

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

**For The Year Ended
December 31, 2022**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS	12
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
SCHEDULE OF FINDINGS AND RESPONSES	19

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

Report on the Audit of the Financial Statement

Opinions

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, 2022, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Magoffin County Clerk for the year ended December 31, 2022, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Magoffin County Clerk, as of December 31, 2022, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Magoffin County Clerk and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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

Basis for Opinion (Continued)

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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Magoffin County Clerk's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Magoffin County Clerk's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The Schedule of Excess Liabilities Over Assets – Regulatory Basis (Supplementary Information) is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 findings:

- 2022-001 The Magoffin County Clerk's Office Does Not Have Adequate Segregation Of Duties
- 2022-002 The Magoffin County Clerk Has A Deficit Of \$9,523 In Her 2022 Fee Account
- 2022-003 The Magoffin County Clerk's Fourth Quarter Financial Report Was Inaccurate
- 2022-004 The Magoffin County Clerk Was Late Remitting State Payroll Withholdings

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, KY

July 18, 2023

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

For The Year Ended December 31, 2022

Receipts

State Revenue Supplement	\$	69,806
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State Fees For Services		4,974
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Fiscal Court		50,726
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	406,192
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Usage Tax		679,944
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Tangible Personal Property Tax		1,404,533
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Notary Fees		893
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Other-

Fish and Game Licenses		9,920
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Marriage Licenses		3,360
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Beer and Liquor Licenses		2,400
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Deed Transfer Tax		14,875
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Delinquent Tax		367,387
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Delinquent Tax Deposits	23,156	2,912,660
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		12,206
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Real Estate Mortgages		9,246
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Chattel Mortgages and Financing Statements		24,640
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Powers of Attorney		510
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Affordable Housing Trust		7,368
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Handicap Placard		680
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All Other Recordings		24,157
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Charges for Other Services-

Candidate Filing Fees		1,507
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Copy Work		1,585
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Postage	1,533	83,432
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Other:

Passport		955
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Document Storage Fee		13,990
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Miscellaneous	12,077	27,022
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Interest Earned		62
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Total Receipts		3,148,682
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The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RENEE SHEPHERD, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 295,811

Usage Tax 656,264

Tangible Personal Property Tax 492,364

Licenses, Taxes, and Fees-

Fish and Game Licenses 9,354

Handicap Placard 512

Delinquent Tax 31,100

Legal Process Tax 8,026

Affordable Housing Trust 7,368 \$ 1,500,799

Payments to Fiscal Court:

Tangible Personal Property Tax 152,906

Delinquent Tax 82,844

Deed Transfer Tax 13,996

Beer and Liquor Licenses 2,280

Document Storage Fee 7,690 259,716

Payments to Other Districts:

Tangible Personal Property Tax 699,658

Delinquent Tax 146,472 846,130

Payments to Sheriff

31,148

Payments to County Attorney

48,034

Other Regulatory Payments:

Delinquent Tax Deposit Refunds 22,961

Other Refunds 4,343 27,304

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 139,299

Employee Benefits-

Employer's Share Social Security 17,286

Employer's Share Retirement 60,223

Employer's Paid Health Insurance 70,247

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

MAGOFFIN COUNTY
 RENEE SHEPHERD, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Contracted Services-		
Fish and Game	\$ 19,757	
Materials and Supplies-		
Office Supplies	9,997	
Other Charges-		
Conventions and Travel	1,484	
Dues	1,590	
Miscellaneous	8,294	
Postage	4,888	
Copier	821	
Overpayments	3,220	
Capital Outlay-		
Office Equipment	<u>3,692</u>	<u>\$ 340,798</u>
Total Disbursements		<u>\$ 3,053,929</u>
Less: Disallowed Disbursements		
2022 Tax Interest Paid	157	
2021 Tax Penalty Paid in Current Year	1,714	
2021 Tax Interest Paid in Current Year	<u>387</u>	
Total Disallowed Disbursements		<u>2,258</u>
Total Allowable Disbursements		<u>3,051,671</u>
Net Receipts		97,011
Less: Statutory Maximum		<u>98,255</u>
Excess Fees		(1,244)
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,679</u>	<u>8,279</u>
Total Fund Deficit as of December 31, 2022		<u>\$ (9,523)</u>

* - Negative balance is due to the disbursements for calendar year 2022 exceeding receipts by \$114 and an overpayment of excess fees to the fiscal court in the amount of \$5,691. This money, in addition to deposits for disallowed disbursements of \$2,258, the repayment of \$16,302 to the 2023 fee account for deposit errors, and \$1,056 to the fiscal court for storage fees still due, will be used to settle the 2022 fee account.

