

**REPORT OF THE AUDIT OF THE
TAYLOR COUNTY
CLERK**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Eddie Rogers, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor 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 Taylor 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 Eddie Rogers, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor 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 Taylor 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 Taylor 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 Taylor 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 July 20, 2017, on our consideration of the Taylor 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.

The Honorable Eddie Rogers, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor 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:

- 2016-001 The Taylor County Clerk's Office Lacks Adequate Segregation Of Duties
- 2016-002 The Taylor County Clerk Did Not Deposit Funds Intact Daily
- 2016-003 The Taylor County Clerk Did Not Adhere To The Fiscal Court's *Personnel Policies And Procedure Handbook* Or Implement His Own Written Policy
- 2016-004 Timesheets Did Not Reflect Actual Hours Worked By Employees
- 2016-005 The Taylor County Clerk Did Not Maintain Records To Support Hours Worked By Individuals Performing Scanning Duties And Issued 1099 Forms Instead Of W-2 Forms

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 20, 2017

TAYLOR COUNTY
 MARK CARNEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Fees for Services		\$ 6,491
Fiscal Court		30,239
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 873,094	
Usage Tax	2,944,478	
Tangible Personal Property Tax	1,985,316	
Lien Fees	12,116	
Other-		
Marriage Licenses	6,638	
Deed Transfer Tax	63,803	
Delinquent Tax	127,992	6,013,437
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	12,301	
Real Estate Mortgages	31,663	
Chattel Mortgages and Financing Statements	73,987	
Powers of Attorney	3,493	
Affordable Housing Trust	23,220	
All Other Recordings	28,470	
Charges for Other Services-		
Copywork	5,377	178,511
Other:		
Preparing and Printing Tax Bills	1,990	
Election Filing Fee	1,000	
Election Commission and Fees	250	3,240
Interest Earned		2,819
Total Receipts		6,234,737

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

TAYLOR COUNTY
 MARK CARNEY, 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 \$ 599,578

Usage Tax 2,846,339

Tangible Personal Property Tax 703,165

Licenses, Taxes, and Fees-

Delinquent Tax 14,603

Legal Process Tax 23,771

Affordable Housing Trust 23,220 \$ 4,210,676

Payments to Fiscal Court:

Tangible Personal Property Tax 126,040

Delinquent Tax 9,676

Deed Transfer Tax 60,613 196,329

Payments to Other Districts:

Tangible Personal Property Tax 1,076,699

Delinquent Tax 65,284 1,141,983

Payments to Sheriff 11,331

Payments to County Attorney 16,338

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 253,080

Part-Time Salaries 3,545

Overtime 1,600

Employee Benefits-

Employer's Share Social Security 25,511

Employer's Paid Health Insurance 78,608

Contracted Services-

Indexing and Web 8,140

Printing and Binding 4,455

Materials and Supplies-

Office Supplies 10,734

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

TAYLOR COUNTY
 MARK CARNEY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	2,119	
Dues		980	
Refunds		9,804	
Credit/Debit Equipment and Fees		13,001	
Miscellaneous		571	\$ 412,148
Capital Outlay-			
Office Fixtures/Remodel			<u>887</u>
Total Disbursements			<u>\$ 5,989,692</u>
Net Receipts			245,045
Less: Statutory Maximum			<u>89,310</u>
Excess Fees			155,735
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,969	<u>7,569</u>
Excess Fees Due County for 2016			148,166
Payment to Fiscal Court - March 14, 2017			<u>147,500</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 666</u>

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

TAYLOR 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.

TAYLOR 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.

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.

TAYLOR 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 Taylor 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 Taylor 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 Taylor County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$12,525 during calendar year 2016. No grant funds were expended during the year. The unexpended grant balance was \$12,525 as of December 31, 2016.

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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 Eddie Rogers, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor 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 Taylor County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated July 20, 2017. The Taylor 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 Taylor 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 Taylor County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Taylor 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 and another deficiency that we consider to be a significant deficiency.

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 2016-001 and 2016-002 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)

Internal Control over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-004 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Taylor 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 2016-002, 2016-003, 2016-004, and 2016-005.

