

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

**For The Year Ended
December 31, 2017**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jeff Dobson, Knott County Judge/Executive
The Honorable Kenneth Gayheart, Former Knott County Clerk
The Honorable Reci Cornett, Knott County Clerk
Members of the Knott 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 Knott County, Kentucky, for the year ended December 31, 2017, 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 Jeff Dobson, Knott County Judge/Executive
The Honorable Kenneth Gayheart, Former Knott County Clerk
The Honorable Reci Cornett, Knott County Clerk
Members of the Knott 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 Knott 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 former Knott County Clerk, as of December 31, 2017, 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 former Knott County Clerk for the year ended December 31, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019, on our consideration of the former Knott 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 Knott County Clerk's internal control over financial reporting and compliance.

The Honorable Jeff Dobson, Knott County Judge/Executive
The Honorable Kenneth Gayheart, Former Knott County Clerk
The Honorable Recí Cornett, Knott County Clerk
Members of the Knott 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:

- 2017-001 The Former Knott County Clerk Did Not Have Segregation Of Duties Over Receipts
- 2017-002 The Former Knott County Clerk's Ledgers And Quarterly Financial Report Did Not Include All Disbursements
- 2017-003 The Former Knott County Clerk Did Not Distribute Delinquent Taxes Correctly
- 2017-004 The Former Knott County Clerk Owes The Fiscal Court Additional Excess Fees In The Amount Of \$10,167

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

February 26, 2019

KNOTT COUNTY
KENNETH GAYHEART, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Grants		\$ 365
State Revenue Supplement		66,599
Fiscal Court		1,679
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 408,611	
Usage Tax	974,872	
Tangible Personal Property Tax	1,075,991	
Other-		
Fish and Game Licenses	4,893	
Marriage Licenses	3,987	
Deed Transfer Tax	7,315	
Delinquent Tax	<u>1,185,848</u>	3,661,517
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	9,352	
Real Estate Mortgages	11,925	
Chattel Mortgages and Financing Statements	38,730	
Affordable Housing Trust	9,030	
All Other Recordings	10,965	
Charges for Other Services-		
Candidate Filing Fees	1,468	
Copywork	11,057	
Postage	<u>987</u>	93,514
Other:		
Miscellaneous Income	783	
State Fee	<u>6,672</u>	7,455
Interest Earned		<u>526</u>
Total Receipts		\$ 3,831,655

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

KNOTT COUNTY
 KENNETH GAYHEART, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 282,504	
Usage Tax	942,782	
Tangible Personal Property Tax	451,614	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	4,782	
Delinquent Tax	190,526	
Legal Process Tax	11,204	
Affordable Housing Trust	9,030	\$ 1,892,442

Payments to Fiscal Court:

Tangible Personal Property Tax	114,278	
Delinquent Tax	138,533	
Deed Transfer Tax	5,987	258,798

Payments to Other Districts:

Tangible Personal Property Tax	467,059	
Delinquent Tax	519,124	986,183

Payments to Sheriff 97,702

Payments to County Attorney 146,522

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	199,580	
Employee Benefits-		
Employer's Share Social Security	21,046	
Employer's Share Retirement	48,365	
Contracted Services-		
Fish and Game	10,225	
Advertising	75	
Materials and Supplies-		
Office Supplies	37,007	
Other Charges-		
Conventions and Travel	3,240	
Postage	2,932	
Refunds	7,193	
Libraries and Archives Grant	365	
Miscellaneous	3,386	333,414

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

KNOTT COUNTY
 KENNETH GAYHEART, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Debt Service:

Lease Agreements	\$ 6,634
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Total Disbursements	\$ 3,721,695
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Net Receipts	109,960
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Less: Statutory Maximum	85,085
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Excess Fees	24,875
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Less: Expense Allowance	3,600
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Training Incentive Benefit	4,052	7,652
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Balance Due Fiscal Court at Completion of Audit	\$ 17,223
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KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

The county official and employees have elected to participate, 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.

KNOTT COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (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. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The former county clerk's contribution for calendar year 2015 was \$44,570, calendar year 2016 was \$47,023, and calendar year 2017 was \$48,365.

