

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James D. Anderson, Jr., Powell County Judge/Executive
The Honorable Rhonda Barnett, Former Powell County Clerk
The Honorable Karen Graham, Powell County Clerk
Members of the Powell 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 Powell 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 James D. Anderson, Jr., Powell County Judge/Executive
The Honorable Rhonda Barnett, Former Powell County Clerk
The Honorable Karen Graham, Powell County Clerk
Members of the Powell 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 Powell 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 Powell 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 former Powell 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the former Powell 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 James D. Anderson, Jr., Powell County Judge/Executive
The Honorable Rhonda Barnett, Former Powell County Clerk
The Honorable Karen Graham, Powell County Clerk
Members of the Powell 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 Former County Clerk Paid \$5,560 In Disallowed Disbursements
- 2016-002 The Former County Clerk Did Not Present An Annual Settlement To The Fiscal Court And Did Not Pay Excess Fees For Calendar Year 2016 Timely
- 2016-003 The Former County Clerk Failed To Maintain Adequate Controls Regarding Oversight And Review Of Daily Functions
- 2016-004 The Former County Clerk's Office Lacked Adequate Segregation of Duties Over Disbursements
- 2016-005 The Former County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy

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

December 19, 2017

POWELL COUNTY
RHONDA BARNETT, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Revenue Supplement		\$ 65,777
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 455,360	
Usage Tax	841,958	
Tangible Personal Property Tax	1,006,566	
Notary Fees	615	
Other-		
Fish and Game Licenses	13,597	
Marriage Licenses	4,189	
Deed Transfer Tax	19,226	
Delinquent Tax	<u>195,885</u>	2,537,396
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	7,050	
Real Estate Mortgages	14,403	
Chattel Mortgages and Financing Statements	47,325	
Powers of Attorney	1,280	
Affordable Housing Trust	11,489	
All Other Recordings	31,644	
Charges for Other Services-		
Candidate Filing Fees	70	
Car Liens	10,736	
Elections	<u>2,061</u>	126,058
Other:		
Refunds	1,082	
Miscellaneous	<u>255</u>	1,337
Interest Earned		<u>241</u>
Total Receipts		2,730,809

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

POWELL COUNTY
 RHONDA BARNETT, FORMER 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	\$ 325,063	
Usage Tax	819,295	
Tangible Personal Property Tax	379,113	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	13,616	
Delinquent Tax	22,578	
Legal Process Tax	17,454	
Affordable Housing Trust	11,664	\$ 1,588,783

Payments to Fiscal Court:

Tangible Personal Property Tax	94,228	
Delinquent Tax	18,963	
Deed Transfer Tax	18,246	131,437

Payments to Other Districts:

Tangible Personal Property Tax	492,794	
Delinquent Tax	94,744	587,538

Payments to Sheriff

14,415

Payments to County Attorney

25,326

Tax Bill Preparation

2,486

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	106,303
Part-Time Salaries	23,054

Employee Benefits-

Employer's Share Social Security	14,746
Employer's Share Retirement	36,621
Employer's Paid Health Insurance	20,383

Contracted Services-

Advertising	4,392
Lease - Copier	4,991

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

POWELL COUNTY
 RHONDA BARNETT, FORMER 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)

Materials and Supplies-			
Office Supplies	\$	9,683	
Other Charges-			
Conventions and Travel		464	
Dues		25	
Postage		3,601	
Insurance and Bonds		255	
Miscellaneous		<u>20,709</u>	\$ 245,227
Capital Outlay-			
Computer Equipment		6,650	
Computer Software and Support		<u>13,776</u>	<u>20,426</u>
Total Disbursements			<u>\$ 2,615,638</u>
Less: Disallowed Disbursements			
Overdraft Bank Charges		(136)	
Penalties, Fees, and Interest on Legal Process Taxes		(3,039)	
Penalties, Fees, and Interest on Affordable Housing Taxes		(2,358)	
Penalties, Fees, and Interest on Spouse Abuse Shelter Fund Taxes		<u>(27)</u>	<u>(5,560)</u>
Total Allowable Disbursements			<u>2,610,078</u>
Net Receipts			120,731
Less: Statutory Maximum			<u>83,356</u>
Excess Fees			37,375
Less: Expense Allowance			<u>3,600</u>
Balance Due Fiscal Court at Completion of Audit *			<u>\$ 33,775</u>

* - The county clerk presented a check to the fiscal court for excess fees in the amount of \$33,775 on December 19, 2017.

