

**REPORT OF THE AUDIT OF THE
CARLISLE COUNTY
CLERK**

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



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
CARLISLE COUNTY CLERK

For The Year Ended
December 31, 2015

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

Financial Condition:

Excess fees increased by \$6,845 from the prior year, resulting in excess fees of \$7,000 as of December 31, 2015. Receipts decreased by \$30,199 from the prior year and disbursements decreased by \$37,044.

Report Comments:

- 2015-001 The Carlisle County Clerk Had \$100 Of Disallowed Disbursements From His 2015 Fee Account
- 2015-002 The Carlisle County Clerk Has Weak Internal Controls Over Timekeeping
- 2015-003 The Carlisle County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

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

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	13
COMMENTS AND RECOMMENDATIONS	17



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Carlisle County Clerk
Members of the Carlisle 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 Carlisle County, Kentucky, for the year ended December 31, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Carlisle County Clerk
Members of the Carlisle 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 Carlisle 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 Carlisle County Clerk, as of December 31, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2017 on our consideration of the Carlisle County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Carlisle County Clerk
Members of the Carlisle County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

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

- 2015-001 The Carlisle County Clerk Had \$100 Of Disallowed Disbursements From His 2015 Fee Account
- 2015-002 The Carlisle County Clerk Has Weak Internal Controls Over Timekeeping
- 2015-003 The Carlisle County Clerk's Office Lacks Adequate Segregation Of Duties

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

February 27, 2017

CARLISLE COUNTY
MICHAEL TOON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Revenue Supplement	\$	65,767	
State Fees For Services		2,209	
Fiscal Court		23,496	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	248,919	
Usage Tax		503,083	
Tangible Personal Property Tax		521,580	
Notary Fees		613	
Ad Val Liens		2,722	
Other-			
Marriage Licenses		1,612	
Deed Transfer Tax		14,000	
Delinquent Tax		22,235	1,314,764
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		3,292	
Real Estate Mortgages		5,339	
Chattel Mortgages and Financing Statements		16,676	
Powers of Attorney		452	
Affordable Housing Trust		4,624	
All Other Recordings		4,714	
Charges for Other Services-			
Copywork		1,158	
Postage		1,423	37,678
Other:			
Miscellaneous			2,721
Interest Earned			73
Total Receipts			1,446,708

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

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

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 194,571

Usage Tax 487,932

Tangible Personal Property Tax 199,789

Licenses, Taxes, and Fees-

Delinquent Tax 1,756

Legal Process Tax 5,149

Affordable Housing Trust 4,560 \$ 893,757

Payments to Fiscal Court:

Tangible Personal Property Tax 49,759

Delinquent Tax 3,084

Deed Transfer Tax 13,280 66,123

Payments to Other Districts:

Tangible Personal Property Tax 251,735

Delinquent Tax 10,277 262,012

Payments to Sheriff

1,656

Payments to County Attorney

2,762

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 109,923

Contracted Services-

Printing and Binding 2,587

Materials and Supplies-

Office Supplies 3,681

Other Charges-

Conventions and Travel 9,195

Dues 480

Postage 241

Miscellaneous 3,869 129,976

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

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

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-		
Office Equipment	\$	125
		<u> </u>
Total Disbursements		1,356,411
Less: Disallowed Disbursements		<u>100</u>
Total Allowable Disbursements		<u>\$ 1,356,311</u>
Net Receipts		90,397
Less: Statutory Maximum		<u>76,841</u>
Excess Fees		13,556
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>2,956</u>	<u>6,556</u>
Excess Fees Due County for 2015		7,000
Payment to Fiscal Court - February 24, 2015		6,318
Payment to Fiscal Court - March 9, 2016		<u>582</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 100</u></u>

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

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

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

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

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in 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 in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

CARLISLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (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 17.67 percent for the first six months and 17.06 percent for the last six months.

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

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

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

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

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.

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.

