

**REPORT OF THE AUDIT OF THE  
MAGOFFIN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2019**



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Matthew Wireman, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Statement of Receipts, Disbursements, and Excess - Regulatory Basis of the County Clerk of Magoffin County, Kentucky, for the year ended December 31, 2019.

We engaged Tichenor & Associates, LLP, to perform the audit of this financial statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Magoffin County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Mike Harmon  
Auditor of Public Accounts  
Enclosure



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The Honorable Mathew Wireman, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin County Fiscal Court

Independent Auditors' 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 Magoffin County, Kentucky, for the year ended December 31, 2019, 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.

**Auditors' 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 auditors' 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 auditors consider 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 Mathew Wireman, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin 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 Magoffin 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 Magoffin County Clerk, as of December 31, 2019, 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 Magoffin County Clerk for the year ended December 31, 2019, 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 May 18, 2022, on our consideration of the Magoffin 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 Magoffin County Clerk'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 comments:

- 2019-001 The County Clerk Commingled Public and Private Funds
- 2019-002 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2019-003 The County Clerk's Fourth Quarter Financial Report Was Not Complete And Accurate

Respectfully submitted,

*Tichenor & Associates, LLP*

Tichenor & Associates, LLP  
Louisville, Kentucky

May 18, 2022



MAGOFFIN COUNTY  
 RENEE ARNETT SHEPHERD, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

Libraries & Archives Grant		\$ 27,426
State Revenue Supplement		67,769
State Fees for Services		3,381
Fiscal Court		48,523
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 390,769	
Usage Tax	493,965	
Tangible Personal Property Tax	1,073,720	
Notary Fees	840	
Other-		
Fish and Game Licenses	13,193	
Marriage Licenses	3,124	
Beer and Liquor Licenses	3,000	
Deed Transfer Tax	11,557	
Delinquent Tax	<u>496,859</u>	2,487,027
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	4,038	
Real Estate Mortgages	2,024	
Chattel Mortgages and Financing Statements	28,820	
Powers of Attorney	330	
Affordable Housing Trust	8,382	
Handicap Placard	1,500	
All Other Recordings	23,776	
Charges for Other Services-		
Copy work	3,494	
Postage	<u>1,315</u>	73,679
Other:		
Passport	1,505	
Miscellaneous	<u>35,909</u>	37,414
Interest Earned		<u>64</u>
Total Receipts		2,745,283

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

MAGOFFIN COUNTY  
 RENEE ARNETT SHEPHERD, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2019  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 272,979

Usage Tax 474,965

Tangible Personal Property Tax 371,565

Licenses, Taxes, and Fees-

Fish and Game Licenses 12,718

Handicap Placard 1,152

Delinquent Tax 47,740

Legal Process Tax 8,688

Affordable Housing Trust 8,280 \$ 1,198,087

Payments to Fiscal Court:

Tangible Personal Property Tax 117,917

Delinquent Tax 115,302

Deed Transfer Tax 10,974

Beer and Liquor Licenses 2,850 247,043

Payments to Other Districts:

Tangible Personal Property Tax 538,687

Delinquent Tax 193,491 732,178

Payments to Sheriff

33,029

Payments to County Attorney

63,382

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 133,612

Employee Benefits-

Employer's Share Social Security 16,264

Employer's Share Retirement 53,086

Employer's Paid Health Insurance 43,843

Contracted Services-

Deed Room Maintenance 16,962

Advertising 983

Materials and Supplies-

Office Supplies 12,567

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

MAGOFFIN COUNTY  
 RENEE ARNETT SHEPHERD, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2019  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-		
Dues	\$ 960	
Postage	4,260	
Overpayment	2,710	
Miscellaneous	47,771	
Training	<u>2,769</u>	\$ 335,787
Capital Outlay-		
Office Equipment	8,563	
Copier	<u>418</u>	8,981
Libraries & Archives Grant		27,427
Refunds		<u>2,609</u>
Total Disbursements		<u>\$ 2,648,523</u>
Net Receipts		96,760
Less: Statutory Maximum		<u>88,539</u>
Excess Fees		8,221
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,216</u>	<u>7,816</u>
Excess Fees Due to the Fiscal Court		<u>\$ 405</u>

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

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2019

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 2019 services
- Reimbursements for 2019 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2019

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.

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2019  
(Continued)

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

The county clerk's contribution for calendar year 2017 was \$29,542, calendar year 2018 was \$30,929, and calendar year 2019 was \$53,086.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

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.

The county clerk's contribution rate for nonhazardous employees was 21.48 percent for the first half of the year and 24.06 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

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:

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

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2019  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 78.5536 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

MAGOFFIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2019  
 (Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Magoffin 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 Magoffin 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Escrow Account

The Magoffin County Clerk deposits the remaining outstanding checks on the year-end bank reconciliation into an interest-bearing escrow account. When statutorily required, the county clerk will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The county clerk's escrowed amounts for each year are listed below.

