

**REPORT OF THE AUDIT OF THE
MARTIN COUNTY
CLERK**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Lon Lafferty, Martin County Judge/Executive
The Honorable Susie Skyles, Martin County Clerk
Members of the Martin 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 Martin 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 Martin 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 Martin 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 Martin 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 Lon Lafferty, Martin County Judge/Executive
The Honorable Susie Skyles, Martin County Clerk
Members of the Martin 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 Martin 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 Martin 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 Martin 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 Lon Lafferty, Martin County Judge/Executive
The Honorable Susie Skyles, Martin County Clerk
Members of the Martin 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 June 26, 2023, on our consideration of the Martin 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 Martin 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 Martin County Clerk's Office Does Not Have Adequate Segregation Of Duties
- 2022-002 The Martin County Clerk Has A Deficit Of \$16,591 In Her 2022 Official Bank Account

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, KY

June 26, 2023

MARTIN COUNTY
SUSIE SKYLES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2022

Receipts

State Revenue Supplement		\$ 69,806
State Fees For Services		8,147
Fiscal Court		1,990
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 302,724	
Usage Tax	914,388	
Tangible Personal Property Tax	975,761	
Notary Fees	805	
Other-		
Fish and Game Licenses	8,447	
Marriage Licenses	2,880	
Lien Release Fees	8,682	
Deed Transfer Tax	8,620	
Delinquent Tax	<u>490,494</u>	2,712,801
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	12,141	
Real Estate Mortgages	8,515	
Chattel Mortgages and Financing Statements	27,004	
Powers of Attorney	1,059	
Affordable Housing Trust	5,886	
All Other Recordings	49,710	
Charges for Other Services-		
Candidate Filing Fees	20	
Copywork/Postage	2,332	
Miscellaneous	<u>8,532</u>	115,199
Other:		
Refunds/Overpayment	32,036	
Due From Affordable Housing Trust	2,994	
Due From Fiscal Court for Training Incentive	<u>4,679</u>	39,709
Interest Earned		<u>87</u>
Total Receipts		2,947,739

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

MARTIN COUNTY
 SUSIE SKYLES, 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 \$ 217,250

Usage Tax 898,756

Tangible Personal Property Tax 495,829

Licenses, Taxes, and Fees-

Fish and Game Licenses 7,211

Delinquent Tax 35,246

Legal Process Tax 7,734

Candidate Filing Fees 8,830

Affordable Housing Trust 8,880

Miscellaneous 20 \$ 1,679,756

Payments to Fiscal Court:

Tangible Personal Property Tax 132,535

Delinquent Tax 32,105

Deed Transfer Tax 8,189 172,829

Payments to Other Districts:

Tangible Personal Property Tax 300,431

Delinquent Tax 273,382 573,813

Payments to Sheriff 41,465

Payments to County Attorney 68,104

Storage Fees to Fiscal Court 4,130

Refunds/Overpayments 32,280

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 187,288

Employee Benefits-

Employer's Share Retirement 20,000

Contracted Services-

Advertising 722

Contract Labor 3,770

Materials and Supplies-

Office Supplies 17,251

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

MARTIN COUNTY
 SUSIE SKYLES, 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)

Other Charges-		
Bank Charges	\$ 1,952	
Conventions and Travel	697	
Dues	2,230	
Insurance and Bonds	606	
Miscellaneous	2,816	
Postage	808	
Capital Outlay-		
Office Equipment	<u>5,513</u>	\$ 243,653
Debt Service:		
Lease Purchases	<u>38,166</u>	
Total Disbursements		<u>\$ 2,854,196</u>
Net Receipts		93,543
Less: Statutory Maximum		<u>101,855</u>
Excess Fees		(8,312)
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>\$ (16,591)</u>

*See the following Deficit Statement for the determination of this balance.

MARTIN 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).

MARTIN 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 \$20,000, calendar year 2021 was \$20,000, and calendar year 2022 was \$20,000.

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:

MARTIN 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.

MARTIN 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 Martin 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 Martin 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.