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.

Health Insurance Coverage

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

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

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

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

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.

Note 3. Deposits

The former Knott 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 former 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 former Knott County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The former Knott County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives. The prior year the ending balance was \$373. Funds totaling \$365 were expended during the year. The unexpended grant balance was \$8, as of December 31, 2017.

Note 5. Lease Agreements

A. Copier Lease Agreement

On February 12, 2013, the office of the former county clerk committed to a lease agreement for a copier. The agreement requires a monthly payment of \$345 for 60 months to be completed on February 12, 2018. The former county clerk was in compliance with all lease requirements as of December 31, 2017. The balance of the lease agreement at December 31, 2017, is \$691.

B. Hardware Service Agreement

The former county clerk's office is committed to an agreement for computer equipment maintenance. The agreement requires two annual payments of \$2,364 to be completed on December 8, 2017. The agreement will renew automatically for additional one year terms thereafter, unless prior written notice is received.

C. Software Service Agreement

The former county clerk's office is committed to an agreement for computer software license and service. The agreement requires a monthly payment of \$200 to be completed on December 10, 2016. This agreement was renewed automatically for an additional one year term.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 5. Lease Agreements (Continued)

D. Software Service Agreement - Deed Room

The former county clerk's office is committed to a lease agreement for computer software license and service to be used in the deed room. The lease requires a monthly payment of \$1,085 for 48 months. The clerk was in compliance with all lease requirements as of December 31, 2017.

Note 6. Escrow Account

The former county clerk maintains an escrow account for the purpose of holding unclaimed funds. The balance in the account as of December 31, 2017, was \$322.

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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 Jeff Dobson, Knott County Judge/Executive
The Honorable Kenneth Gayheart, Former Knott County Clerk
The Honorable Recí Cornett, Knott County Clerk
Members of the Knott 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 Knott County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated February 26, 2019. The former Knott 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 Knott 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 Knott County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Knott 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, and 2017-004 that we consider to be significant deficiencies.



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 former Knott 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as items 2017-002 and 2017-004.

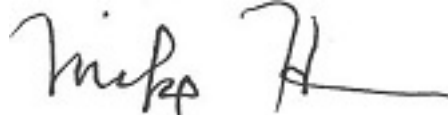
Views of Responsible Official and Planned Corrective Action

The former Knott County Clerk's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Knott County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

February 26, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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KNOTT COUNTY
KENNETH GAYHEART, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Knott County Clerk Did Not Have Segregation Of Duties Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The former bookkeeper collected cash, prepared the daily checkout sheets, prepared monthly tax reports, and posted to the receipts ledger. These incompatible duties create a lack of segregation of duties over receipts. To adequately protect assets from misappropriation and inaccurate financial reporting, duties involving collecting cash, preparing daily checkout sheets, preparing monthly tax reports, and posting to the receipts ledger should be separated. However, according to the former Knott County Clerk, the office has a limited budget which restricts the number of employees and prevents a proper segregation of duties.

This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Segregation of duties over cash collection, daily checkout procedures, and deposit preparation are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Also, the former county clerk can implement oversight when duties cannot be segregated.

We recommend the county clerk's office separate the duties involved in receiving cash, preparing bank deposits, posting to ledger, and preparation of reports. If segregation of duties is not feasible due to lack of staff, the county clerk's office can implement compensating controls that are operating effectively. Additionally, the county clerk could deliver the daily checkout sheets to the outside firm that generates financial reports for the clerk, and request a computerized receipts ledger be generated with the original source documents.

Former County Clerk's Response: We are a small county with not enough workers.

2017-002 The Former Knott County Clerk's Ledgers And Quarterly Financial Report Did Not Include All Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The former county clerk's ledgers and fourth quarter financial report did not include all disbursements for calendar year 2017. The former county clerk's receipts and disbursements ledgers should match the fourth quarter financial report to ensure accurate reporting of all financial activity. The former county clerk had disbursements totaling \$4,803 for calendar year 2017 that were paid during January and February 2018. These disbursements were not included on the disbursements ledger and the final quarterly financial report for 2017. In addition to these disbursements, the former clerk did not pay over \$33,077 in delinquent taxes from the January 2017 report.

