

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

**For The Period January 1, 2018
Through January 06, 2019**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, 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 former County Clerk of Carlisle County, Kentucky, for the period January 1, 2018 through January 06, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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



The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, 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 former 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 the former Carlisle County Clerk, for the period January 1, 2018 through January 06, 2019, or changes in financial position or cash flows thereof for the period 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 former Carlisle County Clerk for the period January 1, 2018 through January 06, 2019, 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 June 13, 2019, on our consideration of the former Carlisle 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 former Carlisle County Clerk's internal control over financial reporting and compliance.

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, 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 Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2018-001 The Former Carlisle County Clerk's Office Lacked Adequate Segregation Of Duties
- 2018-002 The Former Carlisle County Clerk Had Weak Internal Controls Over Timekeeping
- 2018-003 The Former Carlisle County Clerk Lacked Internal Controls Over Financial Reporting
- 2018-004 The Former Carlisle County Clerk Had \$3,497 Of Disallowed Disbursements For 2018
- 2018-005 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2016
- 2018-006 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2017
- 2018-007 The Former Carlisle County Clerk Was Not In Compliance With KRS 64.535
- 2018-008 The Former Carlisle County Clerk Did Not Submit The 2018 Annual Settlement Timely
- 2018-009 The Former Carlisle County Clerk Failed To Settle Prior Year Accounts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

June 13, 2019

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

For The Period January 1, 2018 Through January 06, 2019

Receipts

State Revenue Supplement	\$	67,427	
State Fees For Services			1,985
Fiscal Court			6,190
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	275,856	
Usage Tax			544,967
Tangible Personal Property Tax			652,481
Notary Fees			346
Ad Valorem Liens			3,210
Other-			
Fish and Game Licenses			7,526
Marriage Licenses			1,101
Deed Transfer Tax			19,826
Delinquent Tax			29,651
Handicap			100
Fish and Game Commissions		113	1,535,177
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts			2,767
Real Estate Mortgages			4,969
Chattel Mortgages and Financing Statements			16,332
Powers of Attorney			302
Affordable Housing Trust			4,289
All Other Recordings			3,875
Charges for Other Services-			
Candidate Filing Fees			1,800
Copy Work			1,006
Postage		1,052	36,392

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

CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 1, 2018 Through January 06, 2019
(Continued)

Receipts (Continued)

Other:

Miscellaneous	\$	743	
Returned Checks		<u>431</u>	\$ 1,174

Interest Earned			<u>48</u>
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Total Receipts			1,648,393
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	217,427	
Usage Tax		528,667	
Tangible Personal Property Tax		284,353	

Licenses, Taxes, and Fees-

Fish and Game Licenses		8,232	
Delinquent Tax		2,163	
Legal Process Tax		4,179	
Affordable Housing Trust		4,260	
Miscellaneous		3,497	
Handicap		<u>136</u>	1,052,914

Payments to Fiscal Court:

Tangible Personal Property Tax		49,698	
Delinquent Tax		4,058	
Deed Transfer Tax		<u>18,762</u>	72,518

Payments to Other Districts:

Tangible Personal Property Tax		294,523	
Delinquent Tax		<u>14,436</u>	308,959

Payments to Sheriff			2,556
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Payments to County Attorney			3,883
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CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 1, 2018 Through January 06, 2019
(Continued)

Disbursements (Continued)

Operating Disbursements:

Personnel Services-			
Deputies' Salaries	\$	70,460	
Contracted Services-			
Printing and Binding		2,656	
Materials and Supplies-			
Office Supplies		1,678	
Software Support		8,400	
Other Charges-			
Conventions and Travel		3,137	
Dues		720	
Postage		217	
Bank Charges		133	
Miscellaneous		492	
Telephone		2,015	
			\$ 89,908
Total Disbursements			<u>\$ 1,530,738</u>
Less: Disallowed Disbursements			
Usage Tax Penalties and Interest		3,497	
Former County Clerk's Net Salary Overpayment		18	
Total Disallowed Disbursements			<u>3,515</u>
Total Allowable Disbursements			<u>1,527,223</u>
Net Receipts			121,170
Less: Statutory Maximum			<u>80,674</u>
Excess Fees			40,496
Less: Expense Allowance		3,600	
Training Incentive Benefit		4,137	<u>7,737</u>
Excess Fees Due Fiscal Court for 2018 at Completion of Audit			<u>\$ 32,759</u>

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

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT

January 06, 2019

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 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) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2019 services
- Reimbursements for 2019 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2019

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 clerk's office has 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.

CARLISLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 06, 2019
 (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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS 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 KRS 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 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

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%

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT
January 06, 2019
(Continued)

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, 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 161.714 with exception of COLA and retiree health benefits after July 2003.

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

Once members reach a minimum vesting period of 15 years, 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 161.714 with exception of COLA and retiree health benefits after July 2003. 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.

CARLISLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
January 06, 2019
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS 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 former 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 former county clerk's deposits may not be returned. The former county clerk did 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 January 06, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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

The Honorable Greg Terry, Carlisle County Judge/Executive
The Honorable Michael Toon, Former Carlisle County Clerk
The Honorable Becky Martin, 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 former Carlisle County Clerk for the period January 1, 2018 through January 06, 2019, and the related notes to the financial statement and have issued our report thereon dated June 13, 2019. The former 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 former 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 former Carlisle County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Carlisle County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 2018-001, 2018-002, and 2018-003 to be material weaknesses.

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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*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, and 2018-009 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former 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 Schedule of Findings and Responses as item 2018-002.

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

June 13, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2018 Through January 06, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Carlisle County Clerk's Office Lacked Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-006. The former Carlisle County Clerk's office lacked adequate segregation of duties over the accounting and financial reporting functions. The former county clerk was responsible for multiple tasks such as preparing weekly and monthly reports, preparing checks for disbursements, completing monthly bank reconciliations, and preparing the quarterly reports.

According to the former county clerk, this was the result of having a limited staff due to budget constraints. Thus he decided to take on these responsibilities.

A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud. 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, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Carlisle County Clerk's office separate the duties involved in writing checks, preparing weekly and monthly reports, completing monthly bank reconciliations, and preparing quarterly reports. If this is not feasible due to a lack of staff, cross-checking procedures should be implemented. Such procedures should be documented by the individual performing them.

Former County Clerk's Response: The official did not provide a response.

2018-002 The Former Carlisle County Clerk Had Weak Internal Controls Over Timekeeping

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The former Carlisle County Clerk did not require employees to maintain formal timesheets. They only kept track of days off. Payroll summaries were signed by the employee, but did not have a breakdown of hours worked each day.

The former Carlisle County Clerk implemented a process that lacked internal controls. A lack of internal controls over timekeeping increases the risk of improperly compensating employees. Additionally, failure to record the number of hours worked each day results in the former county clerk being noncompliant with KRS 337.320.

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. KRS 337.320 states, "[e]very employer shall keep a record of: (a) [t]he amount paid each employee, [and] (b) [t]he hours worked each day and each week by each employee[.]"

We recommend the Carlisle County Clerk's office strengthen internal controls by requiring formal timesheets recording the hours worked by each employee, each pay period. These timesheets should be signed by the employees and approved by the county clerk. Approved timesheets should then be used to update and maintain employees' leave balances.

Former County Clerk's Response: The official did not provide a response.

CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2018 through January 06, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Former Carlisle County Clerk Lacked Internal Controls Over Financial Reporting

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The former county clerk's Fourth Quarter Financial Report did not agree to his receipts or disbursements ledgers. On the former Carlisle County Clerk's Fourth Quarter Financial Report, receipts were overstated by \$8,155. Also, during the course of the audit, the auditor recommended numerous adjustments to both receipts and disbursements in order to reconcile the ledgers to the proof of cash and other reports.

Due to the former county clerk failing to implement strong internal controls over financial reporting, his receipts and disbursements ledgers were inaccurate, with discrepancies noted between the ledgers and quarterly reports. Inaccurate financial reporting allows opportunity for the former county clerk to misrepresent his financial status to the fiscal court and other administrative bodies.

Strong internal controls are essential to providing protection from asset misappropriation, and preventing inaccurate financial reporting. We recommend the Carlisle County Clerk's office implement strong internal controls over the accounting process to ensure that accurate receipts and disbursements ledgers are maintained, and quarterly reports are in agreement with those ledgers.

Former County Clerk's Response: The official did not provide a response.

2018-004 The Former Carlisle County Clerk Had \$3,497 Of Disallowed Disbursements For 2018

The former Carlisle County Clerk had eight disallowed disbursements during 2018 totaling \$3,497. Each disbursement was interest or penalties due to the state for late payments of usage tax. Since interest payments are considered unnecessary and are not beneficial to the public, they are not allowable disbursements.

The former county clerk was unaware that interest payments made to the state were not allowable disbursements. The former county clerk's office paid \$3,497 to the state that could have been used for the betterment of the office or turned over as excess fees.

In accordance with Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures 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. We recommend the former Carlisle County Clerk repay \$3,497 from his personal funds to the 2018 fee account and turn those funds over to the fiscal court as excess fees.

Former County Clerk's Response: The official did not provide a response.

CARLISLE COUNTY
 MICHAEL TOON, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period January 1, 2018 through January 06, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2016

This is a repeat finding and was included in the prior year audit report as finding 2017-004. In 2016, the former county clerk collected \$3,976 in delinquent tax bills that did not appear on his delinquent tax distribution reports for the months of June, August, and October. These were all bills that were turned over to the county attorney to collect. The county attorney collected them and paid them over to the former clerk, but the former clerk failed to include them on his delinquent tax distributions reports. The former clerk also failed to issue a check to the Extension District in the amount of \$71 for February delinquent taxes. This was brought to the former clerk's attention on May 11, 2018, but as of report date these amounts have not been paid to the districts.

According to the former county clerk, he is waiting until the conclusion of the 2018 audit before settling prior and current years' amounts owed. Since those bills were not included on the reports, the portions of those bills that should be distributed to the districts did not get paid, and the districts were denied funds. Additionally, the former county clerk was not in compliance with KRS 134.126.