POWELL 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.

POWELL 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.

The former county clerk's contribution for calendar year 2014 was \$37,701, calendar year 2015 was \$35,929, and calendar year 2016 was \$36,621.

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.

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

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Powell 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 former Powell 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. However, as of November 9, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$3,253

Note 4. Lease Agreement

The Powell County Clerk's office was committed to a lease agreement for a copier. The agreement requires a monthly payment of \$383 for 48 months to be completed in April 2017. The total balance of the agreement was \$1,533 as of December 31, 2016.

Note 5. Subsequent Event

The former Powell County Clerk, Rhonda Barnett, resigned on June 30, 2017. The Powell County Judge/Executive appointed Karen Graham as Powell County Clerk on July 5, 2017.

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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 James D. Anderson, Jr., Powell County Judge/Executive
The Honorable Rhonda Barnett, Former Powell County Clerk
The Honorable Karen Graham, Powell County Clerk
Members of the Powell 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 Powell County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated December 19, 2017. The former Powell 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 Powell 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 Powell County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Powell 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 2016-003, 2016-004, and 2016-005 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 Powell 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 2016-001, 2016-002, and 2016-005.

Views of Responsible Official and Planned Corrective Action

The former Powell 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 Powell 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

December 19, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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POWELL COUNTY
RHONDA BARNETT, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Former County Clerk Paid \$5,560 In Disallowed Disbursements

The former county clerk expended \$5,560 for the following disallowed items:

- Penalties, fees, and interest of \$3,039 for untimely payments of legal process taxes
- Penalties, fees, and interest of \$2,358 for untimely payments of affordable housing fees
- Penalties, fees, and interest of \$27 for untimely payments of spouse abuse shelter fund fees
- Overdraft bank charges of \$136 in the fish and wildlife account

According to the former county clerk, due to illness she was not present in the office to perform her duties during the last few months of 2016. Therefore, the reports for legal process taxes and affordable housing fees were not submitted timely and penalties, fees, and interest were charged. The disallowed expenditures resulted in the former county clerk personally owing \$5,560 to the 2016 fee account.

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 that the former county clerk reimburse the 2016 fee account \$5,560 from her personal funds for these disallowed items.

Former County Clerk's Response: These disbursements have been reimbursed in the amount of \$5,560.00 from my personal account. These penalties, interest and fees were for monthly reports not submitted during my critical illness while on family medical leave. None of these fees were for personal use or items disallowed.

Auditor's Reply: Pursuant to Funk v. Milliken, cited above, payments of penalties and interest are disallowed because they are not necessary government expenditures.

2016-002 The Former County Clerk Did Not Present An Annual Settlement To The Fiscal Court And Did Not Pay Excess Fees For Calendar Year 2016 Timely

The former county clerk did not present an annual settlement to the fiscal court for calendar year 2016. Furthermore, the former county clerk did not pay excess fees to the fiscal court. The former county clerk's 2016 fee account has a bank balance of \$28,215 and she owes \$5,560 from personal funds for disallowed items. The former county clerk owes \$33,775 to the fiscal court as 2016 excess fees. Due to illness, the former county clerk was not present in the office during the last few months in 2016 through June 30, 2017 when she retired. As a result, the fiscal court was not aware of the financial activities for calendar year 2016. Furthermore, failure to issue excess fees to the fiscal court in a timely manner deprived the fiscal court the use of these funds for budgeted operations.