Views of Responsible Official and Planned Corrective Action

The Taylor County Clerk's views and planned corrective action to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The 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 20, 2017

SCHEDULE OF FINDINGS AND RESPONSES

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

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

The Taylor County Clerk's office lacks adequate segregation of duties over receipts and disbursements. This is a repeat finding and was included in the prior year report as finding 2015-001. For the majority of the year, the same deputy prepared the daily checkout sheet, prepared the daily deposit, and posted to the receipts ledger. In addition, the deputy also collects money from customers. The county clerk also performs these duties on occasion. Review of the daily checkout process by the county clerk is undocumented. Another deputy and the county clerk jointly prepare the quarterly financial reports. The county clerk prepares, signs, and posts all disbursements, with the exception of payroll. Another deputy performs the bank reconciliations for both the fee and payroll bank accounts, with the county clerk reviewing. The county clerk initialed the bank statements and occasionally the bank reconciliations, evidencing his review.

This condition is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to. Segregation of duties over receipts, disbursements, and the reconciliation process, or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, recording, and reporting of those receipts and disbursements. In addition, compensating controls would not be effective over duties performed by the county clerk. The lack of segregation of duties increases the county clerk's risk of misappropriation of assets, errors, and inaccurate financial reporting.

We recommend the county clerk strengthen internal controls by segregating these duties. If segregation of duties is not possible due to a limited staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

County Clerk's Response: This just seems to be a comment that will never go away. I feel pretty good about the cross training we are doing in the office and we attempt to document the different reports/tasks that we are required to do.

Auditor's Reply: Audits are required to report when an internal control weakness exists, such as a lack of segregation of duties, in order for management to be aware of the associated risks.

2016-002 The Taylor County Clerk Did Not Deposit Funds Intact Daily

The Taylor County Clerk did not deposit all funds collected intact daily. The county clerk's daily checkout sheets show each day's cash on hand is different rather than a set amount for the cash drawer each day. In addition, the county clerk leaves the daily cash receipts overnight in the office vault and makes the deposit the next day. This would normally be acceptable; however, the cash drawers are housed in a wooden cabinet in the vault. This is a repeat finding and was included in the prior year report as finding 2015-002.

This deficiency is allowed to occur because it is the county clerk's policy to only deposit cash bills, leave all change for startup cash, and to keep the cash drawers in the vault overnight.

TAYLOR COUNTY
 MARK CARNEY, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2016-002 The Taylor County Clerk Did Not Deposit Funds Intact Daily (Continued)

As a result of not depositing funds intact on a daily basis, the county clerk is not in compliance with guidelines set forth by the State Local Finance Officer. Also, if a fire were to occur due to electrical wiring in the vault, the wooden cabinet would be destroyed, along with all monies contained within.

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* recommends the minimum requirements for handling public funds pursuant to KRS 68.210. The manual requires "daily deposits intact into a federally insured banking institution[.]" The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn is increased.

We recommend the county clerk make daily deposits intact and leave a minimum of \$200 in each of the cash drawers as startup monies each day. We also recommend the county clerk either take the daily deposit to the bank overnight for safekeeping or house it in a fire proof safe in his office until the deposit can be made the next morning.

County Clerk's Response: We choose not to count drawers down to an exact amount each afternoon and deposit all remaining monies. To do this would mean that we deposited all funds that were taken in that day, however to do this would also mean that we were depositing dollar bills, quarters, dimes, nickels and pennies. I make a business decision to not deposit our coins and then turn around and go to the bank and get change to be able to operate that day. We will continue to deposit all big bills (\$100, \$50 and \$20) that we receive each day and occasionally deposit \$10 and \$5 bills but for the most part will keep each of those for change as we operate the next day. The POS system tracks the amount in each drawer. POS makes the closing procedures real easy and quick when used as we use it now.

As far as leaving the money in the vault over night, we do leave in the vault over night and while it is stored in a wooden cabinet, the vault itself is a fire proof vault.

Auditor's Reply: The Department for Local Government (DLG) requires that deposits be made intact daily. We have recommended the official follow the DLG policy, since DLG has the authority to set the policies and procedures for officials to follow.

2016-003 The Taylor County Clerk Did Not Adhere To The Fiscal Court's *Personnel Policies And Procedure Handbook* Or Implement His Own Written Policy

The Taylor County Clerk did not adhere to the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* or implement his own written policy. The county clerk's office employees were granted vacation leave according to the fiscal court's policy; however, sick leave balances were not in accordance with the fiscal court's policy. This is a repeat finding and was included in the prior year report as finding 2015-003.

