

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

**For The Period
January 1, 2016 Through November 13, 2016**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Lester Smith, Breathitt County Judge/Executive
The Honorable Mary Lois Stevens, Former Breathitt County Clerk
The Honorable Mary Rebecca Curtis, Breathitt County Clerk
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former County Clerk of Breathitt County, Kentucky, for the period January 1, 2016 through November 13, 2016, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable John Lester Smith, Breathitt County Judge/Executive
The Honorable Mary Lois Stevens, Former Breathitt County Clerk
The Honorable Mary Rebecca Curtis, Breathitt County Clerk
Members of the Breathitt County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the former Breathitt County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Breathitt County Clerk, as of November 13, 2016, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Breathitt County Clerk for the period January 1, 2016 through November 13, 2016, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, on our consideration of the former Breathitt County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable John Lester Smith, Breathitt County Judge/Executive
The Honorable Mary Lois Stevens, Former Breathitt County Clerk
The Honorable Mary Rebecca Curtis, Breathitt County Clerk
Members of the Breathitt County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

- 2016-001 The Former Breathitt County Clerk Did Not Submit A Final Fourth Quarter Report Or Final Settlement
- 2016-002 The Former Breathitt County Clerk's Salary Was Not Paid In Accordance With The Maximum Salary Authorization Set By The Kentucky Department For Local Government
- 2016-003 The Former Breathitt County Clerk Did Not Deposit Election Board Payments Into The Fee Account
- 2016-004 The Former Breathitt County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

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

January 29, 2018

BREATHITT COUNTY
 MARY LOIS STEVENS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2016 Through November 13, 2016

Receipts

State Revenue Supplement	\$	65,777	
State Fees For Services			1,248
Fiscal Court			101,498
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	291,671	
Usage Tax		394,629	
Tangible Personal Property Tax		628,509	
Notary Fees		894	
Other-			
Fish and Game Licenses		1,050	
Marriage Licenses		3,408	
Occupational Licenses		80	
Deed Transfer Tax		9,558	
Delinquent Tax		<u>298,296</u>	1,628,095
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		5,703	
Real Estate Mortgages		6,877	
Chattel Mortgages and Financing Statements		28,543	
Powers of Attorney		390	
Affordable Housing Trust		6,411	
All Other Recordings		12,703	
Charges for Other Services-			
Candidate Filing Fees		630	
Copywork		<u>1,069</u>	62,326
Other:			
Miscellaneous		170	
Car Liens		6,230	

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

BREATHITT COUNTY
 MARY LOIS STEVENS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2016 Through November 13, 2016
 (Continued)

Receipts (Continued)

Overpayments	\$	972	
Credit Card Fees		<u>1,755</u>	\$ 9,127
Interest Earned			<u>161</u>
Total Receipts			1,868,232

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	203,221	
Usage Tax		384,199	
Tangible Personal Property Tax		240,612	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		1,014	
Delinquent Tax		26,094	
Legal Process Tax		8,298	
Affordable Housing Trust		<u>5,886</u>	869,324

Payments to Fiscal Court:

Tangible Personal Property Tax		50,702	
Delinquent Tax		25,082	
Deed Transfer Tax		9,075	
Occupational Licenses		<u>36</u>	84,895

Payments to Other Districts:

Tangible Personal Property Tax		312,095	
Delinquent Tax		<u>157,087</u>	469,182

Payments to Sheriff 22,362

Payments to County Attorney 37,868

BREATHITT COUNTY
 MARY LOIS STEVENS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2016 Through November 13, 2016
 (Continued)

Disbursements (Continued)

Operating Disbursements:

Other Charges-

Refunds	\$	1,290	
Elections		44,000	
Miscellaneous		953	
Credit Card Fees		4,234	\$ 50,477

Total Disbursements			\$ 1,534,108
Net Receipts			334,124
Less: Statutory Maximum			68,983
Excess Fees			265,141
Less: Expense Allowance			3,750
Excess Fees Due County for 2016			261,391
Payments to Fiscal Court - Various Dates			253,840
Balance Due Fiscal Court at Completion of Audit*			\$ 7,551