KRS 64.152(1) states "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 of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses." KRS 64.152(2) states "[a]t the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office[.]" We recommend the county clerk's office implement procedures to ensure timely preparation of the annual settlement and payment of excess fees.

Former County Clerk's Response: The clerk was hospitalized during this time and on family medical leave. The annual settlement has been completed and excess fees paid to the Powell County General Fund.

POWELL COUNTY
 RHONDA BARNETT, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Former County Clerk Failed To Maintain Adequate Controls Regarding Oversight And Review Of Daily Functions

This is a repeat finding and was included in the prior year audit report as finding 2015-002. The former county clerk failed to maintain adequate oversight and review of daily office functions during calendar year 2016. Timely review and reconciliation was not performed, resulting in inaccuracies in financial reporting and penalties paid for untimely payments to the state. According to the former county clerk, due to illness, she was not present in the office to perform her duties during the last few months of 2016. As a result of inadequate review and reconciliation, the former county clerk's office overdrew the fish and wildlife bank account during September and October, which resulted in unnecessary fees totaling \$136 during the year. Lease payments were not made on a copier for some months and other months there would be multiple payments. Penalties, fees, and interest totaling \$5,424 were paid on legal process reports and affordable housing fees due to the state for 2016.

Good internal controls dictate that strong supervisory review and oversight should be in place to reduce the risk of misstatement, uncorrected errors, and unnecessary penalties. We recommend the county clerk's office strengthen controls over daily work by providing a strong oversight and review process. This review should include reviewing daily work, paying daily expenditures on time, reviewing bank statements/bank reconciliations, and providing a strong presence within the office.

Former County Clerk's Response: The clerk was unable to perform daily functions at times during her illness and on family medical leave. The clerk has since retired.

2016-004 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Disbursements

The former county clerk's office lacked adequate segregation of duties over disbursements without sufficient compensating controls. According to the county clerk, due to illness, she was not present in the office to perform her duties during the last few months of 2016. Therefore, the bookkeeper performed her own duties as well as the county clerk's duties without implementing compensating controls to mitigate risks involved with inadequate segregation of duties over disbursements. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. If segregation is not possible, compensating controls or independent checks are needed to mitigate the risks. Strong internal controls and segregation of duties over disbursements also helps to ensure accurate financial reporting. We recommend the county clerk's office segregate incompatible duties over disbursements implement compensating controls to help mitigate risks.

Former County Clerk's Response: The clerk did have segregation of duties over disbursements prior to her illness. One employee had several duties of checking and balancing my work. However, during my illness, she was the only employee with the knowledge and who was willing to take on extra job responsibilities thus saving thousands of dollars in fees and penalties.

2016-005 The Former County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The former county clerk's office lacked internal controls over the processing of timesheets. Review procedures were in place; however, they were not adequately performed to eliminate or reduce errors. The lack of adequate review over payroll records and compliance with applicable laws led to the following issues.

POWELL COUNTY
RHONDA BARNETT, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-005 The Former County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy (Continued)

- One employee was paid as contract labor for part of the year and was not provided with a 1099 form; however, the employee was essentially a part-time employee all year and should have received a W-2 for all amounts paid.
- One salaried employee did not turn in a timecard but was paid her regular pay.

KRS 141.335 states that employers required to deduct and withhold from an employee a tax under KRS 141.310 or 141.315, shall furnish employees with written statement that includes the total amount of wages and deductions withheld.

KRS 337.320(1) states, “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” KRS 337.320(2) requires that, “[s]uch records shall be kept on file for at least one (1) year after entry. They shall be open to inspection. . .at any reasonable time, and every employer shall furnish to the commissioner or the commissioner's authorized representative on demand a sworn statement of them.”

We recommend the county clerk’s office strengthen controls over payroll and ensure compliance with applicable laws and regulations. All employees should be required to submit timesheets detailing hours worked per day and should be provided a W-2 reporting all wages earned.

Former County Clerk’s Response: All employee payroll is now run through county payroll and all employees will be issued W-2 forms.