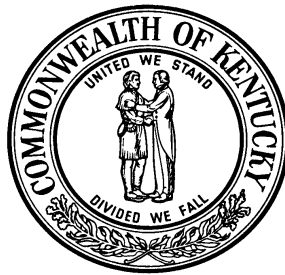


**REPORT OF THE AUDIT OF THE  
CASEY COUNTY  
CLERK**

**For The Year Ended  
December 31, 2018**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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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, 2018, 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.



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 the Casey County Clerk, as of December 31, 2018, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Casey County Clerk for the year ended December 31, 2018, 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 18, 2019, 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:

- 2018-001 The Casey County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements
- 2018-002 The Casey County Clerk Did Not Require Third-Party Purchasers To Make Deposits, As Required By 103 KAR 5:180
- 2018-003 The Casey County Clerk Issued Payroll Checks Prior To The End Of The Pay Period
- 2018-004 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 18, 2019

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

For The Year Ended December 31, 2018

Receipts

State Grant - Libraries and Archives	\$	15,428	
State Revenue Supplement		67,428	
State Fees For Services		3,821	
Fiscal Court		3,042	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	603,306	
Usage Tax		599,578	
Tangible Personal Property Tax		1,420,550	
Web Renewals		4,729	
Notary Fees		496	
Other-			
Fish and Game Licenses		20,912	
Marriage Licenses		3,650	
Occupational Licenses		110	
Miscellaneous Licenses		20	
Deed Transfer Tax		31,759	
Delinquent Tax		111,342	2,796,452
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		13,921	
Real Estate Mortgages		19,429	
Chattel Mortgages and Financing Statements		40,324	
Powers of Attorney		2,644	
All Other Recordings		18,760	
Charges for Other Services-			
Candidate Filing Fees		1,390	
Copy Work		2,595	
Postage		909	
Miscellaneous		3,005	102,977
Interest Earned			1,345
Total Receipts			2,990,493

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, 2018  
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 426,553	
Usage Tax	585,538	
Tangible Personal Property Tax	470,414	

Licenses, Taxes, and Fees-

Fish and Game Licenses	20,503	
Marriage License	1,000	
Delinquent Tax	10,580	
Legal Process Tax	8,871	
Libraries & Archives (Legal process)	3,096	
Affordable Housing Trust	13,392	\$ 1,539,947

Payments to Fiscal Court:

Tangible Personal Property Tax	73,549	
Delinquent Tax	7,051	
Deed Transfer Tax	28,164	108,764

Payments to Other Districts:

Tangible Personal Property Tax	818,571	
Delinquent Tax	60,156	878,727

Payments to Sheriff 8,831

Payments to County Attorney 14,728

Tax Bill Preparation 4,357

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	189,087	
Fiscal Court Clerk Gross	1,598	

Employee Benefits-

Other Payroll Disbursements	1,142	
-----------------------------	-------	--

Contracted Services-

Advertising	2,335	
Printing and Binding	303	
Special Project	320	
Libraries and Archives Grant Expenditures	15,428	
Computer Consultation Services	2,050	

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, 2018  
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	11,115	
Other Charges-			
Conventions and Travel		2,980	
Refunds		469	
Ad Val Motax Refunds		826	
Insurance and Bonds		654	
Miscellaneous		1,987	
Election Emergency Expense		782	
Overage Refunds		2,483	\$ 233,559
Capital Outlay-			
Office Equipment		92	
Computer Lease/Purchase		5,734	5,826
Total Disbursements			<u>\$ 2,794,739</u>
Net Receipts			195,754
Less: Statutory Maximum			<u>86,901</u>
Excess Fees			108,853
Less: Expense Allowance		3,600	
Training Incentive Benefit		4,137	<u>7,737</u>
Excess Fees Due County for 2018			101,116
Payment to Fiscal Court - February 26, 2019			<u>95,000</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 6,116</u>

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

CASEY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2018

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 clerk's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

CASEY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2018  
 (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.

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

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

The county's contribution rate for nonhazardous employees was 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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, 2018  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (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.

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

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

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

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

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

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

CASEY COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018  
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 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 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State 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 in 2017. Funds totaling \$25,804 were expended during 2017 and funds totaling \$15,428 were expended during 2018. The unexpended grant balance was \$3,758, as of December 31, 2018.

CASEY COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2018  
 (Continued)

Note 5. Lease Agreements

The Casey County Clerk's office was committed to the following lease agreements as of December 31, 2018:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2018
Mailing System	\$ 37	60 months	12/10/2020	\$ 1,124
CATS Software system	\$2,400/year	5 years	12/16/2020	<u>7,200</u>
Total				<u>\$ 8,324</u>

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.

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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*

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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

**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, 2018, and the related notes to the financial statement and have issued our report thereon dated July 18, 2019. 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 2018-001, 2018-003, and 2018-004 to be material weaknesses.



