

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
CLERK**

**For The Year Ended
December 31, 2016**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Scott Alexander, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry 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 Perry County, Kentucky, for the year ended December 31, 2016, 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 Scott Alexander, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry 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 Perry 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 Perry County Clerk, as of December 31, 2016, 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 Perry County Clerk for the year ended December 31, 2016, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017, on our consideration of the Perry 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 entity's internal control over financial reporting and compliance.

The Honorable Scott Alexander, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry 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:

- 2016-001 The Perry County Clerk's Office Lacks Adequate Segregation Of Duties
- 2016-002 The Perry County Clerk Did Not Present The Final Settlement To The Fiscal Court
- 2016-003 The Perry County Clerk's Ledgers And Fourth Quarter Financial Report Did Not Include All Receipts And Disbursements
- 2016-004 The Perry County Clerk's Disbursements Exceeded Receipts By \$30,534
- 2016-005 The Perry County Clerk Spent Fee Receipts On Disallowed Disbursements

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

November 2, 2017

PERRY COUNTY
 HAVEN KING, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Grants - Libraries and Archives	\$	22,500
State Fees For Services		7,581
Fiscal Court		2,000
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 1,044,286	
Usage Tax	3,666,692	
Tangible Personal Property Tax	2,444,834	
Other-		
Marriage Licenses	8,591	
Occupational Licenses	2,774	
Deed Transfer Tax	30,728	
Delinquent Tax	938,001	8,135,906
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	14,301	
Real Estate Mortgages	12,435	
Chattel Mortgages and Financing Statements	86,699	
All Other Recordings	65,225	
Charges for Other Services-		
Candidate Filing Fees	670	
Copywork	7,554	186,884
Other:		
Miscellaneous	3,744	
Overpayments	8,626	
Refunds	5,115	
Reimbursement	10,500	27,985
Interest Earned		580
Borrowed Money		75,000
Total Receipts		8,458,436

PERRY COUNTY
 HAVEN KING, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 717,220	
Usage Tax	3,557,079	
Tangible Personal Property Tax	922,917	
Licenses, Taxes, and Fees-		
Delinquent Tax	126,303	
Legal Process Tax	23,984	
Affordable Housing Trust	<u>46,410</u>	\$ 5,393,913

Payments to Fiscal Court:

Tangible Personal Property Tax	263,208	
Delinquent Tax	68,852	
Deed Transfer Tax	29,328	
Occupational Licenses	<u>1,874</u>	363,262

Payments to Other Districts:

Tangible Personal Property Tax	1,159,830	
Delinquent Tax	<u>500,087</u>	1,659,917

Payments to Sheriff

79,749

Payments to County Attorney

90,750

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	509,168
Part-Time Salaries	37,370
Overtime	2,331

Employee Benefits-

Employer's Share Social Security	45,431
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Contracted Services-

Equipment Repairs	289
Advertising	172
Printing and Binding	5,307

Materials and Supplies-

Office Supplies	43,627
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PERRY COUNTY
 HAVEN KING, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2016
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	7,986	
Dues		1,320	
Postage		7,162	
Refunds		20,099	
Insurance and Bonds		488	
Uncollected Return Checks		562	
Library and Archives		22,500	
Overpayments		7,284	
Capital Outlay-			
Office Equipment		<u>15,527</u>	\$ 726,623

Debt Service:

Lease Purchases		27,165	
Promissory Note		<u>20,179</u>	47,344

Total Disbursements 8,361,558

Less: Disallowed Disbursements

Late Fees		79	
Unsupported Credit Card Transactions		<u>82</u>	<u>161</u>

Total Allowable Disbursements \$ 8,361,397

Net Receipts 97,039

Less: Statutory Maximum 89,310

Excess Fees 7,729

Less: Expense Allowance 3,600

Training Incentive Benefit 3,968 7,568

Ending Balance as of December 31, 2016 \$ 161

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 2016 services
- Reimbursements for 2016 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2016

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.

PERRY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2016
 (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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent for the first six months and 18.68 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.

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.

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.

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.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 3. Deposits

The Perry 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 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 Perry County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The beginning balance in the grant account as of January 1, 2016, was \$168. The clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$22,500 to purchase computer workstations for the clerk's office during calendar year 2016. The term of the project was January 1, 2016 to June 30, 2017. Funds totaling \$22,500 were properly expended during the year. The clerk earned interest of \$7, leaving a balance of \$175 in the grant account as of December 31, 2016.