2013	\$712
2014	\$123

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2019  
(Continued)

Note 5. Grants

During the calendar year ending December 31, 2019, the Magoffin County Clerk was awarded a Kentucky Local Records Program Grant by the Education and Workforce Development Cabinet, Department for Libraries and Archives in the amount of \$27,426. The funds awarded were utilized to upgrade the county clerk's office's server and to upgrade server backup for a new document scanner as part of an indexing and imaging system to ensure that digital records are accessible to the public. The funds were received in August of 2019 and deposited to a grant account. The grant account earned \$1 in interest. The balance of \$27,247 in total funds were disbursed in October 2019 after the project was completed, leaving a zero balance as of December 31, 2019.



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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The Honorable Mathew Wireman, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin 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 Auditors' 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 Magoffin County Clerk for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated May 18, 2022. The Magoffin 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 Magoffin 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 Magoffin County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin 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.

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 2019-001, 2019-002, and 2019-003 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)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Magoffin 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 an instance of noncompliance or other matter is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

**Views of Responsible Official and Planned Corrective Action**

The Magoffin 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 Magoffin 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,

*Tichenor & Associates, LLP*

Tichenor & Associates, LLP  
Louisville, Kentucky

May 18, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY  
RENEE ARNETT SHEPHERD, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The County Clerk Commingled Public And Private Funds

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The county clerk's 2019 fee account was overdrawn on January 9, 2020, by \$23,715. On January 13, 2020, the county clerk deposited \$1,000 of her personal funds and with additional 2019 collections, making the 2019 fee account a positive balance. On January 14 and 15, the 2019 fee account was overdrawn by \$256 and \$4,839, respectively. On January 16, 2020, the county clerk deposited \$16,825 from the 2020 fee account making the 2019 fee account having a positive balance. On March 5, 2020, the county clerk repaid the 2020 fee account the \$16,825 and herself \$895. The difference between the \$1,000 and the \$895 is the overdraft fees which the county clerk paid for from personal funds.

The county clerk neglected to utilize adequate internal controls in monitoring receipts and disbursements of the 2019 fee account which created a deficit in account. To bring the account even, the county clerk made an unallowable transfer of funds from the 2020 fee account to the 2019 fee account and commingled private funds with public funds. By not utilizing adequate internal controls, the county clerk did not sufficiently monitor the receipts and disbursements of the 2019 fee account and created a negative balance within the account which resulted in a deficit to the fee account and overdraft charges on three days.

KRS 64.850 states, "[i]t shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited."

We recommend the county clerk monitor her receipts and disbursements more closely to avoid creating a deficit and having to conduct an unallowable transfer of funds and commingle public and private funds.

*County Clerk's Response: I didn't want my account negative.*

2019-002 The County Clerk's Office Lacks Adequate Segregation Of Duties

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This is a repeat finding and was reported in the prior year audit report as finding 2018-001. The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The county clerk is responsible for receiving cash, preparing daily deposits, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of duties increases the risk of undetected errors.

According to the county clerk, this condition is a result of limited resources and a restricted budget, thereby restricting the clerk's staffing and delegation abilities. A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary, because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

*County Clerk's Response: Don't know. Office is small and not a lot of employees.*

MAGOFFIN COUNTY  
RENEE ARNETT SHEPHERD, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-003 The County Clerk's Fourth Quarter Financial Report Was Not Complete And Accurate

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This is a repeat finding and was reported in the prior year audit report as finding 2018-002. The county clerk's fourth quarter financial statements did not agree to the county clerk's receipts and disbursements ledger. In addition, auditor proposed numerous adjustments to the county clerk's disbursement ledger. Although the differences noted and the proposed adjustments were not material for the current year, the prior three years had the same finding. Given the amount of funds that pass through the clerk's fee account and the lack of internal controls, we feel like there could be a material misstatement in future years if proper internal controls are not implemented.

The county clerk does not have proper internal controls in place to ensure that her accounting records are accurate and reconciles to the bank statements. In addition, the county clerks' accounting system is comprised of a spreadsheet to record receipts and disbursements and a software program is only used to write checks. This system is an "one sided" entry as opposed to a traditional "two sided" system which ensures a balance financial statement.

Inaccurate financial records provide misleading information to the users of the information. Auditors compared the fourth quarter report to the receipts and disbursements ledgers and noted differences of \$3,410 and \$8,680, respectively. The sum of the absolute adjustments proposed to the disbursement ledger were \$31,947.

The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* prescribes a uniform system of accounts pursuant to KRS 68.210, and it requires the county clerk to prepare a quarterly report which includes all receipts and disbursements the county clerk collected and paid during the calendar year.

We recommend the county clerk implement procedures for ensuring the accuracy of financial information. Ledgers should be posted accurately, and the fourth quarter report should agree to ledgers and the bank balance. Receipts and disbursements ledgers should be reconciled to the bank receipts and disbursements on a monthly basis. In addition, we recommend the county clerk to use her software to its fullest potential thus using a traditional "two sided" accounting system.

*County Clerk's Response: Have already began correcting.*