

**REPORT OF THE AUDIT OF THE  
CLAY COUNTY  
CLERK**

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



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT OF THE CLAY COUNTY CLERK**

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

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

#### **Financial Condition:**

Excess fees decreased by \$23,853 from the prior year, resulting in excess fees of \$103,841 as of December 31, 2015. Receipts decreased by \$278,507 from the prior year and disbursements decreased by \$254,654.

#### **Lease and Service Agreements:**

The county clerk was committed to lease and service agreements totaling \$33,819 as of December 31, 2015.

#### **Report Comment:**

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

#### **Deposits:**

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



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Johnny Johnson, Clay County Judge/Executive  
The Honorable Michael Baker, Clay County Clerk  
Members of the Clay 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 Clay County, Kentucky, for the year ended December 31, 2015, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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



The Honorable Johnny Johnson, Clay County Judge/Executive  
The Honorable Michael Baker, Clay County Clerk  
Members of the Clay 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 Clay 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 Clay County Clerk, as of December 31, 2015, or changes in financial position or cash flows thereof for the year then ended.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Clay County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016 on our consideration of the Clay County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

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

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

October 13, 2016



CLAY COUNTY  
MICHAEL BAKER, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Grant - Libraries and Archives	\$	3,724
State Fees For Services		7,518
Fiscal Court		32,195
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	535,055
Usage Tax		1,029,147
Tangible Personal Property Tax		1,145,743
Notary Fees		2,796
Other-		
Fish and Game Licenses		2,747
Marriage Licenses		6,248
Occupational Licenses		160
Deed Transfer Tax		30,930
Delinquent Tax		365,246
		3,118,072
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		7,101
Real Estate Mortgages		2,721
Chattel Mortgages and Financing Statements		60,094
Powers of Attorney		858
All Other Recordings		33,018
Charges for Other Services-		
Candidate Filing Fees		200
Copywork		10,915
Postage		459
		115,366
Other:		
Miscellaneous		12,159
Interest Earned		160
Total Receipts		3,289,194

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

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

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 374,910	
Usage Tax	997,666	
Tangible Personal Property Tax	464,972	

Licenses, Taxes, and Fees-

Fish and Game Licenses	2,640	
Delinquent Tax	32,576	
Legal Process Tax	16,770	
Affordable Housing Trust	11,658	

\$ 1,901,192

Payments to Fiscal Court:

Tangible Personal Property Tax	88,141	
Delinquent Tax	25,951	
Deed Transfer Tax	29,383	
Occupational Licenses	131	

143,606

Payments to Other Districts:

Tangible Personal Property Tax	532,954	
Delinquent Tax	193,159	

726,113

Payments to Sheriff

31,307

Payments to County Attorney

48,745

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	152,477	
Part-Time Salaries	3,063	
Overtime	2,292	

Employee Benefits-

Employer's Share Social Security	18,314	
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Contracted Services-

Printing and Binding	16,731	
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Materials and Supplies-

Office Supplies	12,613	
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The accompanying notes are an integral part of this financial statement.

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

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$ 2,323	
Dues	891	
Postage	3,365	
Miscellaneous	<u>12,675</u>	\$ 224,744

Capital Outlay-

Office Equipment	3,724	
Computer Equipment	<u>7,585</u>	11,309

Debt Service:

Lease Agreements		<u>4,104</u>
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Total Disbursements		<u>\$ 3,091,120</u>
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Net Receipts		198,074
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Less: Statutory Maximum		<u>88,663</u>
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Excess Fees		109,411
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Less: Expense Allowance	3,600	
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Training Incentive Benefit	<u>1,970</u>	<u>5,570</u>
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Excess Fees Due County for 2015		103,841
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Payment to Fiscal Court - March 10, 2016		<u>103,841</u>
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Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2015 services
- Reimbursements for 2015 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2015

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

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

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

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, 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. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

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

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

<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%

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

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

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Clay 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 Clay County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The Clay County Clerk's office received a local records grant from the Kentucky Department for Libraries and Archives in the amount of \$3,724. Funds totaling \$3,724 were expended during calendar year 2015. The unexpended grant balance was \$0 as of December 31, 2015.

Note 5. Service Agreement

The Clay County Clerk's office was committed to a support software maintenance agreement for computer software products. The agreement requires an annual payment of \$8,398 for four years to be completed on February 28, 2019. The total balance of the agreement was \$25,195 as of December 31, 2015.

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

Note 6. Lease Agreements

The Clay County Clerk's office was committed to a lease agreement for a postage machine and scale. The agreement requires a quarterly payment of \$192 for four years to be completed on October 1, 2016. The total balance of the agreement was \$576 as of December 31, 2015.

The Clay County Clerk's office was committed to a lease agreement for a copier. The agreement requires a monthly payment of \$142 for 36 months to be completed on March 4, 2018. The total balance of the agreement was \$3,698 as of December 31, 2015.

The Clay County Clerk's office was committed to a lease agreement for a copier. The agreement requires a monthly payment of \$174 for 36 months to be completed on February 3, 2018. The total balance of the agreement was \$4,350 as of December 31, 2015.

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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*





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Johnny Johnson, Clay County Judge/Executive  
The Honorable Michael Baker, Clay County Clerk  
Members of the Clay 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 Clay County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated October 13, 2016. The Clay 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 Clay 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 Clay County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clay County Clerk's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2015-001 that we consider to be a significant deficiency.



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 Clay 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 Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

October 13, 2016

COMMENT AND RECOMMENDATION



CLAY COUNTY  
MICHAEL BAKER, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2015

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

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

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The bookkeeper's duties consist of receiving cash, issuing receipts, preparing bank deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers and preparing monthly, quarterly, and annual financial reports. Additionally, we noted that disbursement checks require only one signature.

A limited number of staff members due to budget restrictions prevents proper segregation of duties.

Lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

The segregation of duties over various accounting functions such as receiving cash, issuing receipts, preparing bank deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers and preparing monthly, quarterly, and annual financial reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and inaccurate financial reporting, the county clerk should separate the duties involving issuing receipts, disbursements, and bank reconciliations. If that is not feasible, due to a limited number of staff, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the county clerk could provide this oversight. If the county clerk does implement compensating controls, these should be documented on the appropriate source documents. Examples of possible compensating controls include the following:

- The county clerk could initiate deputies counting other deputies' cash drawers at closing.
- The county clerk could review the bank reconciliation. Such review should include comparison of bank records to the receipts and disbursements ledgers and should be documented by the county clerk's initials on the reconciliations and supporting documentation.
- The county clerk could prepare or review the daily deposit. The county clerk should document his review by initialing the daily deposit slip.

Disbursements could be signed by two individuals, preferably, one of which is the county clerk. Accordingly, one of the check signers should also initial the supporting documentation.

*County Clerk's Response: No Response.*