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

**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 2018-002, 2018-003, and 2018-004.

**Views of Responsible Official and Planned Corrective Action**

The Casey 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 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 18, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

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

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 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 2017-002. The Casey 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 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 that his 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 financial reporting. Also, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to a lack of oversight and internal controls over disbursements, the usage tax account had an overage reconciled balance of \$822 at December 31, 2018.

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 financial reporting. Effective internal controls dictate that essential duties should be separated.

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

- 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 a zero balance each month. Someone should verify what was deposited and disbursed, ensuring both are accurate.

*County Clerk's Response: Have obtained by contract a bookkeeper to eliminate this problem.*

2018-002 The Casey County Clerk Did Not Require Third-Party Purchasers To Make Deposits, As Required By 103 KAR 5:180

The county clerk did not require third-party purchasers to make deposits at the time of registration as required by 103 KAR 5:180 for priority tax bills and current tax bills.

This occurred because the county clerk did not require the third party purchasers make the required deposits. Failure to collect deposits can result in the county clerk not being able to cover any additional costs and expense associated with any purchasers who fail to make full payment at the time of the tax sale. In addition, this results in noncompliance with 103 KAR 5:180.

CASEY COUNTY  
CASEY DAVIS, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2018  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Casey County Clerk Did Not Require Third-Party Purchasers To Make Deposits, As Required By 103 KAR 5:180 (Continued)

---

103 KAR 5:180 requires third party purchasers to make deposit with the county clerk for tax bills they wish to purchase at the tax sale.

103 KAR 5:180 Section 4. Deposit Requirement states:

- (1) A purchaser shall deposit funds with the county clerk at the time of registration in the following amounts:
  - (a) 100% of the value of each certificate of delinquency included on the purchaser's list of priority certificates of delinquency;
  - (b) All clerk's fees associated with each certificate of delinquency included on the purchaser's list of priority certificates of delinquency;
  - (c) Twenty-five (25) percent of the value of each certificate of delinquency included on the purchaser's list of current certificates of delinquency. A purchaser shall not be required to pay an additional deposit if the certificate of delinquency is included on both lists, and if both lists clearly indicate that the certificate is included on both lists. A purchaser may deposit more than the minimum amount required by the county clerk.
- (2) The county clerk shall apply the deposit to payment of any certificate of delinquency purchases at the sale.
- (3) The county clerk shall refund any unused portion of the deposit to the purchaser no later than ten (10) business days after the completion of the sale.

Additionally, 103 KAR 5:180 requires purchasers to pay a registration fee of \$5 for each priority tax bill and \$10 for each current tax bill included on their list of tax bills they wish to purchase with the total registration fee not to exceed \$250. The deposits paid by the third party purchasers should be deposited to an official bank account when received. The deposits should be applied to the payment of the tax bills the purchaser purchases at the tax sale and any balances refunded to the third party purchasers. The registration fee paid should also be deposited to an official bank account when received.

We recommend the county clerk require third party purchasers make deposits for tax bills they wish to purchase as required by 103 KAR 5:180.

*County Clerk's Response: I AM requiring 3<sup>rd</sup> party purchasers to make deposits exactly as 103 KAR 5:180 describes.*

Auditor's Response: During the audit period, the county clerk did not require any deposits to be made, which did not comply with 103 KAR 5:180. However, the county clerk has indicated that the issue has been corrected for FY 2019.

2018-003 The Casey County Clerk Issued Payroll Checks Prior To The End Of The Pay Period

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This is a repeat finding and was included in the prior year audit report as finding 2017-004. 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:



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(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Casey County Clerk Issued Payroll Checks Prior To The End Of The Pay Period (Continued)

The Casey County Clerk issued payroll checks prior to the end of the pay period for the period October 16-31, 2018. The pay period ended on Wednesday October 31, 2018. The payroll disbursements for the pay period were issued on October 30, 2018. Therefore, the deputies who were scheduled to work on Wednesday, October 31 received pay for time not yet worked. In addition, five of the payroll checks actually cleared the bank before October 30, 2018 which was the date the checks were documented as being written.

Payroll checks throughout 2018 were not issued in numerical sequence. The Casey County Clerk received payroll checks throughout 2018 that were prior to the end of the pay period for which they were intended and received over 1/12 of his salary in a single month on three separate occasions, which is stipulated in KRS 64.535, See below:

<u>Check No.</u>	<u>Check Date</u>	<u>Cleared Date</u>	<u>Explanation</u>
4094	3/15/18	3/12/18	County Clerk's March 1-15, 2018 payroll check
4124	3/28/18	3/22/18	County Clerk's March 16-31, 2018 payroll check
4160	4/13/18	3/26/18	County Clerk's April 1-15, 2018 payroll check
4214	4/27/18	4/11/18	County Clerk's April 16-30, 2018 payroll check
4268	5/12/18	4/11/18	County Clerk's May 1-15, 2018 payroll check
4298	5/25/18	4/20/18	County Clerk's May 16-31, 2018 payroll check
4502	8/15/18	7/9/18	County Clerk's August 1-15, 2018 payroll check
4535	8/30/18	7/17/18	County Clerk's August 16-31, 2018 payroll check
4586	9/13/18	7/26/18	County Clerk's September 1-15, 2018 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 salaried employees and their pay each period is for 72.50 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 worked, 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. Also, the county clerk should put proper controls in place to ensure compliance with DLG's requirements and state laws.

