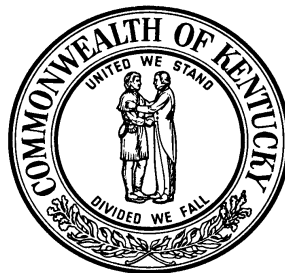


**REPORT OF THE AUDIT OF THE
CASEY COUNTY
CLERK**

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	13
SCHEDULE OF FINDINGS AND RESPONSES	17

THIS PAGE LEFT BLANK INTENTIONALLY



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, 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.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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, 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 Casey 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2018, 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, 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 Casey County Clerk'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 Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2017-001 The Casey County Clerk Did Not Present His Annual Settlement To The Fiscal Court For Approval
- 2017-002 The Casey County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
- 2017-003 The Casey County Clerk's Fourth Quarter Financial Report Was Materially Inaccurate
- 2017-004 The Casey County Clerk Issued Payroll Checks Prior To The End Of The Pay Period
- 2017-005 The Casey County Clerk Does Not Have Adequate Controls In Place Over Payroll Resulting In Inaccurate Timesheets And Noncompliance With His Administrative Code And Applicable Statutes

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 3, 2018

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

For The Year Ended December 31, 2017

Receipts

State Grant - Libraries and Archives		\$ 25,804
State Revenue Supplement		66,599
State Fees For Services		6,745
Fiscal Court		2,789
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 574,922	
Usage Tax	768,840	
Tangible Personal Property Tax	1,375,233	
Notary Fees	1,150	
Lien Fees	10,998	
Other-		
Fish and Game Licenses	15,512	
Marriage Licenses	3,760	
Occupational Licenses	87	
Deed Transfer Tax	32,255	
Delinquent Tax	<u>100,977</u>	2,883,734
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	17,189	
Real Estate Mortgages	20,546	
Chattel Mortgages and Financing Statements	41,616	
Powers of Attorney	3,473	
All Other Recordings	17,739	
Charges for Other Services-		
Candidate Filing Fees	1,500	
Copywork	2,699	
Postage	<u>812</u>	105,574
Other:		
Miscellaneous (Overages for Refunds)		3,020
Interest Earned		<u>1,397</u>
Total Receipts		3,095,662

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, 2017
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 407,064	
Usage Tax	745,705	
Tangible Personal Property Tax	454,181	

Licenses, Taxes, and Fees-

Fish and Game Licenses	15,146	
Delinquent Tax	9,887	
Legal Process Tax	9,541	
Marriage License	1,199	
Affordable Housing Trust	6,250	
Miscellaneous	10,937	\$ 1,659,910

Payments to Fiscal Court:

Tangible Personal Property Tax	71,321	
Delinquent Tax	6,068	
Deed Transfer Tax	27,945	105,334

Payments to Other Districts:

Tangible Personal Property Tax	794,482	
Delinquent Tax	58,574	853,056

Payments to Sheriff 6,464

Payments to County Attorney 10,738

Operating Disbursements:

Personnel Services-

Deputies' Salaries	168,908	
Fiscal Court Clerk Gross	1,561	
Paid Compensatory Leave Time	4,039	

Contracted Services-

Advertising	1,735	
Printing and Binding	8,285	
Libraries and Archives Grant Expenditures	33,601	
Computer Consultation Services	2,650	

Materials and Supplies-

Office Supplies	8,186	
-----------------	-------	--

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, 2017
(Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges -

Conventions and Travel	\$	2,760	
Dues		1,820	
Postage		7,028	
Utilities		2,250	
Refunds		3,731	
Bonds		683	
Miscellaneous		4	\$ 247,241

Debt Service:

Copier Lease Purchase		446	
-----------------------	--	-----	--

Total Disbursements			<u>\$ 2,883,189</u>
---------------------	--	--	---------------------

Net Receipts			212,473
--------------	--	--	---------

Less: Statutory Maximum			<u>85,085</u>
-------------------------	--	--	---------------

Excess Fees			127,388
-------------	--	--	---------

Less: Expense Allowance		3,600	
-------------------------	--	-------	--

Training Incentive Benefit		<u>4,052</u>	<u>7,652</u>
----------------------------	--	--------------	--------------

Excess Fees Due County for 2017			119,736
---------------------------------	--	--	---------

Payment to Fiscal Court - March 5, 2018			<u>115,000</u>
---	--	--	----------------

Balance Due Fiscal Court at Completion of Audit			<u>\$ 4,736</u>
---	--	--	-----------------

CASEY 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.