Per the county clerk, he allows each employee to receive 12 sick/personal leave days per year, which complies with the fiscal court's policy. He only allows his employees to carry a maximum total of 30 days (240 hours) over into the next year. He also allows each employee to retain a maximum of six unused days (48 hours) for the year.

TAYLOR COUNTY
 MARK CARNEY, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2016-003 The Taylor County Clerk Did Not Adhere To The Fiscal Court's *Personnel Policies And Procedure Handbook* Or Implement His Own Written Policy (Continued)

Retained leave days can only be used in case of surgery, illness, or retirement. Any unused hours in excess of six retained days and hours that should be carried to the next year are lost.

Since the county clerk is not following the fiscal court's policy, his employees are not receiving the full benefits of being a county employee. County employees should not receive different levels of benefits without a "classification based on reasonable and natural distinctions[.]" OAG 83-150.

The Taylor County Fiscal Court's *Personnel Policies and Procedure Handbook* states, "[e]mployees hired prior to 7/1/11 may carry forward 968 hours of accumulated sick leave for retirement through Kentucky Retirement Systems. These hours will be used to extend the employees retirement date, wages and benefits from Taylor County Fiscal Court. At time of retirement any additional hours accumulated above the 968 will be forfeited."

We recommend the county clerk adhere to the Taylor County Fiscal Court's *Personnel Policies and Procedure Handbook* or implement his own written policy.

County Clerk's Response: As stated in the audit, it says "per the county clerk, he allows each employee to receive 12 sick/personal days per year, which complies with fiscal court's policy". The next sentence states "he only allows his employees to carry a maximum total of 30 days (240 hours) over into the next year". The words he only allows would make you think that we are not following the county code, but on page 43 of the Taylor County Administrative Code Section 3.44 article A and in bold letters it states "employees can accumulate up to thirty (30) days to be carried forward from year to year". We are right on track with this. Where we are different is in the number of days that can be banked if not used. In the clerk's office, I have a policy that only 6 days can be banked per year. An employee can start a year with 30 days max per County Administrative Code.

They accumulate 12 more during the year. Since an employee can only carry 30 over to the next year if none were used then the County does allow for all 12 days to be banked. I have an agreement with the employees who are eligible to bank that they can bank only six days. I do this because I believe in a small office when someone retires with a huge number of banked days that it could be a burden on the office who would still be paying wages to the employee and in some cases could not replace the employee with another employee until those banked days or at least a big majority of them have been paid. Our budget is set in January with a maximum amount to be spent on deputies defined during January. Someone could retire in April and a clerk not know that in January and because maximum has been set it could be months before we could replace that employee if they were allowed to bank the full 12 days each year. That is one reason I limit banked days to 6. However, employees do not "lose" the other 6 days. We work together to make sure their total allowable days are used even if it means extra days off in December. All employees that are eligible for banked days in a certain year understand how this works. All employees in the office are given a personal benefit statement in January of each year that covers wages, insurance, sick/personal days, vacation, banked days, etc.

However, all of that being said, I do realize that a written policy presented to fiscal court could help with this comment in the audit. I do feel like the benefit statements are a written agreement between the deputies and the clerk, but understand I should present a written policy to the court as well. I will plan to do a policy with the court in December 2017.

Auditor's Reply: We reiterate the recommendation in the finding that the official implement his own written policy or fully follow the fiscal court policy.

TAYLOR COUNTY
 MARK CARNEY, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2016-004 Timesheets Did Not Reflect Actual Hours Worked By Employees

The Taylor County Clerk required full time deputies to maintain timesheets; however, the hours did not always reflect the actual hours worked or leave taken by the employees for the pay period.

The following deficiencies were noted:

- The county clerk allows deputies who work four hours on Saturday to have an eight hour day off during the same week. Therefore, timesheets would reflect 36 hours and the individual earning records (IER) would reflect 40 hours worked.
- The county clerk paid each of his full time employees \$100, less withholdings twice a year during elections without the amount being tied to overtime hours worked. Only one employee's timesheet shows overtime hours worked during the general election; however, the overtime hours are not included on the employee's IER.
- Employees are paid for 40 hours of vacation leave in advance.