*County Clerk's Response: One of the responsibilities of the new bookkeeper will be payroll, and the distribution of cks every other Friday. The personnel policy will be changed so this does not happen again.*

CASEY COUNTY  
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SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2018  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 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

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This is a repeat finding and was included in the prior year audit report as finding 2017-005. Due to lack of adequate controls in the Casey County Clerk's office the following matters were noted regarding payroll:

The Casey County Clerk did not compute compensatory time accurately for the pay period tested of November 5-18, 2018. The following exceptions were noted:

- A deputy clerk was scheduled to work 34 hours the week of November 5-11, 2018. However, the deputy clerk worked 42 hours. The deputy clerk received 8 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 are paid at time and a half. Therefore, the deputy should have received 9 hours compensatory time (6 hours straight compensatory time and 3 hours of time and a half).
- A deputy clerk was scheduled to work 34 hours the week of November 5-11, 2018. However the deputy clerk worked 31.5 and took 2 hours sick leave totaling 33.5 hours. This deputy should have included .50 hours of compensatory leave to have a total of 34 hours for the short week. The deputy clerk received 8 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 are paid at time and a half. Therefore, the deputy should not have received any compensatory time for the week of November 5-11, 2018.
- A deputy clerk was scheduled to work 38.5 hours the week of November 5-11, 2018. However, the deputy clerk worked 46.5 hours. The deputy clerk received 8 hours of compensatory time. According to the county clerk's administrative code, on the long weeks (38.5 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should have received 11.25 hours compensatory time (1.5 hours straight compensatory time and 9.75 hours of time and a half).
- A deputy clerk was scheduled to work 38.5 hours the week of November 5-11, 2018. However, the deputy clerk worked 46.5 hours. The deputy clerk received 8 hours of compensatory time. According to the county clerk's administrative code, on the long weeks (38.5 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should have received 11.25 hours compensatory time (1.5 hours straight compensatory time and 9.75 hours of time and a half).
- A deputy clerk was scheduled to work 34 hours the week of November 5-11, 2018. However, the deputy clerk worked 51 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 are paid at time and a half. Therefore, the deputy should have received 22.50 hours compensatory time (6 hours straight compensatory time and 16.50 hours of time and a half).
- A deputy clerk used 8.50 hours of compensatory leave during the long week which should have totaled 38.50 hours however, this brought the deputy clerk's total to 42.50. Deputy clerk should have only used 4.50 hours of compensatory leave to be in compliance with the County Clerk's Administrative code.
- Time sheets did not reflect accurate compensatory leave used and were not always calculated correctly.
- All employees received holiday pay on November 12, 2018, Veterans Day. Two of the seven employee's timesheets showed additional holiday pay on November 10, 2018, which is not considered a holiday.

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For The Year Ended December 31, 2018  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 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 Statues  
(Continued)

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The county clerk does not have adequate controls in place to ensure calculations and time reported are accurate. According to the county clerk, deputy clerks are paid for 72.50 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.

Additionally, according to the county clerk he allows his employee's the option to take a payout for their compensatory/vacation time. The employee must have 72.50 hours of compensatory/vacation hours in order to be paid for the hours. This is not a policy stated in the county clerk's or the county's administrative code. Weeks in which compensatory/vacation time payouts occurred, the employee's timesheets reflected actual hours worked, used annual leave, and earned compensatory leave.

The above exceptions resulted in deputy clerks' receiving inaccurate compensatory time hours and two deputy's receiving additional holiday pay on a day in which there was no holiday. Leave time used was inaccurate and not in agreement with the county clerk's administrative code. In addition, the inaccurate timesheets resulted in non-compliance 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 Clerk's Office are considered to be full time employees by working a total of 72.50 per pay period. One week will consist of 34 hours while the other will consist of 38.50 hours with a total of 72.50 hours. Each deputy will alter the amount of hours worked in a pay period to allow for Saturdays off every other week."

"Compensatory time will be given hour per hour on the short weeks 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 38.50 hours at the rate of hour per hour and continue at time and a half over 40 hours."

KRS 337.320 states, in part, "(1) [e]very employer shall keep a record of: . . .(b) [t]he 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 determining holiday pay, 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 and the correct amount of leave time is used. Also, the county clerk should put proper controls in place to ensure compliance with his administrative code and applicable statues.

*County Clerk's Response: Time sheets will be calculated by the bookkeeper on a week to week basis which should eliminate this problem.*