

**REPORT OF THE AUDIT OF THE
MORGAN 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 STATEMENT 6

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* 11

SCHEDULE OF FINDINGS AND RESPONSES 15

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Stanley Franklin, Morgan County Judge/Executive
The Honorable Randy Williams, Morgan County Clerk
Members of the Morgan 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 Morgan 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.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912

WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Stanley Franklin, Morgan County Judge/Executive
 The Honorable Randy Williams, Morgan County Clerk
 Members of the Morgan 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 Morgan 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 Morgan 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 Morgan 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 April 9, 2018, on our consideration of the Morgan 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 comments:

- 2016-001 The County Clerk Did Not Adhere To Payroll Procedures As Established In *The Morgan County Clerk's Office Employee Handbook*
- 2016-002 The County Clerk's Office Lacks Internal Controls Over Payroll

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

April 9, 2018

MORGAN COUNTY
 RANDY WILLIAMS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

| | | |
|--|----|-----------|
| State Revenue Supplement | \$ | 65,777 |
| State Fees For Services | | 3,296 |
| Fiscal Court | | 8,860 |
| Licenses and Taxes: | | |
| Motor Vehicle- | | |
| Licenses and Transfers | \$ | 463,404 |
| Usage Tax | | 634,089 |
| Tangible Personal Property Tax | | 1,021,584 |
| Other- | | |
| Fish and Game Licenses | | 6,176 |
| Marriage Licenses | | 3,479 |
| Deed Transfer Tax | | 11,948 |
| Delinquent Tax | | 187,221 |
| | | 2,327,901 |
| Fees Collected for Services: | | |
| Recordings- | | |
| Deeds, Easements, and Contracts | | 7,173 |
| Real Estate Mortgages | | 10,382 |
| Chattel Mortgages and Financing Statements | | 43,573 |
| Powers of Attorney | | 676 |
| Affordable Housing Trust | | 9,156 |
| All Other Recordings | | 14,062 |
| Charges for Other Services- | | |
| Candidate Filing Fees | | 550 |
| Copywork | | 1,579 |
| | | 87,151 |
| Other: | | |
| Title Applications | | 3,570 |
| Miscellaneous | | 6,451 |
| | | 10,021 |
| Interest Earned | | 58 |
| Total Receipts | | 2,503,064 |

MORGAN COUNTY
 RANDY WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

| | | | |
|--------------------------------|----|---------|--|
| Licenses and Transfers | \$ | 334,694 | |
| Usage Tax | | 615,057 | |
| Tangible Personal Property Tax | | 348,751 | |

Licenses, Taxes, and Fees-

| | | | |
|--------------------------|--|--------|--------------|
| Fish and Game Licenses | | 5,888 | |
| Delinquent Tax | | 13,808 | |
| Legal Process Tax | | 10,998 | |
| Marriage Licenses | | 1,392 | |
| Affordable Housing Trust | | 9,096 | \$ 1,339,684 |

Payments to Fiscal Court:

| | | | |
|--------------------------------|--|--------|--------|
| Tangible Personal Property Tax | | 58,710 | |
| Delinquent Tax | | 6,829 | |
| Deed Transfer Tax | | 11,375 | 76,914 |

Payments to Other Districts:

| | | | |
|--------------------------------|--|---------|---------|
| Tangible Personal Property Tax | | 573,279 | |
| Delinquent Tax | | 112,234 | 685,513 |

Payments to Sheriff

16,286

Payments to County Attorney

23,650

Operating Disbursements:

Personnel Services-

| | | | |
|--------------------|--|---------|--|
| Deputies' Salaries | | 158,840 | |
| Part-Time Salaries | | 734 | |

Employee Benefits-

| | | | |
|----------------------------------|--|--------|--|
| Employer's Share Social Security | | 18,272 | |
| Employer's Share Retirement | | 39,988 | |

MORGAN COUNTY
 RANDY WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements (Continued)

| | | | |
|---|----|--------------|---------------------|
| Other Charges- | | | |
| Conventions and Travel | \$ | 1,769 | |
| Dues | | 1,680 | |
| Postage | | 2,408 | |
| Office Supplies | | 8,375 | |
| Telephone | | 3,657 | |
| Office Expense | | 18,460 | |
| Refunds | | 7,480 | |
| | | | \$ 261,663 |
| Total Disbursements | | | 2,403,710 |
| Less: Disallowed Disbursement | | | <u>2,257</u> |
| Total Allowable Disbursements | | | <u>\$ 2,401,453</u> |
| Net Receipts | | | 101,611 |
| Less: Statutory Maximum | | | <u>83,356</u> |
| Excess Fees | | | 18,255 |
| Less: Expense Allowance | | 3,600 | |
| Training Incentive Benefit | | <u>3,969</u> | <u>7,569</u> |
| Excess Fees Due County for 2016 | | | 10,686 |
| Payment to Fiscal Court - February 28, 2017 | | | <u>8,157</u> |
| Balance Due Fiscal Court at Completion of Audit | | | <u>\$ 2,529</u> |

MORGAN 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.

MORGAN 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 \$42,355, calendar year 2015 was \$38,937, and calendar year 2016 was \$39,988.