Note 5. Lease Agreements

- A. The Perry County Clerk's office is committed to a lease agreement for a copier. The agreement requires 60 monthly payments of \$243 to be completed in May 2017. As of December 31, 2016, the county clerk's office was in compliance with the terms of the agreement.
- B. The Perry County Clerk's office is committed to a lease agreement for computer equipment and software. The agreement requires 60 monthly payments of \$1,610 to be completed in April 2021. As of December 31, 2016, the county clerk's office was in compliance with the terms of the agreement.
- C. The Perry County Clerk's office is committed to a lease agreement for a copier. The agreement requires 48 monthly payments of \$262 to be completed in December 2017. As of December 31, 2016, the county clerk's office was in compliance with the terms of the agreement.
- D. The Perry County Clerk's office is committed to a lease agreement for a copier. The agreement requires 48 monthly payments of \$121 to be completed in February 2016. As of February 2016, the county clerk's agreement was paid in full.
- E. The Perry County Clerk's office is committed to a lease agreement for a postage meter and scale. The agreement requires 20 quarterly payments of \$495 to be completed in January 2016. As of January 2016, the county clerk's agreement was paid in full.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 5. Lease Agreements (Continued)

F. The Perry County Clerk's office is committed to a lease agreement for a postage meter and scale. The agreement requires 20 quarterly payments of \$495 to be completed in January 2021. As of December 31, 2016, the county clerk's office was in compliance with the terms of the agreement.

Note 6. Court Ordered Restitution

The Commonwealth's Attorney conducted an investigation resulting in the prosecution of the former bookkeeper of the Perry County Clerk's office. On March 25, 2010, the former employee pled guilty, pursuant to North Carolina v. Alford, 400 U.S. 25 (1970), to the amended count of Official Misconduct 1st Degree (a Class A misdemeanor), which was committed between January 30, 2006 and December 29, 2006. The circuit court ordered restitution of \$21,473, payable to the Perry County Circuit Clerk's office in monthly payments of \$150. During calendar year 2016, the Perry County Circuit Clerk collected \$1,500 from the former employee in restitution. Subsequently, the restitution was paid to the Perry County Fiscal Court as 2006 calendar year excess fees. As of December 31, 2016, total restitution due to Perry County Fiscal Court as 2006 excess fees is \$9,073, with \$300 of this total being due to the Kentucky State Treasurer for 2006 legal process fees.

Note 7. Escrow Account

The county clerk maintains an escrow account for the purpose of holding unclaimed funds. The balance in the account as of December 31, 2016, was \$55.

Note 8. Subsequent Event – Promissory Note

The Perry County Clerk and the Perry County Fiscal Court jointly and severally are liable for an unsecured note payable to Peoples Bank & Trust Company in the amount of \$75,150, together with interest on the unpaid principal balance from January 13, 2017, calculated using an interest rate of five percent, until paid in full. The purpose of the note was to pay outstanding liabilities of the clerk's office for calendar year 2016. The date of the note payable was January 13, 2017, with a maturity date of October 13, 2017. The unsecured note payable was signed by the Perry County Clerk and by the Perry County Judge Executive for the Perry County Fiscal Court. The Perry County Clerk made payments on the note payable totaling \$20,179 on June 7, 2017, leaving a balance due of \$54,971. The note matures upon demand and the interest rate is five percent. The Perry County Clerk's office was in compliance with the terms of the agreement as of December 31, 2016.

PERRY COUNTY
 HAVEN KING, COUNTY CLERK
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2016

Assets

Cash in Bank	\$ 286,169
Deposits in Transit	93,340
Collected Receivables	90,589
Uncollected Receivable - Disallowed Disbursements Due From Clerk	161
Uncollected Receivable - Affordable Housing Trust Fund	<u>24,276</u>
 Total Assets	 <u>494,535</u>

Liabilities

Paid Obligations:	
Outstanding Checks	\$ 446,095
Liabilities Paid After December 31, 2016	<u>24,003</u>
 Total Paid Obligations	 470,098
Unpaid Obligations:	
Bank Loan	<u>54,971</u>
 Total Unpaid Obligations	 <u>54,971</u>
 Total Liabilities	 <u>525,069</u>
 Total Fund Deficit as of December 31, 2016	 <u><u>\$ (30,534)</u></u>

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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 Scott Alexander, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry 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 Perry County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated November 2, 2017. The Perry 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 Perry 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 Perry County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-004 to be material weaknesses.



