REPORT OF THE AUDIT OF THE TAYLOR COUNTY CLERK

For The Year Ended
December 31, 2021

MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Barry T. Smith, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

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, 2021, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Taylor County Clerk for the year ended December 31, 2021, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Taylor County Clerk, for the year ended December 31, 2021, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Taylor County Clerk and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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The Honorable Barry T. Smith, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor County Fiscal Court

Basis for Opinion (Continued)

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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Taylor County Clerk's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Taylor County Clerk's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

The Honorable Barry T. Smith, 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*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2022, 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 solely 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 effectiveness of 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.

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:

2021-001 The Taylor County Clerk's Office Does Not Have Adequate Segregation Of Duties
2021-002 The Taylor County Clerk Did Not Deposit Funds Intact Daily
2021-003 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll
2021-004 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
Frankfort, KY

August 1, 2022

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

For The Year Ended December 31, 2021

Receipts

State Fees For Services:		
Preparing & Printing Tax Bills	$ 6,865	
Election Commission & Fee for Reg. Voters	13,335	
Board of Assessments	100	$ 20,300
Fiscal Court:		
Employer's Share of FICA		30,311
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	990,229	
Usage Tax	4,048,148	
Tangible Personal Property Tax	2,604,555	
Lien Fees	17,380	
Disabled Placards	1,610	
Other-		
Marriage Licenses	9,450	
Deed Transfer Tax	165,280	
Delinquent Tax	316,673	8,153,325
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	53,523	
Real Estate Mortgages	106,938	
Chattel Mortgages and Financing Statements	68,800	
Powers of Attorney	8,880	
Affordable Housing Trust	31,140	
All Other Recordings	113,299	
Charges for Other Services-		
Candidate Filing Fees	2,050	
Copy Work	4,505	
Delinquent Tax Sale Registration Fees	4,865	394,000
Other:		
Return Checks	903	
Miscellaneous	889	1,792
Interest Earned		1,421
Total Receipts		8,601,149

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, 2021
(Continued)

Disbursements

Payments to State:		
Motor Vehicle-		
Licenses and Transfers	$ 629,138	
Usage Tax	3,926,517	
Tangible Personal Property Tax	949,654	
State Boat Registration Fees	57,099	
Disabled Placards	1,288	
Licenses, Taxes, and Fees-		
Delinquent Tax	35,712	
Legal Process Tax	25,345	
Affordable Housing Trust	31,140	$ 5,655,893
Payments to Fiscal Court:		
Tangible Personal Property Tax	162,364	
Delinquent Tax	22,521	
Deed Transfer Tax	156,849	341,734
Payments to Other Districts:		
Tangible Personal Property Tax	1,388,174	
Delinquent Tax	171,267	1,559,441
Payments to Sheriff		25,819
Payments to County Attorney		38,183
Tax Bill Preparation		3,789
Operating Disbursements and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	278,512	
Part-Time Salaries	12,278	
Election Tab/Election Part-time	800	
Employee Benefits-		
Employer's Share Social Security	30,311	
Employer's Paid Health Insurance	82,802	

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2021
(Continued)

Disbursements (Continued)			
Operating Disbursements and Capital Outlay: (Continued)			
Contracted Services-			
Computer Services - Web/Indexing	$ 30,050		
Materials and Supplies-			
Office Supplies	13,217		
Other Charges-			
Conventions and Travel	1,860		
Dues	2,010		
Credit/Debit Card Charges	25,442		
Miscellaneous Refunds and Return Checks	543		
Cash Drawers (Repay 2020 Account Opening Money)	1,086		
Capital Outlay-			
Office Equipment	929		
Office Fixtures/Remodel	4,589	$ 484,429	
Total Disbursements			$ 8,109,288
Net Receipts			491,861
Less: Statutory Maximum			98,352
Excess Fees			393,509
Less: Expense Allowance		3,600	
Training Incentive Benefit		4,373	7,973
Excess Fees Due County for 2021			385,536
Payment to Fiscal Court - March 14, 2022			387,000
Balance Due Fiscal Court at Completion of Audit*			$ (1,464)

* - Negative balance is due to the overpayment of excess fees to the fiscal court in the amount of $1,464. This money in addition to the ending cash balance of $1,097 will be used to pay the unpaid obligations of delinquent tax add-on fees of $2,423 due to the sheriff and delinquent tax underpayment of $138 to the county attorney, totaling $2,561.

TAYLOR COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2021

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 pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing clerk to make a final settlement with the fiscal court by March 15 immediately following the expiration of his or her term of office.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2021 services
- Reimbursements for 2021 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2021

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).

TAYLOR COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2021
(Continued)

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

The clerk's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority (KPPA). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the Kentucky Retirement System insurance fund.

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 covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 CERS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent 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.

The county's contribution rate for nonhazardous employees was 24.06 percent for the first six months and 26.95 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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%

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, they 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.

