

**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
CLERK**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCRACKEN COUNTY CLERK

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the McCracken County Clerk's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$51,091 from the prior year, resulting in excess fees of \$249,825 as of December 31, 2011. Revenues increased by \$731,150 from the prior year and expenditures increased by \$680,059.

Report Comment:

2011-01 The County Clerk's Maximum Salary Was Not Set By Fiscal Court As Required By KRS 64.530

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive
The Honorable Jeff Jerrell, McCracken County Clerk
Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCracken County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the County Clerk. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2012 on our consideration of the McCracken 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 and should be considered in assessing the results of our audit.



The Honorable Van Newberry, McCracken County Judge/Executive
The Honorable Jeff Jerrell, McCracken County Clerk
Members of the McCracken County Fiscal Court

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

2011-01 The County Clerk's Maximum Salary Was Not Set By Fiscal Court As Required By
KRS 64.530

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCracken County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Adam H. Edelen
Auditor of Public Accounts

August 7, 2012

MCCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Libraries and Archives Grant	\$	20,451	
State Fees For Services		20,831	
Fiscal Court		71,292	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,106,577	
Usage Tax		8,371,357	
Tangible Personal Property Tax		6,269,406	
Other-			
Fish and Game Licenses		2,967	
Marriage Licenses		22,755	
Notary Fees		7,734	
Beer and Liquor Licenses		6,010	
Deed Transfer Tax		156,193	
Delinquent Tax		874,222	17,817,221
<hr/>			
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		50,893	
Real Estate Mortgages		119,298	
Chattel Mortgages and Financing Statements		191,831	
Powers of Attorney		4,820	
All Other Recordings		104,119	
Charges for Other Services-			
Candidate Filing Fees		350	
Copywork		17,577	
Postage		11,643	500,531
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Other:			
Miscellaneous		34,870	
Drug Council		425	
Over/Short		31	
Check Service Charges		1,209	36,535
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Interest Earned			1,169
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Total Revenues			18,468,030

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

MCCRACKEN COUNTY
 JEFF JERRELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,415,946	
Usage Tax	8,120,057	
Tangible Personal Property Tax	1,994,459	

Licenses, Taxes, and Fees-

Fish and Game Licenses	2,839	
Delinquent Tax	124,229	
Legal Process Tax	35,799	
Affordable Housing Trust	77,382	
Spouse Abuse	6,410	
Marriage Licenses	2,131	
Library and Archives Fees	13,202	\$ 11,792,454

Payments to Fiscal Court:

Tangible Personal Property Tax	505,056	
Delinquent Tax	113,729	
Deed Transfer Tax	147,923	
Beer and Liquor Licenses	6,000	772,708

Payments to Other Districts:

Tangible Personal Property Tax	3,490,419	
Delinquent Tax	377,687	3,868,106

Payments to Sheriff

64,926

Payments to County Attorney

110,934

Operating Expenditures:

Personnel Services-

Deputies' Salaries	940,232	
Part-Time Salaries	27,654	

Employee Benefits-

Employer's Share Social Security	73,512	
Employer's Paid Health Insurance	269,871	

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

MCCRACKEN COUNTY
 JEFF JERRELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Contracted Services-			
Advertising	\$	2,909	
Materials and Supplies-			
Office Supplies		101,601	
Other Charges-			
Conventions and Travel		11,363	
Dues		2,480	
Postage		6,980	
Drug Council		404	
Bank Fees (Bad checks)		555	
Election Expense		6,679	
Refunds		37,795	
Libraries and Archives Grant		20,451	
			\$ 1,502,486
Total Expenditures			<u>\$ 18,111,614</u>
Net Revenues			356,416
Less: Statutory Maximum			<u>99,312</u>
Excess Fees			257,104
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,679	<u>7,279</u>
Excess Fees Due County for 2011			249,825
Payment to Fiscal Court - March 12, 2012			<u>249,713</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 112</u>

Excess Fees of \$112 were paid by the McCracken County Clerk to the McCracken County Fiscal Court on July 27, 2012.

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

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

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 revenues over expenditures 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures 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 2011 services
- Reimbursements for 2011 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2011

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

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, 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).

MCCRACKEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2011
 (Continued)

Note 2. Employee Retirement System

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. 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 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

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 (members 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.

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.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 3. Deposits

The McCracken 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(4), 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 McCracken County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The McCracken County Clerk received a Libraries and Archives Grant from the Kentucky Department for Libraries and Archives in the amount of \$20,451. Funds totaling \$20,451 were expended during the year. The grant balance was \$0 as of December 31, 2011.

Note 5. Lease Agreements

A. Copiers

In September 2009, the McCracken County Clerk entered into two lease and maintenance agreements with Xerox. The first agreement was for five copiers with a monthly obligation of \$703. The second agreement is for one copier with a monthly obligation of \$86. Both agreements are for sixty (60) months.

B. Fax Machine

In July 2010, the McCracken County Clerk entered into a lease agreement with Xerox for a fax machine. The term of the lease is twelve (12) months with a monthly obligation of \$25. The lease was renewed in 2011.

Note 6. Fee Pooling

In June 2011, the McCracken County Fiscal Court passed Ordinance 2011-6 – An Ordinance Establishing Fee-Pooling for the Office of the McCracken County Clerk. The County Clerk has elected not to implement the ordinance. The County Clerk continues to pay operating expenses including payroll as well as making all statutorily required payments from his fee account. The County Clerk filed suit in order to determine if the ordinance was enforceable. Summary judgment was awarded to the fiscal court but the County Clerk has filed an appeal.

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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive
The Honorable Jeff Jerrell, McCracken County Clerk
Members of the McCracken 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**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCracken County Clerk for the year ended December 31, 2011, and have issued our report thereon dated August 7, 2012. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the McCracken County Clerk's is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Clerk's internal control over financial reporting as a basis for designing our auditing procedures 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 County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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 McCracken County Clerk's financial statement for the year ended December 31, 2011, 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 one 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 items 2011-01.

The McCracken County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCracken County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 7, 2012

COMMENT AND RECOMMENDATION

MCCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

STATE LAWS AND REGULATIONS:

2011-01 The County Clerk's Maximum Salary Was Not Set By Fiscal Court As Required By KRS 64.530

During testing, we noted that the McCracken County Fiscal Court (fiscal court) failed to set the required maximum salary order for the McCracken County Clerk (county clerk) as required by KRS 64.530. KRS 64.530 states, "The fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the fiscal court fix annually the amount for salaries for the county clerk as prescribed by KRS 64.530.

County Clerk Jeff Jerrell's Response: The McCracken County Clerk's Office submitted the maximum salary order to be approved at the April 25, 2011, fiscal court meeting. However, this order was omitted by Judge/Executive Newberry before the fiscal court meeting, per fiscal court minutes approved May 9, 2011.