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

Note 3. Deposits

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

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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 Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Carlisle County Clerk
Members of the Carlisle 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 Carlisle County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated February 27, 2017. The Carlisle 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 Carlisle 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 Carlisle County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Carlisle 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 over financial reporting 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 comments and recommendations, 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 comments and recommendations as items 2015-002 and 2015-003 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Carlisle County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2015-001.

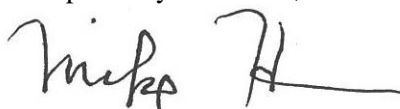
County Clerk's Responses to Findings

The Carlisle County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Carlisle 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

February 27, 2017

COMMENTS AND RECOMMENDATIONS

CARLISLE COUNTY
MICHAEL TOON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

STATE LAWS AND REGULATIONS:

2015-001 The Carlisle County Clerk Had \$100 Of Disallowed Disbursements From His 2015 Fee Account

The following disbursements have been disallowed from the county clerk's 2015 fee account:

- A meal in the amount of \$20
- A refund in the amount of \$80 from a hotel

The Carlisle County Clerk follows the county's travel policy which states that individuals will be reimbursed \$50 per day for meals from the day the individual leaves and including the day the individual returns. The county clerk properly paid himself the \$50 daily per diem for his travel expenses. However, due to the fact that he also reimbursed himself for the actual cost of the meal, the county clerk did not comply with the county's travel policy. Thus, the \$20 meal reimbursement has been disallowed.

The Carlisle County Clerk paid for a hotel stay with funds from the fee account. The hotel subsequently issued a refund in the amount of \$80. However, the refund was not deposited into the fee account. In accordance with Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Given the fact that the \$80 was refunded, it was not a necessary or beneficial expense. Because the refund was not deposited back into the fee account, it has been disallowed.

Disallowed disbursements should be repaid with a deposit of personal funds; therefore, we recommend the Carlisle County Clerk repay \$100 from his personal funds to the Carlisle County Fiscal Court.

County Clerk's Response: The hotel never sent a refund check so I was unable to deposit a refund ck. in the 2015 account. I contacted the mgr. and he issued me a check and I will forward said check to the fiscal court along with a personal check from myself for \$20.

Auditor Reply: The itemized hotel bill shows "Refund – Cash" totaling \$80 processed on July 3, 2015.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-002 The Carlisle County Clerk Has Weak Internal Controls Over Timekeeping

The Carlisle County Clerk does not require employees to maintain formal timesheets. Instead, employees keep track of their time and attendance with the use of calendars. However, due to a lack of internal controls, the calendars were not signed by the employees each pay period, and the county clerk did not document his approval of the employees' time. A lack of internal controls over timekeeping increases the risk of improperly compensating employees.

Strong internal controls over timekeeping are important to ensure that employees are being compensated for hours actually worked and that leave balances are being maintained and used in accordance with county policy. Therefore, we recommend the county clerk strengthen internal controls by requiring formal timesheets signed by employees each pay period. Also each pay period, the county clerk should review and document his approval of the employees' time by signing the timesheets. Approved timesheets should then be used to update and maintain employees' leave balances.

CARLISLE COUNTY
MICHAEL TOON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2015-002 The Carlisle County Clerk Has Weak Internal Controls Over Timekeeping (Continued)

County Clerk's Response: The official did not respond.

2015-003 The Carlisle County Clerk's Office Lacks Adequate Segregation Of Duties

The Carlisle County Clerk's office lacks adequate segregation of duties over the accounting and reporting functions. Due to a limited number of staff and the diversity of operations, the county clerk is responsible for multiple tasks such as preparing weekly and monthly reports, preparing checks for disbursements, completing monthly bank reconciliations, and preparing quarterly reports.

Segregation of duties over these tasks or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in writing checks, preparing weekly and monthly reports, completing monthly reconciliations, and preparing quarterly reports. If this is not feasible due to lack of staff, cross-checking procedures could be implemented. Such procedures should be documented by the individual performing them.

County Clerk's Response: The official did not respond.

