

**REPORT OF THE AUDIT OF THE  
MARSHALL COUNTY  
CLERK**

**For The Year Ended  
December 31, 2012**



**ADAM H. EDELEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARSHALL COUNTY CLERK**

**For The Year Ended  
December 31, 2012**

The Auditor of Public Accounts has completed the Marshall County Clerk's audit for the year ended December 31, 2012. 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 \$35,399 from the prior year, resulting in excess fees of \$260,395 as of December 31, 2012. Revenues increased by \$200,074 from the prior year and expenditures increased by \$164,675.

#### **Report Comment:**

2012-01 The Marshall County Clerk's Office Lacks Adequate Segregation Of Duties

#### **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 Mike Miller, Marshall County Judge/Executive  
The Honorable Tim York, Marshall County Clerk  
Members of the Marshall County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Marshall County, Kentucky, for the year ended December 31, 2012, 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 financial reporting provisions 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.



The Honorable Mike Miller, Marshall County Judge/Executive  
The Honorable Tim York, Marshall County Clerk  
Members of the Marshall 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 financial reporting provisions 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, 2012, 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 revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2012, 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 20, 2013 on our consideration of the Marshall 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 Marshall 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.



The Honorable Mike Miller, Marshall County Judge/Executive  
The Honorable Tim York, Marshall County Clerk  
Members of the Marshall County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

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

2012-01 The Marshall County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a long horizontal flourish extending to the right.

Adam H. Edelen  
Auditor of Public Accounts

June 20, 2013

MARSHALL COUNTY  
TIM YORK, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2012

Revenues

Libraries and Archives Grant		\$	13,520
State Fees For Services			13,567
Fiscal Court			9,457
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,275,822	
Usage Tax		3,709,894	
Tangible Personal Property Tax		3,445,260	
Clerk's Lien Fees		19,134	
Other-			
Fish and Game Licenses		4,321	
Marriage Licenses		8,280	
Occupational Licenses		25	
Deed Transfer Tax		80,797	
Delinquent Tax		536,539	9,080,072
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		33,855	
Real Estate Mortgages		62,630	
Chattel Mortgages and Financing Statements		88,533	
Powers of Attorney		1,873	
Affordable Housing Trust		43,128	
All Other Recordings		29,155	
Charges for Other Services-			
Candidate Filing Fees		1,250	
Copywork		4,418	264,842
Other:			
Postage		4,574	
Return Checks Fees		450	
Miscellaneous		734	5,758
Interest Earned			5,013
Total Revenues			9,392,229

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

MARSHALL COUNTY  
TIM YORK, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2012  
(Continued)

Expenditures

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	906,442	
Usage Tax		3,598,592	
Tangible Personal Property Tax		1,171,961	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		4,174	
Delinquent Tax		86,813	
Legal Process Tax		32,451	
Affordable Housing Trust		43,128	\$ 5,843,561

Payments to Fiscal Court:

Tangible Personal Property Tax		270,535	
Delinquent Tax		33,778	
Deed Transfer Tax		76,757	381,070

Payments to Other Districts:

Tangible Personal Property Tax		1,864,866	
Delinquent Tax		248,078	2,112,944

Payments to Sheriff

40,750

Payments to County Attorney

73,756

Operating Expenditures and Capital Outlay:

Personnel Services-			
Deputies' Salaries		497,833	
Contracted Services-			
Leased Equipment		4,009	
Advertising		116	
Printing and Binding		6,628	
Computer Maintenance		16,318	
Materials and Supplies-			
Office Supplies		7,339	
Election Supplies		432	

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

MARSHALL COUNTY  
TIM YORK, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2012  
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay (Continued):

Other Charges-			
Conventions and Travel	\$	4,429	
Dues		1,380	
Postage		12,850	
Uniforms		494	
Telephone		924	
Bond		1,726	
Office Machines Maintenance & Repair		3,397	
Refunds		6,901	
Miscellaneous		1,460	
Libraries and Archives Grant		13,520	\$ 579,756
Capital Outlay-			
Office Equipment			9,291
Total Expenditures			<u>\$ 9,041,128</u>
Net Revenues			351,101
Less: Statutory Maximum			<u>85,212</u>
Excess Fees			265,889
Less: Expense Allowance		3,600	
Training Incentive Benefit		1,894	<u>5,494</u>
Excess Fees Due County for 2012			260,395
Payment to Fiscal Court - February 4, 2013			<u>260,395</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

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

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2012

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 special purpose framework. 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 2012 services
- Reimbursements for 2012 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2012

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).