KRS 134.126(3), which outlines the duties of the county clerk in regards to certificates of delinquency states, "[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly." Furthermore, strong internal controls over the delinquent tax reporting process are essential to ensuring that all delinquent taxes are accounted and reported properly.

We recommend the Carlisle County Clerk's office strengthen internal controls over the delinquent tax reporting process and that the former county clerk pay the taxing districts and other entities additional delinquent taxes due from the bills erroneously omitted from the June, August, and October 2016 delinquent tax reports.

Former County Clerk's Response: The official did not provide a response.

2018-006 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2017

This is a repeat finding and was included in the prior year audit report as finding 2017-005. The former county clerk collected \$2,308 of delinquent tax bills that did not appear on his delinquent tax distribution reports, and did not get distributed to the districts. The former county clerk also failed to issue a check to the state in the amount of \$699 for July delinquent taxes, and failed to issue a check to the board of education in the amount of \$1,316 for June delinquent taxes.

According to the former county clerk, he is waiting until the conclusion of the 2018 audit before settling prior and current years' amounts owed. Since those bills were not included on the reports, the portions of those bills that should be distributed to the districts did not get paid, and the districts did not receive the funds they were entitled to. Additionally, the former county clerk was not in compliance with KRS 134.126, and there may still be certificates of delinquency on these delinquent tax bills that have already been paid.

CARLISLE COUNTY
 MICHAEL TOON, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period January 1, 2018 through January 06, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The Former Carlisle County Clerk Failed To Pay The Taxing Districts For All Delinquent Taxes Received From 2017 (Continued)

KRS 134.126(3), which outlines the duties of the county clerk in regards to certificates of delinquency states, “[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly.” Furthermore, strong internal controls over the delinquent tax reporting process are essential to ensuring that all delinquent taxes are accounted and reported properly.

We recommend the Carlisle County Clerk’s office strengthen internal controls over the delinquent tax reporting process, that the former clerk pay the state and board of education the amount owed from June and July 2017, and pay the taxing districts and other entities additional delinquent taxes due from the bills erroneously omitted from 2017 delinquent tax reports. We also recommend the former county clerk check the status of the unreported tax bills, and verify they no longer remain delinquent in the county clerk’s office.

Former County Clerk’s Response: The official did not provide a response.

2018-007 The Former Carlisle County Clerk Was Not In Compliance With KRS 64.535

This is a repeat finding and was included in the prior year audit report as finding 2017-007. The former Carlisle County Clerk paid himself a month in advance throughout the year. Due to this, the former county clerk received both his March and April paychecks in March of 2018.

KRS 64.535 states, “[t]he county judge/executive, clerk, jailer who operates a full service jail, and sheriff shall each receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275.” Additionally strong internal controls over the official’s payroll is needed to ensure that the salary matches the salary schedule, and is paid appropriately. The former clerk was unaware that he could not pay himself in advance. Therefore, the former county clerk was not in compliance with KRS 64.535.

We recommend the Carlisle County Clerk’s office comply with KRS 64.535.

Former County Clerk’s Response: The official did not provide a response.

2018-008 The Former Carlisle County Clerk Did Not Submit The 2018 Annual Settlement Timely

As of the end of audit fieldwork, the former Carlisle County Clerk has not submitted his annual settlement and has not turned over excess fees to the fiscal court, as required by KRS 64.830. In addition to owing the fiscal court \$32,759 in excess fees, the county clerk owes \$440 in delinquent taxes to various taxing districts. According to the former county clerk, he turned in his Fourth Quarter Financial Statement as his annual settlement, but chose to wait until the audit was completed before making final settlement with the fiscal court.

CARLISLE COUNTY
MICHAEL TOON, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2018 through January 06, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The Former Carlisle County Clerk Did Not Submit The 2018 Annual Settlement Timely
(Continued)

KRS 64.830(2) states, "Each outgoing county official shall make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office for all money received by him as county official and to obtain his quietus, and immediately thereafter he shall deliver these records to the incumbent county official." The former Carlisle County Clerk is not in compliance with KRS 64.830, and is impeding the fiscal court and other county districts from receiving money they are owed as a result of the settlement.

We recommend the former Carlisle County Clerk make final settlement with the Carlisle County Fiscal Court as required by KRS 64.830 and turn over excess fees owed.

Former County Clerk's Response: The official did not provide a response.

2018-009 The Former Carlisle County Clerk Failed To Settle Prior Year Accounts

The former Carlisle County Clerk failed to settle prior year fee accounts. As of the end of audit fieldwork, the 2016 fee account still had \$3,646 in liabilities to be distributed, and 2017 had \$8,774 in liabilities to be distributed. According to the former county clerk, he chose to wait until the 2018 audit was completed so that he could distribute everything at once.

Due to the liabilities not being paid timely, the former clerk is not in compliance with KRS 64.152 and county districts have been deprived of money that could be used for the betterment of those districts. KRS 64.152(1) states, "the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses." KRS 64.152(2) states, "[a]t the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office, including income from investments, which exceeds the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants."

We recommend the former Carlisle County Clerk settle the 2016 fee account and 2017 fee account as required by KRS 64.152.

Former County Clerk's Response: The official did not provide a response.