Benefits are covered under KRS 78.5536.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a $5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

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

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement System 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.

Kentucky Retirement System also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at https://kyret.ky.gov. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Taylor County Clerk maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual.* As of December 31, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The Taylor County Clerk's office was committed to a lease agreement for records software and hardware. The agreement requires a monthly payment of $2,225 for 60 months to be completed on March 31, 2025. The total balance of the agreement was $86,775 as of December 31, 2021.

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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Barry T. Smith, Taylor County Judge/Executive
The Honorable Mark Carney, Taylor County Clerk
Members of the Taylor County Fiscal Court

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, 2021, and the related notes to the financial statement and have issued our report thereon dated August 1, 2022. 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) as a basis for designing 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 over financial reporting 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 did identify 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 2021-001, 2021-002, 2021-003, and 2021-004 to be material weaknesses.

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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 financial statement. 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 2021-002, 2021-003, and 2021-004.

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
Frankfort, KY

August 1, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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

For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001 The Taylor County Clerk's Office Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2020-001. 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 county clerk performs bank reconciliations. No reviews of any records, ledgers, or reports were documented.

The lack of segregation of duties occurred because the county clerk failed to segregate incompatible duties. The county clerk states that he cannot hire additional employees to allow segregation of duties due to budget limitations. The limited number of employees restricts how the county clerk can delegate duties. This deficiency increases the risk of misappropriation of assets, errors and inaccurate financial reporting. Errors were not caught on delinquent tax disbursements causing additional amounts due after settlement.

Adequate segregation of duties over receipts, disbursements, and the reconciliation process would prevent the same person from having a significant role in these incompatible functions. The county clerk can implement oversight when duties cannot be segregated.

We recommend the county clerk segregate duties over receipts, disbursements, and reconciliations. If segregation of duties is not feasible due to lack of staff, we recommend the county clerk implement and document strong oversight over incompatible functions. The person providing this oversight should document his or her review by initialing all source documentation.

County Clerk's Response: No Comment. See prior year audits.

2021-002 The Taylor County Clerk Did Not Deposit Funds Intact Daily

This is a repeat finding and was included in the prior year audit report as finding 2020-002. This finding has been included in the audit report since calendar year 2008. 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. This deficiency is allowed to occur because it is the county clerk's policy to only deposit larger cash bills and checks, leave all change and smaller cash bills for startup cash. The county clerk knew the requirements to make all deposits intact daily but didn't agree with them for operational management purposes.

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 and increases the risk of possible theft. For the week tested, the following was noted:

- Additional receipts of $198 were deposited on August 2, 2021.
- Receipts of $35 were not deposited on August 3, 2021.
- Receipts of $82 were not deposited on August 4, 2021.
- Receipts of $77 were not deposited on August 5, 2021.
- Additional receipts of $84 were deposited on August 6, 2021.

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 "[d]aily deposits intact into a federally insured banking institution."

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Taylor County Clerk Did Not Deposit Funds Intact Daily (Continued)

Good internal controls dictate the practice of making daily deposits to reduce 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.

County Clerk's Response: As state in prior year audits, we will always choose not to deposit change and small bills. Therefore, it is my management decision to never count the drawers down to a set amount.

Auditor's Reply: The county clerk is legally required to make deposit of all receipts intact daily, and management cannot judgmentally choose which laws and regulations to follow or disregard. Not having a fixed amount of change fund in the drawers and not depositing all funds received each day increases fraud risk.

2021-003 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll

This is a repeat finding and was included in the prior year audit as finding 2020-004. The Taylor County Clerk required full time deputies to maintain timesheets; however, the hours did not always reflect the actual hours worked by the employees for the pay period tested. Additionally, the Taylor County Clerk's controls over payroll allowed employees to carry forward unused personal leave to subsequent years contrary to fiscal court policies.

- Full-time employees' individual earnings records and paycheck stubs show they received bonus payments indicated as "Election Bonus" above their established salaries.
- Full-time employees did not record hours worked on their timesheets the day of the special election. They were paid their regular pay rate on the eight hours and also received $100 listed on paycheck as "Election Bonus" for working the day of the special election. Timesheets for this pay period did not record complete and accurate hours worked and could not support full pay or overtime due employees. Overtime was not calculated for this pay period.
- One part-time employee did not record hours worked on the day prior to and the day after the special election. Payroll records indicated payment for 25.75 hours not supported by time worked on the weekly timesheet.
- During tested pay periods, the county clerk paid one employee in advance of the end of pay period during calendar year 2021. The employee was paid seven days in advance.
- The county clerk did not accurately track all sick leave usage for the year. Leave balances maintained by the clerk on weekly timesheets did not reconcile to leave time paid per payroll records for four employees.
- The county clerk allowed personal leave hours to be carried forward to subsequent years, contradicting fiscal court's policy of personal leave expiring annually.

