REPORT OF THE AUDIT OF THE TAYLOR COUNTY CLERK

For The Year Ended
December 31, 2017

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

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2017, 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

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, 2017, 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, 2017, 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 12, 2018, 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 Taylor County Clerk'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:

2017-001 The Taylor County Clerk's Office Lacks Adequate Segregation Of Duties
2017-002 The Taylor County Clerk Had $122 In Disallowed Disbursements
2017-003 The Taylor County Clerk Did Not Deposit Funds Intact Daily
2017-004 The Taylor County Clerk Did Not Adhere To The Fiscal Court's *Personnel Policies And Procedure Handbook* Or Implement His Own Written Policy
2017-005 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll
2017-006 The Taylor County Clerk Did Not Require Third-Party Purchaser's To Make Deposits And Payments In Accordance With 103 KAR 5:180

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

July 12, 2018

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

For The Year Ended December 31, 2017

Receipts		
State Fees For Services		$ 8,307
Fiscal Court		31,919
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 890,975	
Usage Tax	2,833,517	
Tangible Personal Property Tax	2,091,190	
Lien Fees	12,768	
Other-		
Marriage Licenses	6,887	
Deed Transfer Tax	79,600	
Delinquent Tax	241,628	6,156,565
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	12,673	
Real Estate Mortgages	31,149	
Chattel Mortgages and Financing Statements	68,918	
Powers of Attorney	3,061	
Affordable Housing Trust	23,988	
All Other Recordings	29,674	
Charges for Other Services-		
Copywork	6,368	175,831
Other:		
Election Filing Fees		2,150
Interest Earned		2,976
Total Receipts		6,377,748

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, 2017
(Continued)

Disbursements		
Payments to State:		
Motor Vehicle-		
Licenses and Transfers	$ 613,098	
Usage Tax	2,748,512	
Tangible Personal Property Tax	747,683	
Licenses, Taxes, and Fees-		
Delinquent Tax	27,501	
Legal Process Tax	22,884	
Affordable Housing Trust	23,988	$ 4,183,666
Payments to Fiscal Court:		
Tangible Personal Property Tax	131,882	
Delinquent Tax	18,531	
Deed Transfer Tax	75,620	226,033
Payments to Other Districts:		
Tangible Personal Property Tax	1,127,979	
Delinquent Tax	133,719	1,261,698
Payments to Sheriff		19,239
Payments to County Attorney		24,831
Operating Disbursements and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	251,635	
Part-Time Salaries	9,645	
Employee Benefits-		
Employer's Share Social Security	26,791	
Employer's Paid Health Insurance	77,359	
Contracted Services-		
Index/Web	7,899	
Printing and Binding	4,476	
Materials and Supplies-		
Office Supplies	12,973	

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2017
(Continued)

Disbursements: (Continued)			
Operating Disbursements and Capital Outlay (Continued):			
Other Charges-			
Conventions and Travel	$ 1,065		
Dues	1,080		
Office Fixtures/Remodel	2,000		
Credit/Debit Equipment and Fees	15,082		
Refunds	581		
Miscellaneous	315	$ 410,901	
Capital Outlay-			
Office Equipment		5,690	
Total Disbursements			$ 6,132,058
Less: Disallowed Disbursements (Penalties and Interest)			122
Total Allowable Disbursements			6,131,936
Net Receipts			245,812
Less: Statutory Maximum			91,162
Excess Fees			154,650
Less: Expense Allowance		3,600	
Training Incentive Benefit		4,052	7,652
Excess Fees Due County for 2017			146,998
Payment to Fiscal Court - March 13, 2018			146,000
Balance Due Fiscal Court at Completion of Audit *			$ 998

* - The county clerk presented a check to the fiscal court for excess fees of $876 and disallowed disbursements of $122 for a total of $998 on July 12, 2018.

TAYLOR COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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.

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 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.

<u>Health Insurance Coverage</u>

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.

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

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, 2017, 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, 2017.

THIS PAGE LEFT BLANK INTENTIONALLY

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

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2017, and the related notes to the financial statement and have issued our report thereon dated July 12, 2018. 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.

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 2017-001, 2017-002, 2017-003, and 2017-005 to be material weaknesses.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

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 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 2017-002, 2017-003, 2017-004, 2017-005, and 2017-006.

Views of Responsible Official and Planned Corrective Action

The Taylor 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 Taylor County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

July 12, 2018

SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

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

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Taylor County Clerk's Office Lacks Adequate Segregation Of Duties

The deputy who prepares the daily checkout sheet also collects money, prepares the daily deposit, and posts to the ledger. The county clerk also performs these duties. Another deputy and the county clerk jointly prepare the quarterly financial reports. The county clerk prepares, signs, and posts all disbursements. The clerk performs bank reconciliations the majority of the time with no one reviewing. This is a repeat finding and was included in the prior year audit report as finding 2016-001.

The condition is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to. 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. 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.