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.

MORGAN 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 Morgan 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 Morgan 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. Grant

The Morgan County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$9,735. Funds totaling \$0 were expended during the year. The unexpended grant balance was \$9,735 as of December 31, 2016.

Note 5. Lease Agreements

- A. The Morgan County Clerk's office is committed to a lease agreement for two copiers. The agreement requires a monthly payment of \$261 for 60 months to be completed on May 12, 2017. The total balance of the agreement was \$3,129 as of December 31, 2016.
- B. The Morgan County Clerk's office is committed to a lease agreement for a fax machine. The agreement requires a monthly payment of \$87 for 36 months to be completed on July 16, 2018. The total balance of the agreement was \$1,649 as of December 31, 2016.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

THIS PAGE LEFT BLANK INTENTIONALLY



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Stanley Franklin, Morgan County Judge/Executive
The Honorable Randy Williams, Morgan County Clerk
Members of the Morgan 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 Morgan County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated April 9, 2018. The Morgan 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 Morgan 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 Morgan County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan 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 was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2016-002 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 Morgan County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

Views of Responsible Official and Planned Corrective Action

The Morgan 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 Monroe 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

April 9, 2018

SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

MORGAN COUNTY
RANDY WILLIAMS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

STATE LAWS AND REGULATIONS:

2016-001 The County Clerk Did Not Adhere To Payroll Procedures As Established In *The Morgan County Clerk's Office Employee Handbook*

There were numerous occurrences of sick leave being included as work time for the purpose of overtime calculations, resulting in employees being paid at a rate of one and a half times the hourly rate rather than the hourly rate. This affected all full-time employees at least once during the year. Employees were also paid salary advancements before having actually worked enough hours to have earned the payments advanced. Four full time employees had a total of 61 occurrences of advanced payroll payments made to them, 25 of which were before the full amount advanced to them had been earned.

The county clerk failed to follow payroll procedures described in *The Morgan County Clerk's Office Employee Handbook* that detail how these situations should be handled.

As a result of inaccurate overtime calculations, employees were paid at a rate of time and a half rather than straight time for some hours, resulting in \$2,529 in payroll overpayments. These are considered disallowed disbursements of the fee account. When payroll advancements are made before the employee has earned the salary, there is always a risk the employee will be unable fulfill the work obligations and the county clerk will have spent taxpayer funds unnecessarily.

According to *The Morgan County Clerk's Office Employee Handbook*:

- “Whenever overtime is required, overtime pay is calculated at regular pay until you reach 40 hours in a work week (Monday through Saturday). After 40 work hours worked per week, the balance of overtime hours will be at the rate of one and one-half hour for each overtime hour past 40 worked. The phrase time and one-half for overtime worked is pertinent. If you take sick leave (including time off for medical appointments), funeral leave, Jury duty leave, maternity leave or miss work time for any other reason, your overtime calculation we (sic) be a (sic) straight time until you have worked 40 hours during the week. This provision does not apply to vacation leave or holiday leave.”
- “Your pay is a figure stated in hourly wages. Pay periods are once monthly. Pay is received on the 30th for work performed during that month. Any advance must be approved by the Clerk and can be for no more than the amount of hours worked during that month.”

We recommend the following:

- \$2,529 needs to be reimbursed to the fee account and is included in the excess fee amount as reported on the audited financial statement. We recommend the reimbursement be made to the fee account and excess fees be paid to the fiscal court as quickly as possible in order to settle the 2016 fee account.
- The county clerk should pay overtime in adherence to the policy as stated in *The Morgan County Clerk's Office Employee Handbook*.

Clerk's Response: I will adopt a new employee handbook and have Fiscal Court approve. I have done payroll that way for 16 years and been audited by state and private firms and no one mentioned to me that it was incorrect.

Auditor's Reply: It is management's responsibility to follow all applicable requirements set forth in The Morgan County Clerk's Office Employee Handbook.

MORGAN COUNTY
RANDY WILLIAMS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2016-002 The County Clerk's Office Lacks Internal Controls Over Payroll

The county clerk requires full time deputies to maintain time cards. Time cards are submitted to the county clerk, who reviews and submits to the payroll clerk. The county clerk does not initial or sign to document his review of the timesheets. We also noted several instances of missing time cards.

These deficiencies occurred due to the lack of internal controls over the payroll process.

By not signing off on the time cards, there is no documentation that the county clerk reviewed and approved the hours worked or leave time. Missing time cards could indicate employees were paid for time not worked, or were not paid for all time worked, but in the absence of the time card, there is no way to know.

Good internal controls dictate timesheets should be reviewed for accuracy by an immediate supervisor and recalculated by someone other than the preparer. KRS 337.320(1)(b) states "every employer shall keep a record of" "the hours worked each day and each week by each employee." Good internal controls would also require signatures of employees and supervisors to document time worked as agreed to by both parties.

We recommend that the county clerk initial or sign all time cards to verify the accuracy of the time worked and leave used. We recommend that the county clerk maintain records of each employee's hours worked per KRS 337.320.

Clerk's Response: I will adhere to policies in the updated employee handbook.