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

Note 4. Lease Agreements

The Martin County Clerk's office was committed to the following lease agreements as of December 31, 2022:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2022
Copier	\$ 122	60 months	7/19/2022	\$ 0
Pitney Bowes	95	60 months	4/1/2025	2,555
Software Management	<u>3,565</u>	60 months	2/21/2026	<u>139,035</u>
Totals	<u>\$ 3,782</u>			<u>\$ 141,590</u>

Note 5. Fiduciary Account - Escrow Account

The Martin 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:

2015	\$109
2017	\$853
2018	\$15,667

MARTIN COUNTY
 SUSIE SKYLES, COUNTY CLERK
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS
 SUPPLEMENTARY INFORMATION

December 31, 2022

Assets

Cash in Bank	\$ 140,662
Receivables	59,025
Due From Affordable Housing Trust	2,994
Due from Fiscal Court for Training Incentive Pay	<u>4,679</u>
 Total Assets	 <u>207,360</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 32,552	
Liabilities	<u>161,399</u>	193,951

Unpaid Obligations:

Due to 2023 Fee Account	<u>30,000</u>
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Total Liabilities	<u>223,951</u>
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Total Fund Deficit as of December 31, 2022	<u><u>\$ (16,591)</u></u>
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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 Lon Lafferty, Martin County Judge/Executive
The Honorable Susie Skyles, Martin County Clerk
Members of the Martin 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 Martin County Clerk for the year ended December 31, 2022, and the related notes to the financial statement and have issued our report thereon dated June 26, 2023. The Martin 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 Martin 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 Martin County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Martin 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 another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2022-002 to be a significant deficiency.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin 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 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

Government Auditing Standards requires the auditor to perform limited procedures on the Martin County Clerk's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Martin 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,



Mike Harmon
Auditor of Public Accounts
Frankfort, KY

June 26, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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MARTIN COUNTY
SUSIE SKYLES, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2022

INTERNAL CONTROL - MATERIAL WEAKNESS:

2021-001 The Martin 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 Martin County Clerk's office does not have adequate segregation of duties. One employee collected cash, prepared the daily checkout sheet, prepared the deposit slip, and took the deposit to the bank. There were no compensating controls in place to offset this control deficiency.

The lack of segregation of duties occurs because the county clerk has failed to segregate incompatible duties. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. The county clerk can implement oversight when duties cannot be segregated.

Internal controls and proper segregation of duties protects employees and the county clerk in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers and prepare bank reconciliations and monthly reports.

We recommend the county clerk's office adequately segregate duties and implement internal controls to ensure transactions are recorded timely. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the county clerk or bookkeeper could take on the responsibility of reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations prepared by another employee. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. Further, the county clerk could require dual signatures on all checks, with one signature being the county clerk's.

County Clerk's Response: This always seems to hit us on every audit, I am going to double check each of the deputy clerk's duties to see how we can switch everything around.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2021-002 The Martin County Clerk Has A Deficit Of \$16,591 In Her 2022 Official Bank Account

The county clerk overspent funds that were available to her in calendar year 2022. The deficit is primarily due to a lack of internal controls over the reconciliation process. Near the end of the calendar year, the county clerk found that she did not have enough funds to pay outstanding liabilities due to the taxing districts. The county clerk borrowed \$30,000 from her 2023 operating account to pay the outstanding tax liabilities owed. Although the county clerk did not exceed budgeted operating expenditures, she failed to recognize revenue was not sufficient to cover her expenditures. The county clerk did not review monthly bank balances to determine if there were sufficient funds to pay outstanding liabilities. As a result, the county clerk owes the 2023 operating account \$30,000. Strong internal controls and proper oversight procedures dictate that expenditures should be monitored closely and compared to budgets to ensure revenue is sufficient. If funds available are not sufficient to meet obligations, expenses must be reduced to compensate and to avoid overspending and a fund deficit.

MARTIN COUNTY
 SUSIE SKYLES, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2022
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2021-002 The Martin County Clerk Has A Deficit Of \$16,591 In Her 2022 Official Bank Account (Continued)

The following schedule details the fund deficit as of December 31, 2022:

Reconciled Cash Balance at 12/31/2022	\$	5,736
Receivables:		
Due From Affordable Housing Trust		2,994
Due From Fiscal Court - Training Incentive Pay		4,679
Liability:		
Due To 2023 Fee Account		<u>(30,000)</u>
Total Fund Deficit As of December 31, 2022	\$	<u>(16,591)</u>

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: I have spoken with my County Attorney and County Judge about ways to get assistance with clearing this deficit up. We know to watch in November and December since it has become two of the slowest months.