We recommend the county clerk strengthen internal controls by segregating these duties. If segregation is not possible due to a limited number of 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: As commented in last year's response, this just seems to be a comment that will never go away. I believe that we do an adequate job of cross training in the office and we attempt to document the different reports/tasks that we are required to do.

Auditor's Reply: Auditors 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.

2017-002 The Taylor County Clerk Had $122 In Disallowed Disbursements

The Taylor County Clerk paid $102 in interest to the Kentucky State Treasurer and $20 in penalties and interest to the Internal Revenue Service (IRS) during calendar year 2017. These charges are not necessary disbursements in the operation of the county clerk's office. Due to an uncorrected error in the usage tax reported and paid for one week of the year, the county clerk was charged interest of $102 for being 32 days late. In addition, the county clerk failed to pay one pay period's 941 taxes to the Internal Revenue Service and was charged $12 penalty for failure to pay two months late and $8 interest. The county clerk did not realize this call-in amount did not get paid until he received notice from the IRS.

Paying penalties and interest fees which are not necessary or beneficial to the public reduces the amount of operating funds for the county clerk's office and also reduces the amount of excess fees paid to the fiscal court.

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Taylor County Clerk Had $122 In Disallowed Disbursements (Continued)

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. KRS 138.464(1) states, "[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period."

Good internal controls dictate the county clerk should monitor disbursements to ensure compliance with federal and state laws and regulations and to ensure payments are timely to avoid penalties and interest charges.

We recommend the county clerk reimburse the 2017 fee account $122 for disallowed disbursements. This amount should then be turned over to the fiscal court as additional excess fees from 2017. Additionally, we recommend the county clerk monitor his disbursements to ensure all disbursements are allowable and in accordance with the guidelines established in Funk v. Milliken and KRS 138.464.

County Clerk's Response: I paid $102 in interest to Kentucky for an incorrect usage tax deposit that we made and did not catch until the next month reconciling the bank statement. This is my 16th year as clerk and I will say that in at least 12 of the prior years, at one time or another and in a few years 2 or 3 times, we have made human mistakes in making the deposit. The mistake is often not caught until you are reconciling the bank statement the following month. We call Revenue and tell them of the mistake in the deposit and make the necessary steps to correct it. They send out a bill as they are required to do and say send a letter and we will waive the penalty but we cannot waive the interest. I have always send the requested letter and paid the interest fee out of the County Clerk fee account. So during 2017, I did what I have always done since becoming clerk in 2002 and that was pay the interest charge out of the Clerk Fee Account. This is the first time I have been informed that this is a disallowed disbursement and made to pay the Clerk Fee account out of my own pocket.

The other $20 "disallowable disbursement" was from a Federal Tax Deposit that we make every week. We enter this in over the phone and while entering one in we put the wrong date as the payment, which thus made it late. When I received the notice from the IRS, I called them and talked to them. They said with our good paying record that there would only be a $20 charge. I had not had to pay the IRS before, but assumed it was a disbursement that could be made from the fee account. From this audit, I have learned that is not an allowed disbursement. I guess that is the chance I take, by doing our payroll in house – I am human and will surely make a few mistakes along the way. But I would much rather pay $20 out of my pocket and save the taxpayers and county money by doing our own payroll instead of paying an outside agency. Paying someone else to do it all (as has been done in the past) would be easier and I might not have as many audit comments about payroll, but in my opinion not the best option for our county.

Auditor's Reply: A proper segregation of duties or implementation of compensating controls would help prevent errors from occurring to ensure payments are being made correctly and agree to supporting documentation during the daily checkout procedures.

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-003 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. 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 2016-002.

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. As a result of not depositing funds intact daily, 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 (DLG) *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 there to be "[d]aily 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 set amount 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 the 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 and some change. 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 the office with. We do make deposits every day (we deposit the following day), but we only deposit the big bills ($100, $50 and $20) and occasionally some tens or fives. The KAVIS system tracks the amount of money in each drawer. KAVIS makes the closing procedures real easy and quick when used as we use it now.

As for leaving the money in the vault over night, although the vault is fireproof, I do understand the comment that an electrical fire could happen in the vault, therefore, we will be purchasing a safe to put the money in rather than keeping it in a cabinet as we do now.

Auditor's Reply: 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 official's to follow.

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 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 fiscal court's policy; however, sick leave balances were not in accordance with fiscal court's policy. This is a repeat finding and was included in the prior year audit report as finding 2016-003.

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 "bank" a maximum of six unused days (48 hours) for the year. "Banked" days can only be used in case of surgery, illness, or retirement. Any unused hours in excess of six "banked" days and hours that should be carried to the next year are lost.

Since the county clerk is not following fiscal court's policy, his employees are not receiving the same benefits as other county employees under the fiscal court's policies.

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 over 30 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 huge 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 majority of them have been paid. Our budget is set in January with a maximum amount to be spent on deputies defined in 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 the 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.