MARSHALL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2012  
 (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 18.96 percent for the first six months and 19.55 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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2012  
(Continued)

Note 3. Deposits

The Marshall 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 Marshall 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, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Marshall County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$22,214 and accrued interest of \$168. Funds totaling \$13,520 were expended during the year. The unexpended grant balance was \$8,862 as of December 31, 2012.

Note 5. Lease Agreement

During 2010, the Marshall County Clerk's Office entered into a lease agreement with Great American Leasing for a postage meter. The agreement requires monthly payments of \$197 and renewable annually. The Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2012.

Note 6. Professional Service Agreements

A. Indexing

The Marshall County Clerk has a software licensing agreement with Software Management for indexing. The agreement requires an annual fee and is renewable annually. The Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2012.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2012  
(Continued)

Note 6. Professional Service Agreements (Continued)

B. Delinquent Tax

The Marshall County Clerk has a software licensing agreement with Data Records Management Services (DRMS) for delinquent taxes. The agreement requires an annual fee and is renewable annually. The Marshall County Clerk was in compliance with the terms of this agreement as of December 31, 2012.



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 Mike Miller, Marshall County Judge/Executive  
The Honorable Tim York, Marshall County Clerk  
Members of the Marshall 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 revenues, expenditures, and excess fees - regulatory basis of the Marshall County Clerk for the year ended December 31, 2012, and the related notes to the financial statement and have issued our report thereon dated June 20, 2013. 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 Marshall 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 Marshall County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall County Clerk's internal control.

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. 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.



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)**

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2012-01 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Marshall 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.

**County Clerk's Response to Finding**

The Marshall County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. The Marshall County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**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 20, 2013

COMMENT AND RECOMMENDATION



MARSHALL COUNTY  
TIM YORK, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2012

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2012-01 The Marshall County Clerk's Office Lacks Adequate Segregation Of Duties

The Marshall County Clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The County Clerk is responsible for preparing the daily deposits, preparing and signing checks, posting to receipt and disbursement ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of incompatible duties or strong oversight increases the risk that errors could occur and not be detected. This condition is a result of a limited budget, which restricts the number of employees the County Clerk can hire or delegate duties. A proper segregation of duties over the accounting and reporting functions such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not be detected. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To offset this lack of segregation of duties, the County Clerk has implemented some compensating controls, such as each deputy closing out their drawer each day, this is checked by the Clerk with AVIS and POS the next morning; different deputies completing reports, this is checked by the Clerk by comparing weekly/monthly reports to the receipts and disbursements ledgers, the Clerk issues disbursement checks and gives to the deputy completing the report, the deputy verifies the check, initials the report, and mails the check.

The County Clerk should separate the duties involved in preparing the deposit, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If due to a limited budget, this is not feasible, cross checking procedures could be implemented and documented by the individual performing the procedure.

*County Clerk's Response: I understand the concerns stated in the above note. If I had a single employee performing all the accounting duties of the office, I might share your concern. However, as County Clerk, I am ultimately responsible for all aspects of the operation of the office.*

*I feel that assuring the proper collection, disbursement and accounting of funds coming through the office is the most important duty that I have. I believe that personally performing all the accounting functions for the office allows me to maintain the best control and day to day knowledge of these functions. I have no intention of changing that practice. I will review the possibility of another employee performing some cross checking. This will be contingent upon an analysis of the cost/benefits of this approach.*