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)

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-003 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry 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 Schedule of Findings and Responses as items 2016-002, 2016-003, and 2016-005.

Views of Responsible Official and Planned Corrective Action

The Perry County Clerk's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Perry 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,



Mike Harmon
Auditor of Public Accounts

November 2, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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PERRY COUNTY
HAVEN KING, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Perry County Clerk's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2015-003. The Perry County Clerk's office lacks segregation of duties over receipts, disbursements, and reconciliations. During our review of internal controls we noted all of the county clerk's employees receive cash. The bookkeeper receives cash, prepares deposits on a rotating basis with other deputy clerks, posts revenue to the ledger, prepares disbursements other than those listed elsewhere in this comment, posts disbursements to the ledger, and completes the monthly bank reconciliations. The county clerk has assigned different deputies to be responsible for the usage, registration, delinquent tax, legal process, and chattel disbursements. Employees are not cross-trained; therefore, only the deputy responsible for a certain report is knowledgeable about those reports. The deputy who prepares the report is also responsible for preparing all disbursement checks. Although the county clerk reviews the monthly reports and disbursements, auditors found no evidence that he reviews refund or overpayment disbursements. In order to post all disbursements, the bookkeeper uses the check register instead of the actual disbursement check and supporting documentation.

According to the county clerk, a limited budget places restrictions on the number of employees the clerk can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting.

When one deputy collects revenue, prepares deposits, prepares the reports and prepares the disbursements, that deputy has control over the entire process. Auditors could find no evidence that the county clerk or another deputy verifies the receipts or disbursements, with the exception of payroll, before they are remitted or posted to the ledgers. Also, allowing one person control over an entire process without oversight subjects the monies of the county clerk's office to inaccurate financial reporting or misappropriation.

Segregation of duties over cash collections, daily checkout procedures, deposit preparation, and the preparation of checks 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.

We recommend the county clerk segregate duties and institute compensating controls. Examples of controls include, but are not limited to, cross-training employees, requiring deputies to periodically rotate duties, routinely recalculating daily checkout procedures for accuracy, obtaining bank statements unopened, re-performing bank reconciliations, and ensuring that reports and financial statements are accurate by comparing to the ledgers. The county clerk should appoint one individual to be responsible for issuing all disbursements. The county clerk should approve all refunds. The county clerk and deputies should document the review processes by initialing the reports and supporting documentation.

County Clerk's Response: Limited budget and limited staff makes proper segregation of duties difficult. The County Clerk has reviewed the recommendations in the audit and will take action to implement those recommendations.

PERRY COUNTY
 HAVEN KING, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Perry County Clerk Did Not Present The Final Settlement To The Fiscal Court

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The Perry County Clerk did not present his final settlement to the fiscal court. The county clerk failed to ensure that he or his staff submitted the final settlement to the fiscal court. Without presenting an annual settlement, the fiscal court is unaware of the financial condition of the county clerk's office.

KRS 64.152(1) states, in part, "the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and all of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses."

We recommend the county clerk comply with KRS 64.152(1) and establish procedures to ensure an annual settlement is presented to the fiscal court by March 15th of each calendar year.

County Clerk's Response: The County Clerk will ensure that all final settlements are properly and timely submitted to the Perry County Fiscal Court.

2016-003 The Perry County Clerk's Ledgers And Fourth Quarter Financial Report Did Not Include All Receipts And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2015-002. The clerk's ledgers and fourth quarter financial report did not include all receipts and disbursements for calendar year 2016. The county clerk's receipts and disbursements ledgers should match the fourth quarter financial report to ensure accurate reporting of all financial activity. The county clerk received \$10,500 on May 15, 2017, for reimbursement of use of software in the clerk's office that was not included on the fourth quarter financial report. The county clerk also included calendar year 2015 disbursements on the current year fourth quarter financial report.

