

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
CLERK**

**For The Year Ended
December 31, 2016**



**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.....3

NOTES TO FINANCIAL STATEMENT7

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*..... 13

SCHEDULE OF FINDINGS AND RESPONSES 17



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas Stephens, McCreary County Judge/Executive
The Honorable Eric Haynes, McCreary County Clerk
Members of the McCreary 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 McCreary County, Kentucky, for the year ended December 31, 2016, 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 Douglas Stephens, McCreary County Judge/Executive
The Honorable Eric Haynes, McCreary County Clerk
Members of the McCreary 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 McCreary 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 McCreary County Clerk, as of December 31, 2016, 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 McCreary County Clerk for the year ended December 31, 2016, 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 June 26, 2017, on our consideration of the McCreary 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 entity's internal control over financial reporting and compliance.

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

2016-001 The McCreary County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 26, 2017

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Grants - Libraries and Archives		\$ 9,747	
State Revenue Supplement			65,777
State Fees For Services:			
Tax Bill Preparation	\$ 1,525		
New Registrants	67		
Registration of Voters	4,007		5,599
Fiscal Court:			
Election Board Reimbursement	400		
Insurance Reimbursement	7,400		
Tax Bill Preparation	4,150		
Fiscal Court Clerk	7,992		
Election Expense Reimbursement	1,125		21,067
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	479,718		
Usage Tax	524,734		
Tangible Personal Property Tax	756,135		
Notary Fees	671		
Other-			
Fish and Game Licenses	5,687		
Marriage Licenses	5,041		
Occupational Licenses	283		
Deed Transfer Tax	11,156		
Delinquent Tax	207,990		1,991,415
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	8,474		
Real Estate Mortgages	11,062		
Chattel Mortgages and Financing Statements	49,434		
Powers of Attorney	1,396		
Affordable Housing Trust	11,142		
Lien Release Fees	10,112		
All Other Recordings	12,542		

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

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Receipts (Continued)

Fees Collected for Services: (Continued)

Charges for Other Services-

Candidate Filing Fees	\$	220	
Copywork		4,574	
Postage		552	\$ 109,508
			<hr/>

Other:

Pre-Tax Sale Overpayments		10,698	
Other Overpayments		9,504	
Miscellaneous		8,452	28,654
			<hr/>

Interest Earned			160
			<hr/>

Total Receipts			2,231,927
----------------	--	--	-----------

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	321,761	
Usage Tax		509,179	
Tangible Personal Property Tax		292,863	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		5,592	
Delinquent Tax		20,589	
Legal Process Tax		14,747	
Affordable Housing Trust		11,142	1,175,873
			<hr/>

Payments to Fiscal Court:

Tangible Personal Property Tax		122,801	
Delinquent Tax		17,785	
Deed Transfer Tax		10,599	151,185
			<hr/>

Payments to Other Districts:

Tangible Personal Property Tax		310,528	
Delinquent Tax		106,496	417,024
			<hr/>

Payments to Sheriff			16,371
---------------------	--	--	--------

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

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements (Continued)

Payments to County Attorney		\$ 26,629
Tax Bill Preparation		3,050
Operating Disbursements and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	\$ 132,270	
Part-Time Salaries	10,336	
Employee Benefits-		
Employer's Share Social Security	16,947	
Employer's Share Retirement	39,950	
Employer's Paid Health Insurance	37,315	
Contracted Services-		
Payroll Services	1,100	
Computer Maintenance	833	
Libraries and Archives	9,747	
Materials and Supplies-		
Office Supplies	12,391	
Other Charges-		
Dues	1,845	
Postage	3,597	
Telephone	3,939	
Pre-Tax Sale Overpayments Refunded	10,698	
Other Refunds	9,504	
Election Expense	1,190	
Clerk's Salary Underpayment for Prior Year	300	
Miscellaneous	10,285	302,247
		<u>21,692</u>
Debt Service:		
Lease Purchases		<u>21,692</u>
Total Disbursements		<u>\$ 2,114,071</u>

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

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Net Receipts		\$ 117,856
Less: Statutory Maximum		<u>83,356</u>
Excess Fees		34,500
Less: Expense Allowance	\$ 3,600	
Training Incentive Benefit	<u>3,969</u>	<u>7,569</u>
Excess Fees Due County for 2016		26,931
Payment to Fiscal Court - February 7, 2017		<u>24,100</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 2,831</u>

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

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 2016 services
- Reimbursements for 2016 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2016

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.

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent for the first six months and 18.68 percent for the last six months.

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

The county clerk's contribution for calendar year 2014 was \$39,176, calendar year 2015 was \$36,820, and calendar year 2016 was \$39,950.

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%

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.

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (Continued)

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

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 McCreary 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 McCreary 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

The McCreary County Clerk's office was committed to the following lease agreements as of December 31, 2016:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2016
Copier	\$ 99	36 Months	07/26/16	\$ 0
Copier	118	48 Months	08/25/20	5,074
Computer Software	1,290	60 Months	06/30/20	54,180
Computer Hardware	419	60 Months	06/30/20	17,598

Note 5. Libraries and Archives Grant

The McCreary County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in calendar year 2015. The beginning balance as of January 1, 2016 was \$9,747. Funds totaling \$9,747 were expended during the year leaving a balance as of December 31, 2016 of \$0.

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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas Stephens, McCreary County Judge/Executive
The Honorable Eric Haynes, McCreary County Clerk
Members of the McCreary 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 McCreary County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated June 26, 2017. The McCreary 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 McCreary 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 McCreary County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-001 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 26, 2017

SCHEDULE OF FINDINGS AND RESPONSES

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The McCreary County Clerk's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year report as finding 2015-001. The McCreary County Clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The clerk's bookkeeper is responsible for receiving cash, preparing daily deposits, preparing and signing checks, preparing monthly bank reconciliations and also comparing the weekly, monthly, and quarterly reports to the ledgers.

The county clerk's office has a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to, and prevents a proper segregation of duties.

Lack of segregation of incompatible duties or strong oversight increases the risk that undetected errors could occur.

Proper segregation of duties over the accounting and reporting functions such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors occurring. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the McCreary County Clerk separate the duties involved in receiving cash, preparing deposits, writing checks, preparing monthly bank reconciliations and comparing financial reports to ledgers; however, if due to a limited budget, this is not feasible, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: The county clerk did not provide a response.

