

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
OWSLEY COUNTY CLERK

For The Year Ended
December 31, 2014

The Auditor of Public Accounts was engaged to audit the fee account activities for the Owsley County Clerk's office for the year ended December 31, 2014. Based upon the audit work performed, we have issued a disclaimer of opinion on the financial statement.

Based upon our assessment of audit risk, we determined the risk of fraud to be too high to issue an opinion and we were unable to apply other audit procedures to overcome this risk. In addition, the Owsley County Clerk's office had serious weaknesses in the design and operation of its internal control structure and accounting functions.

Report Comments:

- 2014-001 The County Clerk Is Not Fulfilling Her Duties As An Elected County Official
- 2014-002 The County Clerk Did Not Submit Quarterly Reports To The Department For Local Government
- 2014-003 The County Clerk Did Not Present A Financial Statement And Remit Excess Fees To The Fiscal Court By March 15, 2015
- 2014-004 The County Clerk Did Not Comply With The Uniform System Of Accounts
- 2014-005 The County Clerk Did Not Prepare Franchise Tax Bills Totaling \$373,181
- 2014-006 The County Clerk Did Not Provide Recorded And Approved Fiscal Court Minutes
- 2014-007 The County Clerk Did Not Get Fiscal Court Approval Of The Maximum Salary Limitation For Her Deputies
- 2014-008 The County Clerk Did Not Properly Distribute Delinquent Tax Payments To The Districts
- 2014-009 The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The county clerk's deposits were fully covered by FDIC insurance.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We were engaged to audit the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Owsley 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Owsley County Clerk did not maintain adequate accounting records of fee account receipts and disbursements to allow us to apply other auditing procedures to satisfy ourselves as to the validity of fee account receipts and disbursements, which resulted in a high level of audit risk. Auditors were also unable to obtain a representation letter from the Owsley County Clerk. Due to the apparent lack of internal controls and the above noted issues, we were unable to reduce the audit risk to an acceptable level.



The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley County Fiscal Court

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2016 on our consideration of the Owsley 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 Owsley 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 comments and recommendations, included herein, which discuss the following report comments:

- 2014-001 The County Clerk Is Not Fulfilling Her Duties As An Elected County Official
- 2014-002 The County Clerk Did Not Submit Quarterly Reports To The Department For Local Government
- 2014-003 The County Clerk Did Not Present A Financial Statement And Remit Excess Fees To The Fiscal Court By March 15, 2015
- 2014-004 The County Clerk Did Not Comply With The Uniform System Of Accounts
- 2014-005 The County Clerk Did Not Prepare Franchise Tax Bills Totaling \$373,181
- 2014-006 The County Clerk Did Not Provide Recorded And Approved Fiscal Court Minutes
- 2014-007 The County Clerk Did Not Get Fiscal Court Approval Of The Maximum Salary Limitation For Her Deputies
- 2014-008 The County Clerk Did Not Properly Distribute Delinquent Tax Payments To The Districts
- 2014-009 The County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 12, 2016

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley 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 Owsley County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated July 12, 2016. The Owsley 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 Owsley 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 Owsley County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owsley 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 comments and recommendations, 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 comments and recommendations as item 2014-009 to be a material weakness.



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 Owsley 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, and 2014-008.

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 horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

July 12, 2016

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The County Clerk Is Not Fulfilling Her Duties As An Elected County Official

The county clerk is not fulfilling her duties as an elected county official. KRS 68.210 gives the State Local Finance Officer authority to prescribe a uniform system of accounts, which sets certain minimum accounting requirements for local officials. The county clerk is not meeting these requirements and other statutory requirements. We have noted the following instances of noncompliance, which are detailed in the subsequent findings:

- The county clerk did not submit quarterly reports to the Department for Local Government.
- The county clerk did not present a financial statement and remit excess fees to the fiscal court by March 15, 2015.
- The county clerk did not properly maintain a receipts and disbursements ledger.
- The county clerk did not reconcile her official bank account to financial records.
- The county clerk did not prepare franchise tax bills totaling \$373,181.
- The county clerk did not provide recorded and approved fiscal court minutes.
- The county clerk did not get the maximum salary limitation approved by the fiscal court.
- The county clerk did not properly distribute delinquent tax payments to the districts.

