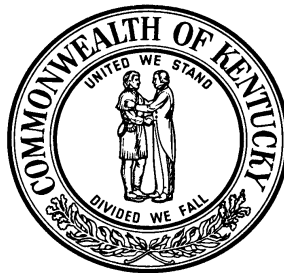


**REPORT OF THE AUDIT OF THE
CASEY COUNTY
CLERK**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT OF THE CASEY COUNTY CLERK

**For The Year Ended
December 31, 2015**

The Auditor of Public Accounts has completed the Casey County Clerk's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$6,368 from the prior year, resulting in excess fees of \$113,520 as of December 31, 2015. Receipts increased by \$285,673 from the prior year and disbursements increased by \$279,305.

Lease Agreements:

The Casey County Clerk's office was committed to a lease agreement with Pitney Bowes for a mailing system. The total balance of the agreement was \$2,228 as of December 31, 2015.

The Casey County Clerk's office was committed to a lease agreement with Data Records Management Services (DRMS) for annual support and software. The total balance of the agreement was \$12,000 as of December 31, 2015.

Report Comments:

2015-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
2015-002 The County Clerk Had \$31 In Disallowed Disbursements

Deposits:

The county clerk's deposits were insured and collateralized by bank securities or bonds.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey 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 County Clerk of Casey County, Kentucky, for the year ended December 31, 2015, 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 as described in Note 1. 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.



The Honorable Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey 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 Casey 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 Casey County Clerk, as of December 31, 2015, 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 Casey County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016 on our consideration of the Casey County Clerk'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 entity's internal control over financial reporting and compliance.

The Honorable Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey County Fiscal Court

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

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

- 2015-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
- 2015-002 The County Clerk Had \$31 In Disallowed Disbursements

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

July 21, 2016

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Grants - Libraries and Archives	\$	11,256	
HB 537 Revenue Supplement		65,767	
State Fees For Services		4,268	
Fiscal Court		2,640	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	563,684	
Usage Tax		993,349	
Tangible Personal Property Tax		1,216,030	
Notary Fees		3,312	
Liens		10,188	
Fund Donations		228	
Other-			
Fish and Game Licenses		17,940	
Marriage Licenses		2,097	
Occupational Licenses		76	
Deed Transfer Tax		26,910	
Delinquent Tax		111,383	2,945,197
<hr/>			
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		15,221	
Real Estate Mortgages		17,721	
Chattel Mortgages and Financing Statements		42,255	
Powers of Attorney		2,703	
All Other Recordings		17,647	
Charges for Other Services-			
Candidate Filing Fees		40	
Copywork		3,055	
Postage		735	99,377
<hr/>			

The accompanying notes are an integral part of this financial statement

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Receipts (Continued)

Other:

Lien Search	\$	15	
Miscellaneous (overages for refund)		<u>1,706</u>	\$ 1,721

Interest Earned			<u>1,076</u>
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Total Receipts			3,131,302
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	399,954	
Usage Tax		963,549	
Tangible Personal Property Tax		393,358	

Licenses, Taxes, and Fees-

Fish and Game Licenses		17,536	
Marriage License		580	
Delinquent Tax		11,021	
Legal Process Tax		9,059	
Libraries and Archives (Legal Process)		3,169	
Affordable Housing Trust		<u>12,888</u>	1,811,114

Payments to Fiscal Court:

Tangible Personal Property Tax		59,334	
Delinquent Tax		6,779	
Deed Transfer Tax		<u>25,565</u>	91,678

Payments to Other Districts:

Tangible Personal Property Tax		713,752	
Delinquent Tax		<u>60,459</u>	774,211

Payments to Sheriff			8,753
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Payments to County Attorney			14,357
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CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2015
(Continued)

Disbursements (Continued)

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$ 170,627	
Contracted Services-		
Advertising	1,670	
Printing and Binding	6,444	
Special Project - Libraries and Archives	12,256	
Computer Consultation Services	10,925	
Materials and Supplies-		
Office Supplies	8,221	
Other Charges-		
Bonds	611	
Conventions and Travel	1,796	
Dues	58	
Election Emergency Expenses	309	
Postage	3,826	
Refunds	3,454	
Utilities	2,216	\$ 222,413

Debt Service:

Copy Machine Maintenance/Purchase	4,994	
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Total Disbursements 2,927,520

Less: Disallowed Disbursements

Travel Meal Reimbursement	31	
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Total Allowable Disbursements \$ 2,927,489

Net Receipts 203,813

Less: Statutory Maximum 82,752

Excess Fees 121,061

Less: Expense Allowance 3,600

 Training Incentive Benefit 3,941 7,541

Excess Fees Due County for 2015 * \$ 113,520

* - The county clerk submitted a check to the fiscal court for \$108,000 on March 17, 2016.
A balance of \$5,520 was due the fiscal court at the completion of the audit.

