REPORT OF THE AUDIT OF THE CASEY COUNTY CLERK

For The Year Ended December 31, 2014

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
CASEY COUNTY CLERK

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Casey County Clerk's audit for the year ended December 31, 2014. 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 $32,109 from the prior year, resulting in excess fees of $107,152 as of December 31, 2014. Receipts increased by $71,853 from the prior year and disbursements increased by $39,744.

Report Comment:

2014-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements Including Payroll

Deposits:

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

CONTENTS PAGE

INDEPENDENT AUDITOR'S REPORT 1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS 3
NOTES TO FINANCIAL STATEMENT 6
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 11
COMMENT AND RECOMMENDATION 15

ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey 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 Casey County, Kentucky, for the year ended December 31, 2014, 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 opinions.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D

The Honorable Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey 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 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 County Clerk, as of December 31, 2014, 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 County Clerk for the year ended December 31, 2014, 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 25, 2015 on our consideration of the Casey 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Casey County Clerk's 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. Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements Including Payroll

Respectfully submitted,

Adam H. Edelen
Auditor of Public Accounts

June 25, 2015

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts		
State Grants		$ 7,387
HB 537 Revenue Supplement		64,618
State Fees For Services		7,285
Fiscal Court		2,721
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 549,230	
Usage Tax	738,947	
Tangible Personal Property Tax	1,218,670	
Notary Fees	4,355	
Donations	425	
Lien Fees	9,820	
Other-		
Fish and Game Licenses	16,466	
Marriage Licenses	3,660	
Occupational Licenses	98	
Deed Transfer Tax	37,056	
Delinquent Tax	80,467	
Miscellaneous Licenses	45	2,659,239
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	17,705	
Real Estate Mortgages	17,031	
Chattel Mortgages and Financing Statements	40,867	
Powers of Attorney	2,416	
All Other Recordings	17,728	
Charges for Other Services-		
Candidate Filing Fees	1,250	
Copywork	3,325	
Postage	669	100,991
Other:		
Lien Search	30	
Miscellaneous	1,932	1,962
Interest Earned		1,426
Total Receipts		2,845,629

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

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements

Payments to State:		
Motor Vehicle-		
Licenses and Transfers	$ 391,067	
Usage Tax	716,778	
Tangible Personal Property Tax	396,759	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	16,466	
Delinquent Tax	8,119	
Legal Process Tax	9,189	
Marriage Licenses	1,030	
Affordable Housing Trust	13,020	
Libraries and Archives	3,207	$ 1,555,635
Payments to Fiscal Court:		
Tangible Personal Property Tax	59,387	
Delinquent Tax	9,302	
Deed Transfer Tax	33,486	102,175
Payments to Other Districts:		
Tangible Personal Property Tax	712,722	
Delinquent Tax	38,547	751,269
Payments to Sheriff		6,297
Payments to County Attorney		10,485
Operating Disbursements:		
Personnel Services-		
Deputies' Salaries		173,160
Contracted Services-		
Libraries and Archives Grant Disbursements	7,387	
Advertising	90	
Printing and Binding	10,287	
Special Project	3,113	
Computer Consultation Services	6,050	26,927

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)			
Materials and Supplies-			
Office Supplies		$ 5,211	
Other Charges-			
Conventions and Travel	$ 2,392		
Dues	1,320		
Postage	1,626		
Overage Refunds	6,409		
Uncollected Returned Checks	26		
Election Emergency Expense	1,249		
Insurance and Bonds	565		
Utilities	3,186	16,773	
Debt Service:			
Copy Machine Maintenance	460		
Lease Purchases	444	904	
Total Disbursements			$ 2,648,836
Net Receipts			196,793
Less: Statutory Maximum			82,131
Excess Fees			114,662
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,910	7,510
Excess Fees Due County for 2014 *			$ 107,152

* - The County Clerk submitted a check to the Fiscal Court for $100,000 on March 16, 2015.

CASEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

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 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2014

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 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).

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 18.89 percent for the first six months and 17.67 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.

Note 3. Deposits

The Casey 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 Casey 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, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grants

A. The Casey County Clerk had a beginning balance of a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of $7,350. Interest of $37 was earned during the year with $7,387 expended. This grant was expended as of December 31, 2014.

B. The Casey County Clerk applied for and was awarded a new local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of $1,256. Interest of $1 was earned during the year with no expenditures. The unexpended grant balance was $1,257 as of December 31, 2014.

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 Randy Dial, Casey County Judge/Executive
The Honorable Casey Davis, Casey County Clerk
Members of the Casey 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 Casey County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated June 25, 2015. The County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Casey County Clerk's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Casey County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Casey 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 comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV
AN EQUAL OPPORTUNITY EMPLOYER M / F / D

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Casey 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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,

Adam H. Edelen
Auditor of Public Accounts

June 25, 2015

COMMENT AND RECOMMENDATION

CASEY COUNTY
CASEY DAVIS, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements Including Payroll

The County Clerk's office has a lack of adequate segregation of duties over disbursements including payroll. The County Clerk prepares and signs all checks that are written out of his office and posts all disbursements to the disbursements ledger. This includes the entire payroll preparation process. Although the Clerk has implemented some compensating controls, it does not appear these controls are documented and operating effectively.

Segregation of duties over disbursements or implementation of compensating controls is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets. However, the Clerk's office has a limited budget which restricts the number of employees, and prevents a proper segregation of duties. In an effort to strengthen internal controls, we recommend the County Clerk delegate disbursement duties to other employees within the office. If, due to a limited number of staff, that is not feasible, the County Clerk should implement the following compensating controls to offset the lack of segregation of duties:

- The County Clerk could examine checks prepared by another employee and compare them to invoices or monthly reports to taxing districts. The County Clerk's review should be documented by initials and date on the invoices and monthly reports.
- An employee independent of the disbursement ledger preparation could compare the disbursements ledger to source documents, such as monthly reports, to ensure accurate recordings. The employee's review should be documented by initials on the monthly disbursement ledger.

County Clerk's Response: No response.