These deficiencies occurred due to the county clerk not having a written policy stating his office hours and work schedule and by not adhering to the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook*.

As a result of inaccurate timesheets, employees could be paid for more or less hours than actually worked, especially if overtime is worked during elections.

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 states "[e]very employer shall keep a record of ...[t]he hours worked each day and each week by each employee[.]" Also, the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* requires "...employees should accurately record the time they begin their work and end their work..." KRS 337.285(1) states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours . . . in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." Additionally, KRS 45.340 and OAG 79-448 state that checks shall be tendered to an officer or employee only after he/she has completed the work for which he/she is being paid.

We recommend the following:

- All employees should prepare a timesheet each period indicating the actual hours worked and any sick or vacation leave taken.
- The county clerk should ensure overtime is paid in compliance with KRS 337.285(1).
- The county clerk should adhere to fiscal court's policy or implement his own written policy including his office hours and work schedule.
- The county clerk should ensure no employee is paid for any hours worked or leave taken prior to actually working the hours or taking the leave.

TAYLOR COUNTY
 MARK CARNEY, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2016-004 Timesheets Did Not Reflect Actual Hours Worked By Employees (Continued)

County Clerk's Response: Employees sign time sheets on a weekly basis. It is my management decision to give those individuals who work a Saturday a full day off the next week. This is a practice that we have been doing for 15 years, since I first became clerk in January of 2003.

As far as vacation pay goes, employees are paid the week before their vacation. Deputies get paid each Friday. If a deputy is going to be on vacation the following week they are paid on the Friday before they leave for the week. The clerk thinks this is standard operating procedure for any business. The employee will not be at work the next week to get their check because they are on vacation. Vacation checks are not earned during the actual week the deputy is on vacation. The vacation check has already been earned through their time of service.

Auditor's Reply: We reiterate the recommendation in the finding that the official should consider implementing his own written policy detailing how employees are to be paid. This policy must adhere to all applicable wage and hour laws.

2016-005 The Taylor County Clerk Did Not Maintain Records To Support Hours Worked By Individuals Performing Scanning Duties And Issued 1099 Forms Instead Of W-2 Forms

The Taylor County Clerk did not maintain records or require timesheets to support \$3,545 in payments to individuals hired to scan documents. In addition, he issued 1099 forms instead of W-2 forms.

The county clerk does not require individuals to keep track of hours worked. He tracks the hours and notes number of hours worked on each check paid to the individual. His policy is to issue IRS 1099 forms to individuals hired to scan documents that earn over \$600.

As a result of not keeping supporting documentation for hours worked, the county clerk and payee could disagree on hours worked. Also, by not withholding social security taxes from the paychecks, the individuals will not receive benefits to be paid out upon retirement age. Benefit payments are based upon how much an individual earns during their working career. Higher lifetime earnings results in higher benefits upon reaching retirement age.

Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958) established the criterion that all expenses of the county officials be supported by adequate documentation.

Per the Internal Revenue Service's Quick Reference Guide for Public Employees, "an employee is anyone who performs services subject to the will and controls of the individual or entity paying for the services." In addition, the Guide states "Employers report taxable wages on Form W-2, Wage and Tax Statement, which is furnished to the employees and transmitted to the Social Security Administration using Form W-3, Transmittal of Wage and Tax Statements." KRS 337.320 states "[e]very employer shall keep a record of ...[t]he hours worked each day and each week by each employee[.]"

We recommend the county clerk maintain supporting documentation for individuals performing scanning duties for his office. We further recommend the county clerk review the definition of an employee and comply with the requirements of the Internal Revenue Service and state law.

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2016-005 The Taylor County Clerk Did Not Maintain Records To Support Hours Worked By Individuals Performing Scanning Duties And Issued 1099 Forms Instead Of W-2 Forms (Continued)

County Clerk's Response: Part time employees who help with special projects or fill in during vacation time are paid for their services but do not receive any benefits. Since no benefits are involved and no sick days, vacation used, etc needs to be tracked on a check stub or other document, I was thinking that the part time employees signature on the back of the check and my signature on the front of the check with the number of hours worked on the memo line of the check could mean that the actual check would actually serve as a "time sheet". However, I understand that this could bring about other issues such as tracking/posting/proving when someone actually worked not just the number of hours, we will begin using a log for each part time employee.