The accompanying notes are an integral part of this financial statement

CASEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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 2015 services
- Reimbursements for 2015 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2015

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 the following, including but not limited to, 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).

CASEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 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.

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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 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 account. Members contribute five percent (nonhazardous) 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 member's account is credited with a four percent (nonhazardous) 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.

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%

CASEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

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

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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 3. Deposits

The Casey 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 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 county clerk's deposits may not be returned. The Casey County Clerk 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 December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grants

- A. The Casey County Clerk had a beginning balance of a local records microfilming grant from the Kentucky Department of Libraries and Archives in the amount of \$1,256. Interest of \$1 was earned during the year with \$1,257 expended. This grant had a \$0 balance as of December 31, 2015.
- B. The Casey County Clerk applied for and was awarded a new local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,400. Interest of \$40 was earned during the year and \$10,000 was expended. The unexpended grant balance was \$6,440 as of December 31, 2015.

CASEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 5. Lease Agreements

- A. The Casey County Clerk's office was committed to a lease agreement with Pitney Bowes for a mailing system. The agreement requires a monthly payment of \$37 for 60 months to be completed on December 31, 2020. The total balance of the agreement was \$2,228 as of December 31, 2015.
- B. The Casey County Clerk's office was committed to a lease agreement with Data Records Management Services (DRMS) for annual support and software. The agreement requires a yearly payment of \$2,400 for 5 years to be completed on December 31, 2020. The total balance of the agreement was \$12,000 as of December 31, 2015.

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey 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 Casey County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated July 21, 2016. The Casey 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 Casey 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 Casey County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Casey County Clerk'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 comments and recommendations, we identified certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 comments and recommendations as item 2015-001 to be a material weakness.



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 deficiency described in the accompanying comments and recommendations as item 2015-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Casey 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying comments and recommendations as item 2015-002.

County Clerk's Responses to Findings

The Casey County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Casey 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

July 21, 2016

COMMENTS AND RECOMMENDATIONS

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

The county clerk's office has a lack of adequate segregation of duties over disbursements. The county clerk prepares and signs all checks that are written out of his office and posts all disbursements to the disbursements ledger. Although the clerk has implemented some compensating controls, it does not appear these controls are documented and operating effectively.

Segregation of duties over disbursements or implementation of compensating controls, when needed due to limited staff, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets. Effective internal controls dictate that essential duties be separated. The clerk's office has a limited budget which restricts the number of employees the county clerk can hire or delegate duties to. Lack of adequate segregation of duties can result in undetected misstatements and inaccurate financial reporting. Proper segregation of duties also protects employees in the normal course of performing their daily responsibilities.

In an effort to strengthen internal controls, we recommend the county clerk delegate disbursement duties to other employees within the office. If that is not feasible due to a limited number of staff, the county clerk should implement the following compensating controls to offset the lack of segregation of duties:

- The county clerk should examine checks prepared by another employee and compare them to invoices or monthly reports to taxing districts. The county clerk's review should be documented by initials and date on the invoices and monthly reports.
- An employee independent of the disbursement ledger preparation should compare the disbursements ledger to source documents, such as monthly reports, to ensure accurate recordings. The employee's review should be documented by initials on the monthly disbursements ledger.

County Clerk's Response: This is Due To Limited Staff.

2015-002 The County Clerk Had \$31 In Disallowed Disbursements

The county clerk had disallowed disbursements for a training with meal reimbursements for his wife of \$31 during calendar year 2015 which were paid from the fee account. The county clerk's lack of oversight, including a lack of adequate segregation of duties, allowed unnecessary disbursements of \$31 to be paid from official fee account monies. In Funk vs. Milliken, 317 S.W.2d 499 (KY 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowable only if they are necessary, reasonable in amount, beneficial to the public, and not primarily personal in nature. Good internal controls dictate that the county clerk should monitor disbursements to ensure payments are necessary and not primarily personal in nature. We recommend the county clerk deposit personal funds of \$31 to reimburse the 2015 fee account for these disallowed disbursements.

County Clerk's Response: This Amount Was Repaid By The Clerk.

