. These timesheets should be signed by the employees and approved by the county clerk. Approved timesheets should then be used to update and maintain employees' leave balances.

Former County Clerk's Response: No Comment

CARLISLE COUNTY
 MICHAEL TOON, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-003 The Former Carlisle County Clerk Lacked Internal Controls Over Financial Reporting

The former county clerk's fourth quarter financial report did not agree to his receipts or disbursements ledgers. Receipts in the amount of \$11,900 were omitted from the fourth quarter financial report. Additionally, the fourth quarter financial report included \$3,884 of disbursements that were not included on the disbursements ledger. During the course of the audit, the auditor recommended numerous adjustments to both receipts and disbursements in order to reconcile the ledgers to the proof of cash, and other reports.

Due to the former county clerk failing to implement strong internal controls over financial reporting, the receipts and disbursements ledgers were inaccurate, with discrepancies noted between the ledgers and quarterly reports. Inaccurate financial reporting allows opportunity for the former county clerk to misrepresent his financial status to the fiscal court and other administrative bodies. Furthermore, the former county clerk's failure to maintain accurate financial records means he is not in compliance with KRS 68.210.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting. Also, strong internal controls are essential to providing protection from asset misappropriation, and preventing inaccurate financial reporting. We recommend the Carlisle County Clerk's office implement strong internal controls over the accounting process to ensure that accurate receipts and disbursements ledgers are maintained, and quarterly reports are in agreement with these ledgers.

Former County Clerk's Response: No Comment

2017-004 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2016

In 2016, the former county clerk collected \$3,976 of delinquent tax bills that did not appear on the delinquent tax distribution reports. These were all bills that were turned over to the county attorney to collect. The county attorney collected them and paid them over to the former county clerk, but the former county clerk failed to include them on the delinquent tax distributions reports. The former county clerk also failed to issue a check to the extension district in the amount of \$71 for February's delinquent taxes. This was brought to the former county clerk's attention on May 11, 2018, but these amounts have yet to be paid to the districts.

The former county clerk failed to correct the prior year comment. Since those bills were not included on the reports, the portions of those bills that should be distributed to the districts did not get paid, and the districts were denied funds. Additionally, the former county clerk was not in compliance with KRS 134.126. KRS 134.126(3) states, "[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly." Furthermore, strong internal controls over the delinquent tax reporting process are essential to ensuring that all delinquent taxes are accounted and reported properly.

We recommend the county clerk's office strengthen internal controls over the delinquent tax reporting process and pay the taxing districts and other entities additional delinquent taxes due from the bills erroneously omitted from the June, August, and October 2016 delinquent tax reports.

Former County Clerk's Response: This will be corrected before the end of the year, 2018.

CARLISLE COUNTY
 MICHAEL TOON, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-005 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received In 2017

The former county clerk collected \$2,308 of delinquent tax bills that did not appear on the delinquent tax reports, \$1,884 of which did not get properly distributed. The former county clerk also failed to issue a check to the state in the amount of \$699 for July's delinquent taxes, and failed to issue a check to the board of education in the amount of \$1,316 for June's delinquent taxes.

According to the former county clerk, this was due to an oversight by the deputy that was in charge of handling the delinquent taxes. Since those bills were not included on the reports, the portions of those bills that should be distributed to the districts did not get paid, and the districts did not receive the funds they were entitled to. Additionally, the former county clerk was not in compliance with KRS 134.126, and there may still be certificates of delinquency on these delinquent tax bills that have already been paid.

KRS 134.126(3), which outlines the duties of the county clerk in regards to certificates of delinquency states, "[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly." Furthermore, strong internal controls over the delinquent tax reporting process are essential to ensuring that all delinquent taxes are accounted and reported properly.

We recommend the county clerk's office strengthen internal controls over the delinquent tax reporting process, pay the state and board of education the amount owed from June and July 2017, and pay the taxing districts and other entities additional delinquent taxes due from the bills erroneously omitted from 2017 delinquent tax reports.

Former County Clerk's Response: As was the case in 2016, deputies input the bills that were under contract at the County Attorney's office incorrectly thus, this appeared again. Entities will be paid.

2017-006 The Carlisle County Clerk's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Carlisle County Clerk's office lacks adequate segregation of duties over the accounting and reporting functions. The former county clerk was responsible for multiple tasks such as preparing weekly and monthly reports, preparing checks for disbursements, completing monthly bank reconciliations, and preparing the quarterly reports.

According to the former county clerk, this is due to having a limited staff due to budget constraints. Thus the former county clerk decided to take on those responsibilities. A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud.

Segregation of duties over these tasks or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

CARLISLE COUNTY
 MICHAEL TOON, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2017-006 The Carlisle County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

We recommend the county clerk's office separate the duties involved in writing checks, preparing weekly and monthly reports, completing monthly bank reconciliations, and preparing quarterly reports. If this is not feasible due to a lack of staff, cross-checking procedures could be implemented. Such procedures should be documented by the individual performing them.

Former County Clerk's Response: No Comment

2017-007 The Former Carlisle County Clerk Did Not Comply With KRS 64.535 By Paying His Own Salary In Advance

The former Carlisle County Clerk was overpaid \$150 during 2017, and paid himself a month in advance throughout the year. As a result, the former county clerk received both his January and February paycheck in January 2017. The former county clerk was unaware that he could not pay himself in advance, and was overpaid due to an error made at the beginning of the year, resulting in the former county clerk receiving \$150 more than he should have.

This money could have been used to benefit the county. The former county clerk is also not in compliance with KRS 64.535. KRS 64.535 states, "[t]he county judge/executive, clerk, jailer who operates a full service jail, and sheriff shall each receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275." Additionally, strong internal controls over the officials payroll is needed to ensure that the salary matches the salary schedule, and is paid appropriately.

We recommend the former Carlisle County Clerk pay \$150 to the 2017 fee account for his salary overpayment, and in the future pay himself monthly as is required by KRS 64.535.

Former County Clerk's Response: No fraud was intended in this mistake. County will be reimbursed.

2017-008 The Former Carlisle County Clerk Had A Disallowed Disbursement During 2017

The former Carlisle County Clerk had a disallowed disbursement during 2017. One of the former county clerk's travel reimbursement checks was incorrectly calculated. When this was brought to the former county clerk's attention, he explained that there was a personal issue that occurred during the trip and reimbursed the amount that should not have been paid. The amount returned was \$169. According to the former county clerk, this was due to an oversight on his part due to the issues that occurred during the trip.

The former county clerk was overpaid \$169, which could have been used for the benefit of the county. In accordance with Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

Since the former county clerk has already repaid the disallowed amount, we recommend that in the future the county clerk's office only make expenditures for things that are necessary, reasonable in amount, beneficial to the public, and not personal in nature. Disbursements should also be adequately documented.

Former County Clerk's Response: No Comment