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

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2022

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 pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing clerk to make a final settlement with the fiscal court by March 15 immediately following the expiration of his or her term of office.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2022 services
- Reimbursements for 2022 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2022

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).

MAGOFFIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2022
 (Continued)

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

The clerk's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority (KPPA). 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.

The county clerk's contribution for calendar year 2020 was \$43,766, calendar year 2021 was \$49,138, and calendar year 2022 was \$60,223.

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 CERS 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 covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 CERS Board of Directors 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 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's contribution rate for nonhazardous employees was 26.95 percent for the first six months and 26.79 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2022
(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)

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, they 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.

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

Once members reach a minimum vesting period of 15 years, they 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. 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.

MAGOFFIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2022
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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.

Kentucky Retirement Systems Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement Systems 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.

Kentucky Retirement Systems 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 federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

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 the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2022
(Continued)

Note 4. Fiduciary Account - Escrow Account

The Magoffin County Clerk deposited outstanding checks into a custodial bank 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 were as follows:

2013	\$711
2014	\$123
2015	\$105
2018	\$835
2019	\$82
2020	\$415
2021	\$1,818

MAGOFFIN COUNTY
 RENEE SHEPHERD, COUNTY CLERK
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS
 SUPPLEMENTARY INFORMATION

December 31, 2022

Assets

Cash in Bank		\$ 126,362
Deposits in Transit		19,286
Receivables:		
Deposits after 12/31/22	\$ 73,020	
Due From Fiscal Court for Excess Fees Paid in Error	5,691	
Due From County Clerk For Disallowed Disbursements	2,258	80,969
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Total Assets		226,617

Liabilities

Paid Obligations:		
Outstanding Checks	10,238	
Liabilities	208,544	218,782
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Unpaid Obligations:		
Fiscal Court for Additional Storage Fees Due	1,056	
2023 Fee Account for Deposit Errors	16,302	
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Total Unpaid Obligations		17,358
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Total Liabilities		236,140
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Total Fund Deficit as of December 31, 2022		\$ (9,523)

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

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

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

We have audited, 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 Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Magoffin County Clerk for the year ended December 31, 2022, and the related notes to the financial statement and have issued our report thereon dated July 18, 2023. 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.

Report on 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) as a basis for designing 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 over financial reporting 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 a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Report on Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-002, 2022-003, and 2022-004 to be significant deficiencies.

Report on 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 financial statement. 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 2022-003 and 2022-004.

Views of Responsible Official and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Magoffin County Clerk's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Magoffin County Clerk's responses were not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the responses.

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
Frankfort, KY

July 18, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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

For The Year Ended December 31, 2022

FINANCIAL STATEMENT FINDINGS:

2022-001 The Magoffin County Clerk's Office Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The county clerk's office does not have 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 is a result of limited resources and a restricted budget, thereby restricting the clerk's staffing and delegation abilities. A lack of adequate segregation of duties can result in material misstatements occurring without detection and imperative review. 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: Will have deputy look over all of my work.

2022-002 The Magoffin County Clerk Has A Deficit Of \$9,523 In Her 2022 Fee Account

The Magoffin County Clerk has a deficit of \$9,523 in her official 2022 fee account. This occurred because the county clerk failed to implement an internal control system to ensure receipts and disbursements were properly posted to her ledgers and fourth quarter report. The county clerk also did not review monthly bank balances to determine if there were sufficient funds to pay outstanding liabilities. This led the county clerk to end the year with a negative cash balance of \$114. In addition, the county clerk has disallowed disbursements totaling \$2,258, the repayment of \$16,302 to the 2023 fee account for deposit errors, and \$1,056 due to the fiscal court for storage fees not remitted. She also remitted excess fees in the amount of \$5,691 to the fiscal court that is due back to her account. The deficit is as follows:

Reconciled Cash Balance As Of 12/31/22	\$ (114)
Due From Fiscal Court For CY 2022 Excess Fees Paid In Error	5,691
Due From Clerk For Disallowed Disbursements	2,258
Storage Fee Due Fiscal Court	(1,056)
Fees Due 2023 Fee Account For Deposit Errors	<u>(16,302)</u>
Total Deficit	<u>\$ (9,523)</u>

As a result, the county clerk's office did not have the funds needed to settle the 2022 fee account.