The county clerk does not have proper internal controls in place to ensure that all transactions are posted correctly. Transactions that occurred after year end were not posted to the receipts and disbursements ledgers and the fourth quarter financial report. 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, expending more on allowable operating disbursements than income received (See finding 2016-004), and incorrect financial reporting to the Department for Local Government.

Good internal controls dictate the county clerk should reconcile 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 Perry County Clerk maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

County Clerk's Response: The County Clerk will maintain and complete an accurate receipts and disbursements ledgers which support the amounts reported on quarterly financial reports. The County Clerk will ensure that his ledgers are reconciled to the quarterly financial reports.

PERRY COUNTY
 HAVEN KING, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Perry County Clerk's Disbursements Exceeded Receipts By \$30,534

The Perry County Clerk's office disbursements exceeded receipts by \$30,534 for calendar year 2016. Although the county clerk's total actual disbursements were within approved budgeted amounts, the clerk did not receive sufficient receipts to support total allowable disbursements plus his statutory maximum salary. On January 13, 2017, the Perry County Clerk and the Perry County Fiscal Court entered into a promissory note agreement to borrow \$75,150 from a local bank to pay liabilities owed at the end of calendar year 2016. The promissory note agreement provides that the Perry County Clerk and the Perry County Fiscal Court (Borrower) jointly and severally promise to pay to Peoples Bank & Trust Company (Lender), the principal amount of \$75,150 together with calculated interest of five percent on the unpaid principal balance from January 13, 2017, until the loan is paid in full. The promissory note agreement was signed by the Perry County Clerk and by the Perry County Judge Executive for the Perry County Fiscal Court. The Perry County Clerk made payments from the 2016 fee account for the bank loan on June 6, 2017 and June 7, 2017 totaling \$20,179, leaving a balance owed of \$54,971. The balance due on the bank loan totaling \$54,971 cannot be paid from the 2017 fee account. The Perry County Clerk also owes \$161 to the fee account for disallowed disbursements for calendar year 2016. The total deficit in the Perry County Clerk's 2016 fee account is \$30,534.

The Perry County Clerk did not monitor receipts available for operating disbursements of his office. Receipts for operating disbursements are funds available after making required payments to taxing districts and others. Failing to monitor available receipts resulted in expending more on allowable operating disbursements than income received. Good internal controls dictate that the county clerk should monitor his operating disbursements to ensure that he does not expend more than the available receipts.

We recommend the county clerk monitor his receipts and operating disbursements during the year and only expend available receipts on operating disbursements. We also recommend the county clerk consult with the fiscal court to ensure that the amount due on the bank loan of \$54,971 is paid timely.

County Clerk's Response: The County Clerk acknowledges that sufficient income was not received in 2016 to cover the actual expenditures. Based on income projections from previous years, the Clerk anticipated revenue which would be received in December 2016. That anticipated income was not received in December 2016, which resulted in a deficit. The Clerk will follow the recommendations in the audit to ensure that proper monitors are put in place. The County Clerk has received sufficient funds from the amended returns filed with the Affordable Housing Trust to ensure that the bank loan is fully paid.

2016-005 The Perry County Clerk Spent Fee Receipts On Disallowed Disbursements

During our review of disbursements, the auditor noted the county clerk used funds from his official fee account to pay for charges not supported with detailed receipts and late payment fees. The following schedule provides details of these disallowed disbursements:

Late Fees For Copier Lease:	\$ 79
Unsupported Credit Card Transactions:	<u>82</u>
Total Disallowed Disbursements:	<u>\$ 161</u>

PERRY COUNTY
HAVEN KING, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Perry County Clerk Spent Fee Receipts On Disallowed Disbursements (Continued)

The county clerk did not have controls in place to ensure that all disbursements were in compliance with Funk v. Milliken which could have prevented disbursements that were not necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. As a result, the county clerk spent fee receipts on disbursements that were not in compliance with Funk v. Milliken.

In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the county clerk avoid expenses that do not meet the Funk v. Milliken test. We also recommend that the county clerk deposit personal funds of \$161 to cover these charges which are included in the deficit amount reflected on the Schedule of Excess of Liabilities Over Assets and included in finding 2016-004.

County Clerk's Response: The County Clerk will avoid any expenses which do not meet the Funk v. Milliken test. The County Clerk will deposit personal funds of \$161 to cover these charges. The County Clerk will write a personal check to the Fiscal Court.