The former county clerk did not have proper internal controls in place to ensure that all transactions were posted correctly. Transactions occurred after end of year that were not posted to the disbursements ledger and the fourth quarter financial report. In addition, delinquent tax reports were not compared to the daily checkout sheets, causing delinquent tax receipts to not be paid to the districts.

As a result, numerous audit adjustments were recommended to correct the receipts and disbursements ledgers. Inaccurate reporting of receipts and disbursements can result in overspending of the planned budget and incorrect financial reporting to the Department for Local Government.

KNOTT COUNTY
 KENNETH GAYHEART, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Knott County Clerk's Ledgers And Quarterly Financial Report Did Not Include All Disbursements (Continued)

Good internal controls dictate the former county clerk should have reconciled his ledgers to his quarterly financial reports. KRS 68.210 requires the state local finance officer to prescribe a system of uniform accounts for county officials to follow. The state local finance officer requires officials to maintain accurate records which support amounts reported on the quarterly financial reports.

We recommend the Knott County Clerk's office maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

Former County Clerk's Response: This was fixed as soon as we realized we had this problem.

2017-003 The Former Knott County Clerk Did Not Distribute Delinquent Taxes Correctly

The January 2017 delinquent tax report did not include all bills paid during the month, a total of \$35,675 was not included in the report and was not distributed to districts. Due to a clerical error when entering the date paid on the bills, they were not included on the January 2017 delinquent tax reports.

The former county clerk did not have sufficient controls in place to ensure that payments for delinquent taxes were made to the districts. The former clerk did not reconcile the daily checkout sheets to the amount of delinquent tax collections for each day. When deputies collected delinquent taxes, they did not ensure the correct date of payment, causing the payments to be recorded in a different tax year. As a result, the taxing districts were due an additional \$35,675 for the collections of January delinquent taxes.

Good internal controls dictate that the former county clerk have procedures in place to ensure correct payments are made to the districts.

We recommend the county clerk's office put procedures in place to ensure correct payments are made to the districts for delinquent taxes. We recommend the former county clerk pay the taxing districts delinquent taxes due of \$35,675 for the January collections that were not on the delinquent tax report.

Former County Clerk's Response: We fixed the program to where the date had to be current and we print out the taxes on a daily basis that has to match day sheets and report has to match the ledger.

2017-004 The Former Knott County Clerk Owes The Fiscal Court Additional Excess Fees In The Amount Of \$10,167

After fieldwork, the auditors discovered that the former county clerk had set up an account with a third party vendor to receive and collect various fees in the office. This third party account was never disclosed to the auditors. After additional testing, auditors discovered the third party account has been active since 2015 and the fees it collected had never been turned over to the fiscal court as additional excess fees due. As of December 31, 2017, the former clerk owes the fiscal court an additional \$10,167 in excess fees, for total of \$17,223 in excess fees.

The former county clerk failed to disclose the third party account and also did not include those fees it collected on the daily checkout sheets, monthly receipts ledgers, and quarterly reports.

KNOTT COUNTY
KENNETH GAYHEART, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-004 The Former Knott County Clerk Owes The Fiscal Court Additional Excess Fees In The Amount Of \$10,167 (Continued)

Monies that are collected and remain undisclosed and unaccounted for increase the risk for fraud or theft to occur. In addition, those monies could have been used by the fiscal court as needed. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires all revenues to be recorded when received in a daily cash receipts journal, a monthly compiled receipts ledger, and then a quarterly report. In addition, KRS 68.210 requires all daily deposits to be placed in a federally insured banking institution.

We recommend the former county clerk collect the \$10,167 from the third party account holder and deposit them into his 2017 fee account and then turn these monies over to the fiscal court as additional excess fees. In addition, we recommend the former clerk properly account for these third party collected fees on their receipts ledger and quarterly reports.

Former County Clerk's Response: I am so sorry that happened but I honestly didn't know about this.