

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
CLERK**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Robertson, Russell County Judge/Executive
The Honorable Sue Brockman, Russell County Clerk
Members of the Russell 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 Russell 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 Gary Robertson, Russell County Judge/Executive
The Honorable Sue Brockman, Russell County Clerk
Members of the Russell 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 Russell 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 Russell 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 Russell 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 August 3, 2017, on our consideration of the Russell 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.

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

2016-001 The County Clerk’s Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 3, 2017

RUSSELL COUNTY
SUE BROCKMAN, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Revenue Supplement		\$ 65,777
State Fees For Services		7,425
Fiscal Court		4,038
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 671,641	
Usage Tax	1,147,529	
Tangible Personal Property Tax	1,588,836	
Lien Fees	9,320	
Other-		
Filing Petitions	1,110	
Marriage Licenses	5,538	
Delinquent Tax Registration	1,720	
Fees Collected for Services	20	
Deed Transfer Tax	57,877	
Delinquent Tax	<u>296,595</u>	3,780,186
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	22,219	
Real Estate Mortgages	33,363	
Chattel Mortgages and Financing Statements	56,657	
Powers of Attorney	4,342	
All Other Recordings	28,322	
Charges for Other Services-		
Postage	1,577	
Copywork	3,593	
Miscellaneous	3,129	
Notary Fees, Title Applications, and Affidavits	<u>4,772</u>	157,974
Interest Earned		<u>222</u>
Total Receipts		4,015,622

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

RUSSELL COUNTY
 SUE BROCKMAN, 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 \$ 469,619

Usage Tax 1,113,094

Tangible Personal Property Tax 533,854

Licenses, Taxes, and Fees-

Delinquent Tax 49,309

Legal Process Tax 19,941

Affordable Housing Trust 21,036 \$ 2,206,853

Payments to Fiscal Court:

Tangible Personal Property Tax 97,777

Delinquent Tax 15,906

Deed Transfer Tax 54,983

Miscellaneous 624 169,290

Payments to Other Districts:

Tangible Personal Property Tax 893,671

Delinquent Tax 140,572 1,034,243

Payments to Sheriff

26,351

Payments to County Attorney

40,228

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 266,378

Employer's Paid Health Insurance 49,501

Contracted Services-

Contract Services 3,000

Computer Software Maintenance 14,784

Advertising 2,633

Printing and Binding 1,614

Materials and Supplies-

Office Supplies 15,359

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

RUSSELL COUNTY
 SUE BROCKMAN, 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	\$ 7,603	
Dues	780	
Postage	5,521	
Refunds	2,588	
Miscellaneous	<u>1,866</u>	\$ 371,627
Capital Outlay-		
Office Equipment		9,926
Debt Service:		
Lease Purchases		<u>4,080</u>
Total Disbursements		<u>\$ 3,862,598</u>
Net Receipts		153,024
Less: Statutory Maximum		<u>79,395</u>
Excess Fees		73,629
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>1,984</u>	<u>5,584</u>
Excess Fees Due County for 2016		68,045
Payment to Fiscal Court - February 23, 2017		<u>68,045</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

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

RUSSELL 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.

RUSSELL 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.

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

Note 3. Deposits

The Russell 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 Russell 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. Grant

The Russell County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$3,256. No funds were expended during the year. The unexpended grant balance was \$3,256 as of December 31, 2016.

Note 5. Lease Agreement

The Russell County Clerk's office was committed to a lease agreement for a printer and copiers. The agreement requires a monthly payment of \$340 for 60 months to be completed on October 8, 2017. The total balance of the agreement was \$3,400 as of December 31, 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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Robertson, Russell County Judge/Executive
The Honorable Sue Brockman, Russell County Clerk
Members of the Russell 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 Russell County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated August 3, 2017. The Russell 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 Russell 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 Russell County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Russell 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 a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be a significant deficiency.



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 Russell County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The Russell County Clerk's views and planned corrective action to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Russell County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

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

August 3, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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RUSSELL COUNTY
SUE BROCKMAN, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY

2016-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

The county clerk did not segregate receipts, disbursements, and bank reconciliation duties. Even though disbursements require two signatures, all full time employees except one have check signature authority. Several deputies collect receipts and prepare daily or weekly reports. The county clerk collects receipts as well as prepares deposits, records disbursements to the ledger, reconciles monthly and quarterly reports, prepares bank reconciliations, and posts adjustments to the ledgers.

This condition is the result of a limited budget that restricts the number of employees the county clerk can hire or delegate duties to. A lack of adequate segregation of duties can result in undetected misappropriation of assets or incorrect reporting. Also, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Segregation of duties over receipts, disbursements, and bank reconciliations or implementation of compensating controls, when needed due to limited staff, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent undetected misappropriation of assets and incorrect reporting. Effective internal controls dictate that essential duties should be separated.

The county clerk has instituted some compensating controls such as employees rotating closing duties and hiring a certified public accountant to review the ledger postings. To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the county clerk separate the duties of collecting and depositing receipts and preparation of reports and reconciliations. If this is not feasible due to limited staff, then strong oversight over these areas should occur and involve an employee that wasn't currently performing any of those functions. All reviews need to be documented with initials of the employee performing the review.

County Clerk's Response: Due to limited funding and staff I am unable to segregate duties. Will implement more documented reviews.