MAGOFFIN COUNTY
 RENEE SHEPHERD, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Magoffin County Clerk Has A Deficit Of \$9,523 In Her 2022 Fee Account (Continued)

Strong internal controls and proper oversight procedures dictate that expenditures should be monitored closely and compared to budgets to ensure sufficient funds are available. If insufficient funds are available to meet obligations, expenses must be reduced to compensate and to avoid overspending and a fund deficit.

We recommend the county clerk consult with the fiscal court and the county attorney to determine how to eliminate this deficit, up to and including using personal funds to pay the office's obligations that are currently outstanding.

County Clerk's Response: Will pay as the County Judge and Fiscal Court directs.

2022-003 The Magoffin County Clerk's Fourth Quarter Financial Report Was Inaccurate

The county clerk's fourth quarter report submitted to the Department for Local Government (DLG) was inaccurate reflecting posting discrepancies that required multiple audit reclassifications and adjustments. Auditors recommended adjustments and reclassifications of \$31,702 to correct the receipts ledger and \$32,202 to correct the disbursements ledger.

Proper controls were not in place to detect or correct mispostings. The county clerk did not reconcile monthly to determine if ledgers were correct.

Failure to submit required reports prevents proper oversight from DLG. Mispostings increase the risk of uncorrected errors, theft, loss, or misappropriated assets. Several reclassifications and adjustments were necessary to accurately reflect the activity of the county clerk's office.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This system of accounts requires that fee official quarterly financial reports should be submitted by the 30th day following the close of each quarter. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county clerk to prepare a quarterly report which includes total receipts and total disbursements on a cash basis per line-item category. In addition, good internal control procedures would detect errors in daily posting to ledgers, reducing the risk of misappropriation and inaccurate financial reporting.

KRS 43.075(3) requires that "each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee, and whether or not each official is complying with all other legal requirements relating to the management of public funds by his office[.]"

We recommend the county clerk ensure that she is complying with applicable state laws and DLG's manual. We also recommend the county clerk reconcile the ledgers monthly, review reclassifications and adjustments, and develop policies for posting transactions to ensure that receipts and disbursements are categorized correctly on her ledgers and quarterly report.

County Clerk's Response: Have purchased a program to help with my bookkeeping.

MAGOFFIN COUNTY
RENEE SHEPHERD, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2022
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-004 The Magoffin County Clerk Was Late Remitting State Payroll Withholdings

The county clerk did not remit \$7,896 of state withholdings for the first three quarters of calendar year 2022 until December 20, 2022, which resulted in interest charges of \$157. In addition, the county clerk did not remit any state withholdings for calendar year 2021 which resulted in interest of \$387 and \$1,714 in penalties which were paid from her 2022 fee account. The fiscal court returned excess fees of \$8,570 to pay these liabilities; however, total penalties and interest of \$2,258 will be disallowed.

The county clerk failed to implement controls to prevent and detect errors over state withholdings. The state did not receive payroll taxes in a timely manner. Also, these disallowed disbursements are misspent taxpayer funds and a reduction in the amount of excess fees paid to the fiscal court.

Proper internal controls require the county clerk implement strong controls over payroll functions to ensure timely withholding payments are made. In addition, 103 KAR 18:150 Section 2 requires employers that withhold income tax of \$2,000 or more but less than \$50,000 to file and pay the tax monthly on or before the 15th day of the following month. Additionally, in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule 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 personal expenses.

We recommend the county clerk personally reimburse the 2022 fee account \$2,258. Furthermore, we recommend the county clerk remit state withholdings monthly.

County Clerk's Response: Had forgotten this had went to internet and when was made aware, I began immediately.