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Taylor County Clerk Did Not Adhere To The Fiscal Court's *Personnel Policies And Procedure Handbook* Or Implement His Own Written Policy (Continued)

County Clerk's Response: (Continued) I do realize that a written policy presented to fiscal court could help with this comment in the audit. I do believe that the benefit statements that the deputies receive each year serve as a written agreement between the deputies and the clerk.

Auditor's Reply: As mentioned in the prior year audit, we reiterate the recommendation that the official implement his own written policy or fully follow the fiscal court policy.

2017-005 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2016-004. 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 tested. In addition, two employees during the pay period tested did not sign their timesheets.

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.
- Employees were paid for 40 hours of vacation leave in advance.
- Employees were paid for hours worked during pay period tested in advance. This pay period ended on a Friday and the checks were written on the Tuesday before. In addition, employees were paid for the last week of the year in advance before actual hours worked.

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 after employees sign timesheets documenting hours worked. KRS 337.320(1) states, "[e]very employer shall keep a record of. . .The 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" 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.

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-005 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll (Continued)

We recommend the following:

- All employees should prepare and sign a timesheet each period indicating the actual hours worked and any sick or vacation leave taken.
- 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.

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

The comment that employees were paid for 40 hours of vacation leave in advance is mind boggling to me. We have done this-and I think do it correctly-since 2003 and I do not ever remember this comment showing up until the 2016 audit and then here it is again. VACATION PAY is already earned when the year starts. The administrative code says if you have worked X amount of years you have earned X number of weeks of vacation. We give the vacation check the pay period before your vacation because the employee will not be here the next week to get the check and they HAVE ALREADY EARNED IT BASED ON THEIR YEARS OF SERVICE.

As far as the audit comment about checks being written on a Tuesday, the auditor said the month she tested was November. I explained to her that we have a major Holiday in November where we are closed on Thursday and Friday so payday that week was a Wednesday not a Friday. I usually try to get the payroll done the afternoon before payday which would mean the checks were written on a Tuesday during one of the weeks tested. I feel this comment should not have been included considering the Holiday week. If I am blessed to still be living this Thanksgiving, I hope to get the payroll done on November 20th, which will be a Tuesday.

The comment that employees were paid for the last week of the year in advance before actual hours worked is definitely a comment that should be removed from the audit. For the first time in my Clerk career I took the week off between Christmas and New Years to go to Florida to watch my daughter play basketball during her Senior year. I did do the payroll and write the checks before I left, but the checks were kept in my drawer and chief deputy passed the checks out to the employees on the last day they worked not the week before.

Auditor's Reply: As mentioned in the prior year audit, we reiterate the recommendation that the official implement his own written policy or fully follow the fiscal court policy. Currently, the practice of awarding eight hours of leave for four hours worked on a Saturday, or the equivalent of double time regardless of the hours worked that week, is not an authorized policy and effectively treats Saturday hours worked differently than other time worked. OAG 79-448 states 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. The payroll checks mentioned above tested in November were dated on Tuesday and cleared the bank on Wednesday when employees would have still been working for this pay period.

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-006 The Taylor County Clerk Did Not Require Third-Party Purchasers To Make Deposits And Payments In Accordance With 103 KAR 5:180

The Taylor County Clerk did not require purchasers to make deposits at the time of registration as required by 103 KAR 5:180 for priority tax bills and current tax bills.

The county clerk stated he has some third party purchasers that may send a check, but not end up purchasing the bills, so he feels it is better to give them the check back instead of depositing the check and refunding it.

Failure to collect deposits can result in the county clerk not being able to cover any additional costs and expenses associated with any purchaser who fails to make full payment at the time of the tax sale.

103 KAR 5:180 requires third party purchasers make a deposit with county clerk for tax bills they wish to purchase at the tax sale. Purchasers are required to provide a deposit of 100% of tax bills listed on the purchaser's priority tax bill list and deposit 25% of the list of tax bills that the purchaser wishes to purchase at tax sale. Additionally, 103 KAR 5:180 requires purchasers to pay a registration fee of $5 for each priority tax bill and $10 for each current tax bill included on their list of tax bills they wish to purchase with the total registration fee not to exceed $250. The deposits made by the third party purchasers should be deposited to an official bank account when received. The deposits should be applied to the payment of the tax bills the purchaser purchases at the tax sale date and any balances refunded to the third party purchasers. The registration fee paid by the third party purchasers should be deposited to the fee account when received.

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

County Clerk's Response: As stated in the last year's comments, I knew this would be a comment in the 2017 audit. I think it is a much simpler process the way we have always conducted the sale. We have always conducted the tax sale without requiring the third party purchasers to pay a deposit, which I believe was an option when the tax sale law was created. We have had very well run and successful tax sales in the past with good participation. To me the more participation, the more delinquencies get sold, the more money goes to the local taxing districts. However, I do recognize the importance of following statue and will try to implement in 2019.