CASEY 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 KRS Board of Trustees 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.

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

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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Casey County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$44,990. Funds totaling \$25,804 were expended during the year. The unexpended grant balance was \$19,186 as of December 31, 2017.

Note 5. Lease Agreements

- The Casey County Clerk's office was committed to a lease agreement 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 \$1,458 as of December 31, 2017.
- The Casey County Clerk's Office was committed to a lease agreement for annual support and software. The agreement requires an annual payment of \$2,400 for five years to be completed on December 31, 2020. The total balance of the agreement was \$9,600 as of December 31, 2017.

Note 6. Unrefundable Payments And Unexplained Receipts

The Casey County Clerk deposited unrefundable payments and unexplained receipts into an interest bearing account. The escrowed amount was as follows:

2016	\$716
------	-------

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

THIS PAGE LEFT BLANK INTENTIONALLY

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*

THIS PAGE LEFT BLANK INTENTIONALLY



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, 2017, and the related notes to the financial statement and have issued our report thereon dated July 3, 2018. 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 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 2017-002, 2017-003, and 2017-005 to be material weaknesses.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the 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 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 2017-001, 2017-004, and 2017-005.

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,

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 3, 2018

SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Casey County Clerk Did Not Present His Annual Settlement To The Fiscal Court For Approval

On March 5, 2018, the Casey County Fiscal Court accepted the Casey County Clerk's pre-audit excess fees. Only the excess fees check was included in the fiscal court orders, no annual settlement or copy of the Fourth Quarter Financial Report was included. The county clerk did not present his annual settlement to the fiscal court for approval. This annual settlement should be presented to the fiscal court for approval at the time the county clerk submits his excess fees.

No annual settlement was approved by the fiscal court due to an oversight by the county clerk. Without a complete statement of receipts and disbursements, the fiscal court cannot be sure that correct excess fees have been remitted.

KRS 64.152(1) states, "[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses."

We recommend the county clerk present his annual settlement to the fiscal court along with his excess fees by March 15 following the end of the calendar year in accordance with KRS 64.152.

County Clerk's Response: The official did not respond.

2017-002 The Casey County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Casey County Clerk's office lacks 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 county clerk has implemented some compensating controls, such as dual signatures on disbursements, it does not appear these controls mitigate the increased risk caused by lack of segregation of duties.

The county clerk stated the county clerk's office is a small office with limited funds which restricts the number of employees the county clerk can hire or delegate duties to, and prevents a proper segregation of duties.

The lack of adequate segregation of duties can result in undetected misappropriation of assets and incorrect reporting. Also, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to lack of oversight and internal controls over disbursements, the usage tax account had a negative reconciled balance of (\$1,469) at December 31, 2017.

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 undetected misappropriation of assets and incorrect reporting. Effective internal controls dictate that essential duties should be separated.

In an effort to strengthen internal controls, we recommend the county clerk delegate disbursements duties to other employees within the office. If this is not feasible due to lack of staff, the county clerk could implement the following compensating controls to offset the lack of segregation of duties:

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Casey County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
(Continued)

- The county clerk could 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 disbursements ledger preparation could 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.
- The usage tax account should be properly reconciled to prevent balance deficits. Each month someone should verify what was deposited and disbursed, ensuring both are accurate.

County Clerk's Response: The official did not respond.

2017-003 The Casey County Clerk's Fourth Quarter Financial Report Was Materially Inaccurate

The Casey County Clerk's Fourth Quarter Financial Report was inaccurate. Audit adjustments totaling \$160,078 were recommended to correct the Fourth Quarter Financial Report. This was necessary to agree the disbursements ledger total to the disbursements per the bank. The adjustment total is considered a material amount. A majority of the adjustments were made due to the fact that the Fourth Quarter Financial Report did not include any outstanding liabilities, which were disbursements made subsequent to December 31, 2017, resulting in the Fourth Quarter Financial Report disbursements being understated by \$160,078.

Good internal controls dictate that accurate financial reporting is essential to ensure all receipts and disbursements are accounted for, posted properly, and posted in the correct period.

We recommend the county clerk ensure the Fourth Quarter Financial Report is accurate by including all receipts and disbursements for the calendar year, including those transactions occurring after December 31. If the Fourth Quarter Financial Report is prepared prior to all liabilities being prepared and posted, the county clerk should prepare an amended Fourth Quarter Financial Report.