Due to incomplete financial records and failure to perform the required duties as county clerk, we could not verify the accuracy of the county clerk's financial activities. Incomplete financial reports can lead to improper financial decision making, as well as increase the risk of undetected errors or fraud. Due to the lack of financial records, we were unable to express an opinion on the county clerk's financial statement. We recommend the county clerk fulfill her duties as county clerk. We will refer this matter to the Office of the Attorney General and to the Department for Local Government.

County Clerk's Response: No response.

2014-002 The County Clerk Did Not Submit Quarterly Reports To The Department For Local Government

The county clerk did not submit quarterly reports to the Department for Local Government (DLG). As of this date, the clerk still has not completed a 4th Quarter Report for the 2014 Fee Account. Pursuant to KRS 68.210, the State Local Finance Officer requires officials to submit quarterly reports to the Department for Local Government by the 30th day following the close of each quarter. The county clerk did not prepare a quarterly report for every quarter during calendar year 2014. Failure to submit required reports prevents proper oversight from DLG and increases the risk that errors, misstatements, or fraud can occur and go undetected for a significant time period. We recommend the county clerk submit her 4th Quarter Report to DLG and make sure all reports are submitted timely in the future.

County Clerk's Response: No response.

OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-003 The County Clerk Did Not Present A Financial Statement And Remit Excess Fees To The Fiscal Court By March 15, 2015

The county clerk did not submit a financial statement and pay excess fees to the fiscal court by March 15, 2015. KRS 64.152 requires a financial statement to be presented and excess fees to be paid to the fiscal court by March 15 of each year. The county clerk did not maintain accurate financial records and therefore did not prepare a financial statement for calendar year 2014. Failure to submit required reports and pay excess fees to the fiscal court prevents proper oversight from the fiscal court and increases the risk that errors, misstatements, or fraud can occur and go undetected for a significant time period. We recommend the county clerk comply with KRS 64.152 by presenting a financial statement and paying excess fees by March 15 of each year.

County Clerk's Response: No response.

2014-004 The County Clerk Did Not Comply With The Uniform System Of Accounts

The county clerk did not comply with the Uniform System of Accounts as adopted under KRS 68.210. Among other provisions, this statute requires the official to maintain accurate recording of receipts by source, and expenditures by payee, and to fulfill all other legal requirements relating to the oversight and management of public funds by her office. The county clerk failed to comply with the minimum requirements of the Uniform System of Accounts because receipt and disbursement ledgers were not properly maintained and bank reconciliations were not prepared. Failure to complete these tasks results in inadequate oversight and accountability over financial activities, as well as increases the risk that errors and fraud will occur and go undetected. We recommend the county clerk meet the minimum requirements of accountability for compliance with the Uniform System of Accounts by maintaining up to date ledgers and preparing timely bank reconciliations.

County Clerk's Response: No response.

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2014
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-005 The County Clerk Did Not Prepare Franchise Tax Bills Totaling \$373,181

The county clerk did not prepare franchise tax bills after September 2, 2014. The county clerk should prepare franchise bills upon receipt of the state assessment certification and promptly give to the sheriff to mail. KRS 133.220(2) requires the county clerk to prepare tax bills and in part, states “the county clerk shall prepare for the use of the sheriff...a correct tax bill for each taxpayer in the county.” The county clerk failed to perform this duty. This resulted in 31 franchise bills not being prepared, totaling \$373,181, as of the date of our report. By not preparing the franchise tax bills and submitting them to the sheriff to collect, the county, school, and other taxing districts did not receive the tax revenues they were entitled to. These tax districts rely on the timely receipt of tax revenues, and by the county clerk neglecting her duties, the tax districts’ budgets and cash flows were negatively affected. The share of the unbilled franchise taxes for each taxing district are as follows:

County	\$	53,615
School		155,397
Library		60,055
Health		16,918
Extension Service		85,210
Soil Conservation		<u>1,986</u>
Total	\$	<u>373,181</u>

We recommend the county clerk prepare the 31 franchise tax bills that have not been prepared and ensure franchise bills are timely prepared and submitted to the sheriff in the future. We are referring this matter to the Department of Revenue.

County Clerk’s Response: No response.

OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-006 The County Clerk Did Not Provide Recorded And Approved Fiscal Court Minutes

The county clerk did not provide recorded and approved fiscal court minutes. KRS 67.100 states that the fiscal court is a court of record; therefore, minutes of the proceedings of each meeting shall be prepared and submitted for approval at the next succeeding meeting. Likewise, every official action of the fiscal court shall be made a part of the permanent records of the county, and a copy of all records required by this section shall be kept in the office of the county clerk. Without these documents, we were unable to determine the official activities of the county clerk's office and were also not able to confirm any action taken by the fiscal court in regard to the county clerk's office. Therefore, we will disclaim an opinion on the county clerk's 2014 fee audit opinion due, in part, to the fact that the county clerk is not performing her duties as a court recorder of the fiscal court.

We recommend that the county clerk adhere to KRS 67.100 by recording the minutes of each fiscal court meeting, by submitting each recording for approval at the next succeeding meeting, and by maintaining these records in her office to be made available to the public for inspection upon request.

This matter will be discussed with the county judge/executive and the county attorney.

This matter will also be referred to the Department for Local Government.

County Clerk's Response: No response.

2014-007 The County Clerk Did Not Get Fiscal Court Approval Of The Maximum Salary Limitation For Her Deputies

The county clerk did not get the salaries of her deputies approved by the fiscal court. KRS 64.530(3) states, in part, "The fiscal court shall fix annually the 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." The county clerk did not provide us with documentation that the maximum salary limitation was set, and there were no fiscal court minutes available for us to verify this. Without this approval, we were unable to determine if the amount paid to the county clerk's deputies was within the allowable amount fixed by the fiscal court. We recommend the county clerk ensure the maximum salary limitation is approved and on record in the fiscal court minutes in the future.

County Clerk's Response: No response.

OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2014-008 The County Clerk Did Not Properly Distribute Delinquent Tax Payments To The Districts

The county clerk did not properly distribute delinquent tax payments to the taxing districts. No taxing districts were paid for the month of June 2014. Likewise, three other months were not paid timely, and 19 payments did not clear the bank timely. Due to this, the taxing districts did not receive their portion of taxes collected timely and were not paid a total of \$5,041 for the month of June. According to KRS 134.126, the county clerk shall report and pay by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts their allocation of any certificate of delinquency paid. We recommend that the county clerk ensure policies and procedures are in place to ascertain that all delinquent tax payments are made to the taxing districts timely. Moreover, we recommend that the county clerk pay June 2014 delinquent tax report amounts to the appropriate taxing districts.

County Clerk's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-009 The County Clerk's Office Lacks Adequate Segregation Of Duties

The county clerk's office lacks adequate segregation of duties due to the responsibilities of recording, depositing, and reconciling cash being delegated to the same individual. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error and misstatement. We recommend the county clerk segregate the duties of recording, depositing, and reconciling cash, or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include:

- An employee could compare daily checkout sheet to the receipt ledger and bank deposit prepared by another employee.
- An employee could review bank reconciliations prepared by another employee for accuracy.
- An employee could review all financial reports and compare to supporting documentation.

These compensating controls could be documented by initialing and dating the documentation reviewed by employees at the time of the review.

County Clerk's Response: No response.