These deficiencies occurred due to the county clerk not having a written policy stating his office hours and work schedule. Also, these deficiencies occurred due to the county clerk not adhering to the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* and state statutes, and the county clerk's lack of oversight over the payroll process. 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.

Employees are granted leave benefits superior to other county employees as a result of personal leave carried forward to subsequent years. Employees could be granted more or less leave time than they are due if leave use is accounted for inconsistently.

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll (Continued)

Good internal controls dictate timesheets should be reviewed for accuracy by the immediate supervisor and recalculated by someone other than the preparer after employees sign timesheets documenting hours worked. KRS 337.320(1) states, in part "[e]very employer shall keep a record of: …(b)The hours worked each day and each week by each employee[.]" KRS 337.285(1) requires employers to pay employees for hours worked in excess of forty 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. In addition, the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* requires "employees should accurately record the time they begin and end their work" and non-exempt employees to "be paid at the rate of one and one-half their regular hourly rate of pay for all time worked in excess of 40 hours in any one workweek."

The Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* states, "Personal leave is not carried forward from year to year." The policies do not contain a leave banking system such as the county clerk has implemented for sick leave, but instead state that "[A] regular full-time employee will receive 48 hours of sick leave per year after their one year anniversary date" with no limitation on leave balance accrual limit.

KRS 45.340 states, in part, "[c]hecks shall be tendered to an officer or an employee only after he has completed the work for which he is being paid and not later than fifteen (15) days after the designated pay period…" In addition, 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 states "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)."

We recommend the following:

- All employees should prepare and sign a timesheet each pay period indicating the actual hours worked and any sick or vacation leave taken.
- The county clerk should not pay bonuses to employees.
- The county clerk should pay employees appropriate overtime pay based on actual hours worked.
- The county clerk should not pay employees before end of pay period.
- The county clerk should separately account for the accrual, use, and available balances of leave types.
- A secondary review should be documented to reconcile leave balances to leave paid, and to ensure payroll is properly supported.
- The county clerk should adhere to fiscal court's policy or implement his own written policy including his office hours and work schedule.

This finding will be referred to the Kentucky Labor Cabinet and the Taylor County Attorney.

County Clerk's Response: The Election Day pay given to the deputies for their extra work on Election day is always in the budget that is approved each year by Taylor County Fiscal Court. The auditors do not like the term "bonus", but really it is money earned for extra work done on this day and while it probably should be called something else, I do not understand while it appears in the audit as a comment when one can see that it has been approved each year by fiscal court. The audit also indicates that I pay early when giving employees vacation checks the Friday before their vacation. I work under the theory that employees have already earned their vacation check/pay based on their years of service. I feel that the other comments about payroll are minor oversights or mistakes and should not make it appear as though the clerk does not have control over the payroll.

TAYLOR COUNTY
MARK CARNEY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Taylor County Clerk Did Not Have Adequate Controls Over Payroll (Continued)

Auditor's Reply: The law requires timesheets to reflect actual hours worked each day, and the county clerk to pay overtime when required. The prohibition against bonuses paid to public employees derives from the Kentucky Constitution.

2021-004 The Taylor County Clerk Did Not Require Third-Party Purchasers To Make Deposits And Payments In Accordance With 103 KAR 5:180

This is a repeat finding and was included in the prior year audit report as finding 2020-003. 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 certificates of delinquency and current certificates of delinquency. The county clerk stated he followed the tax sale registration and deposit process as required in 2019 and felt the extra steps of requiring deposits then refunding large unused portions negatively affected the tax sale. The county clerk stated he made a management decision in 2020 to only require purchasers to pay registration fees, but he did not collect any deposits.

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. Establishing procedures contrary to established regulations places the county clerk in noncompliance with the relevant laws.

KRS 134.128(2)(g) requires the Department of Revenue to "[e]stablish advance deposit requirements for registered participants based upon the maximum amount the registered participant may pay for desired certificates of delinquency[.]" Consequently, 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 the value of each certificate of delinquency included on the purchaser's list of priority certificates of delinquency; deposit all clerk's fees associated with each certificate of delinquency included on the purchaser's list of priority certificates of delinquency; and deposit 25% of the value of each certificate of delinquency included on the purchaser's list of current certificates of delinquency. The county clerk shall accept payment of the deposit in a method of payment that complies with KRS 134.126(1)(b). The deposits should be applied to the payment of the certificates of delinquency the purchaser purchases at the sale and any unused portion of the deposit 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 certificates of delinquency they wish to purchase as required by 103 KAR 5:180.

County Clerk's Response: After doing this practice one year, we made a management decision to not require the deposits by the third party companies. The interest received from the bank these days, certianly does not warrant the extra time of handling the funds and paying most, if not all ot it, back after the sale.

Auditor's Reply: Relevant Kentucky Statutes and Regulations require the county clerk to demand and collect deposits for delinquent tax sale procedures, and management cannot judgmentally choose which laws and regulations to follow or disregard.