County Clerk's Response: The official did not respond.

2017-004 The Casey County Clerk Issued Payroll Checks Prior To The End Of The Pay Period

The Casey County Clerk issued payroll checks prior to the end of the pay period and also issued checks to himself up to a month early. The following exceptions were noted:

The Casey County Clerk issued payroll checks prior to the end of the pay period for the week of October 1-15, 2017. The pay period ended on Saturday, October 14, 2017. The payroll disbursements for the pay period were issued on October 13, 2017. Therefore, the deputies who were scheduled to work on Saturday, October 14 received pay for time not earned yet. In addition, the payroll disbursement to the county treasurer for withholdings and one deputies' payroll disbursement were dated October 13, 2017, but cleared the bank on October 12, 2017.

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Casey County Clerk Issued Payroll Checks Prior To The End Of The Pay Period (Continued)

A payroll disbursement (check no. 3701) to the county clerk was dated November 14, 2017, for the pay period November 1-15, 2017, but cleared the bank on October 13, 2017. A November expense allowance disbursement (check no. 3709) to the county clerk was dated November 14, 2017, but cleared the bank on October 27, 2017. A payroll disbursement (check no. 3728) to the county clerk for pay period November 16-30, 2017, was dated November 30, 2017, but cleared the bank on October 24, 2017. These checks were not issued in numerical sequence when the county clerk paid himself early, see below:

<u>Check No.</u>	<u>Check Date</u>	<u>Cleared Date</u>	<u>Explanation</u>
3660	10/30/2017	10/31/2017	Usage Tax
3700	11/16/2017	11/16/2017	Usage Tax
3701	11/14/2017	10/13/2017	County Clerk's November 1-15, 2017 payroll check
3702	11/14/2017	11/7/2017	Deputy Clerk's November 1-15, 2017 payroll check
3703	11/14/2017	11/15/2017	Deputy Clerk's November 1-15, 2017 payroll check
3704	11/14/2017	11/15/2017	Deputy Clerk's November 1-15, 2017 payroll check
3705	11/14/2017	11/14/2017	Deputy Clerk's November 1-15, 2017 payroll check
3706	11/14/2017	11/14/2017	Deputy Clerk's November 1-15, 2017 payroll check
3709	11/14/2017	10/27/2017	County Clerk's November Expense Allowance
3728	11/30/2017	10/24/2017	County Clerk's November 16-30, 2017 payroll check

The practice of issuing payroll checks early allowed the county clerk to receive more than 1/12 of his salary in a given month as required by KRS 64.535.

This occurred because the county clerk considers his deputy clerks to be salaried employees and their pay each pay period is for 72.5 hours regardless of the hours worked. In addition, he distributes payroll checks ahead of the scheduled pay date. The county clerk's administrative code states that each deputy will be paid on or about the 15th and 30th of each month.

By receiving payroll checks prior to the end of the pay period, deputies and the county clerk are being paid for time not yet earned, thus the county clerk is pre-paying for services, which is prohibited.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* includes a section, Handling Public Funds Minimum Requirements Pursuant to KRS 68.210 For All Local Government Officials (And Employees) that states, "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)".

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."

We recommend the county clerk refrain from issuing payroll disbursements prior to the end of the pay period. Furthermore, the county clerk should put proper controls in place to ensure compliance with DLG's requirements and state laws.

County Clerk's Response: The official did not respond.

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Casey County Clerk Does Not Have Adequate Controls In Place Over Payroll Resulting In Inaccurate Timesheets And Noncompliance With His Administrative Code And Applicable Statutes

Due to lack of adequate controls in the Casey County Clerk's office, the following matters were noted regarding payroll.

The Casey County Clerk either did not compute compensatory time accurately or employees did not receive compensatory time earned for the pay period tested of October 1-15, 2017. The following exceptions were noted:

- A deputy clerk was scheduled to work 34 hours the week of October 8-14, 2017. However, the deputy clerk worked 42.5 hours. The deputy clerk received 8.5 hours of compensatory time. According to the county clerk's administrative code, on the short weeks (34 hours), up to 40 hours is paid straight compensatory time and hours over 40 is paid at time and a half. Therefore, the deputy should have received 9.75 hours compensatory time (6 hours straight compensatory time and 2.5 hours at time and a half).
- A deputy clerk was scheduled to work 34 hours the week of October 8-14, 2017. However, the deputy clerk worked 38.5 hours. The deputy clerk did not receive any compensatory time. According to the county clerk's administrative code on the short weeks (34 hours), up to 40 hours is paid straight compensatory time. Therefore, the deputy should have received 4.5 hours compensatory time.
- A deputy clerk worked a total of 73.1 hours for the pay period October 1-15, 2017, and was paid for 72.5 hours. The deputy clerk did not receive compensatory time for hours worked beyond 72.5 in this period. According to the county clerk's administrative code, one week will consist of 34 hours while the other will consist of 38.5 hours with a total of 72.5 hours.
- A deputy was hired in August 2016. The deputy clerk's timesheet reflected that on January 1, 2017, she received a week's vacation. According to the county clerk's administrative code, deputies are not eligible to receive vacation time until they have completed one year of service. Therefore, the deputy clerk was not eligible to receive vacation leave until August 2017.

The deputies in the Casey County Clerk's office keep monthly timesheets, however, the timesheets are not an accurate record of hours worked. For example:

- A deputy's timesheet reflects for the week of June 11-17, 2017, that the deputy worked 38.5 hours, used 34 hours annual leave, plus earned 34 hours compensatory time. An employee cannot earn compensatory time for the same hours they are on leave. The timesheet should have reflected that the deputy was either working or on vacation.
- A deputy's timesheet reflects for the week October 8-15, 2017, that the deputy worked 34 hours and earned 8.5 compensatory time. The timesheet should have reflected the deputy worked 42.5 hours.
- A deputy's timesheet reflects for the week October 8-15, 2017 that the deputy worked 37 hours and used 2 hours sick leave. The deputy only worked 4.5 hours on October 11, 2017, and used 2 hours sick leave, but the timesheet reflected he worked 6.5 hours and used 2 hours sick leave for a total of 8.5 hours. The deputy is only required to work 6.5 hour days.

The county clerk does not have adequate controls in place to ensure calculations and time reported are accurate.

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Casey County Clerk Does Not Have Adequate Controls In Place Over Payroll Resulting In Inaccurate Timesheets And Noncompliance With His Administrative Code And Applicable Statutes
(Continued)

According to the county clerk, the compensatory time miscalculations were errors on his part and the vacation time given to the ineligible deputy was an oversight. The county clerk stated that the deputy did not use any of the vacation leave until after August 2017 although the timesheet reflected the vacation time in January.

According to the county clerk, the deputy clerks are paid for 72.5 hours each pay period, no matter the hours worked. Timesheets may not always be accurate because each deputy clerk has a weekly scheduled day off that always appears on their timesheet. If their schedule varies that week, the timesheet may not reflect the actual hours worked. The clerk stated that one deputy worked and did not take her vacation time. The vacation time was rolled over into compensatory time and she was paid at the end of the year. Therefore, her timesheet reflected she worked, used annual leave, and earned compensatory time.

The above exceptions resulted in deputy clerks receiving inaccurate compensatory time hours and a deputy receiving vacation leave she was not eligible for. In addition, the inaccurate timesheets resulted in noncompliance with the county clerk's administrative code.

The county clerk's administrative code and Employee Handbook Personnel Policies and Procedures states, "[t]he deputy clerks in the Casey County Clerks [sic] Office are considered to be full time employees by working a total of 72.50 hrs. per pay period. One week will consist of 34.00 hours while the other will consist of 38.5 hours with a total of 72.50 hours." It states further, "[c]ompensatory time will be given per hour on the short week of work after 34 hours up to 40 hours and everything over 40 hours will be at time and a half. On the long weeks of work comp time will begin after 38.5 hours at the rate of hour per hour and continue at time and a half over 40 hours." Regarding vacation leave, the policy states, "[a]fter one year of service at the Casey County Clerks [sic] Office each employee will receive one weeks [sic] vacation." In addition, it states further, "[e]ach deputy will be responsible for keeping an accurate record of their time worked."

KRS 337.320 states, in part, "(1) Every employer shall keep a record of. . . (b) The hours worked each day and each week by each employee[.]"

We recommend the county clerk abide by his administrative code when calculating compensatory time and granting vacation leave, thus ensuring deputies are receiving the accurate benefits they are entitled to. The county clerk should ensure that timesheets prepared by deputies are an accurate reflection of hours worked. Also, the county clerk should put proper controls in place to ensure compliance with his administrative code and applicable statutes.

County Clerk's Response: The official did not respond.