*The former county clerk's statutory maximum for calendar year 2016 was \$68,983 as noted above. The former county clerk was paid \$70,298 during calendar year 2016. In addition to her salary the former county clerk was also paid \$5,450 for her duties as election commission officer. The balance due the fiscal court at completion of audit of \$7,551 is a result of the salary overpayment, election commission officer payments, and additional excess fees due of \$786.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

November 13, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2016 services
- Reimbursements for 2016 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2016

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Fee Pooling

The former Breathitt County Clerk's office was required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The former county clerk was responsible for paying all amounts collected for others and applicable refunds to customers. Residual funds were then paid to the county treasurer on a monthly basis. Invoices were submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official.

BREATHITT COUNTY
 NOTES TO FINANCIAL STATEMENT
 November 13, 2016
 (Continued)

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.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.06 percent for the first six months and 18.68 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
November 13, 2016
(Continued)

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

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.

Note 3. Deposits

The former Breathitt County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The former Breathitt County Clerk did 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 November 13, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

On April 1, 2014, the Breathitt County Clerk's office committed to a lease agreement for a software license and service agreement. The lease requires a monthly payment of \$475 for 60 months to be completed on March 31, 2019. Under the fee pooling system, the fiscal court makes the payments on this lease.

Note 5. On Behalf Payments

The former Breathitt County Clerk's office was required by the fiscal court to participate in a fee pooling system. Since the former Breathitt County Clerk is fee pooling, the Breathitt County Fiscal Court paid the former Breathitt County Clerk's statutory maximum as reflected on the former county clerk's financial statement. For the period ended November 13, 2016, the Breathitt County Fiscal Court's contributions recognized by the former Breathitt County Clerk included the amounts that were based on the statutory maximum as required by KRS 64.5275. The former Breathitt County Clerk recognized receipts from fiscal court and disbursements for statutory maximum of \$68,983 for the period January 1, 2016 through November 13, 2016.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Lester Smith, Breathitt County Judge/Executive
The Honorable Mary Lois Stevens, Former Breathitt County Clerk
The Honorable Mary Rebecca Curtis, Breathitt County Clerk
Members of the Breathitt County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Breathitt County Clerk for the period January 1, 2016 through November 13, 2016, and the related notes to the financial statement and have issued our report thereon dated January 29, 2018. The former Breathitt County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Breathitt County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Breathitt County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Breathitt 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 a certain deficiency in internal control that we consider to be a material weakness.

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 2016-004 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Breathitt County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, and 2016-003.

Views of Responsible Officials and Planned Corrective Action

The former Breathitt County Clerk's and Breathitt County Judge/Executive's views and planned corrective action for findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Breathitt 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,

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Mike Harmon
Auditor of Public Accounts

January 29, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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BREATHITT COUNTY
MARY LOIS STEVENS, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2016 Through November 13, 2016

STATE LAWS AND REGULATIONS:

2016-001 The Former Breathitt County Clerk Did Not Submit A Final Quarterly Report Or Final Settlement

The former Breathitt County Clerk failed to comply with minimum requirements of the Uniform System of Accounts. A final quarterly financial report was not prepared and submitted to the Department for Local Government (DLG). The former county clerk prepared a first, second, and third quarter financial report, but had not prepared a final quarterly report which would have included all transactions through November 13, 2016. In addition, the former clerk did not present a final annual settlement to the fiscal court.

The former clerk did not have sufficient oversight to ensure a final quarterly financial report and annual settlement were completed. Numerous material audit adjustments and reclassifications, totaling \$265,164 for receipts and \$249,195 for disbursements that occurred during October and November 2016, were proposed to the former clerk's financial statement. Failure to complete these tasks also resulted in inadequate oversight and accountability over financial activity, as well as increased the risk of undetected errors and fraud.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. DLG is the regulatory agency responsible for establishing minimum accounting requirements for local government entities. As such, DLG requires local governments to follow guidelines set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* to meet the minimum required reporting for financial statement purposes. This manual includes the standardized format to follow for quarterly reporting to DLG. The state local finance officer requires the quarterly report to be submitted no later than 30 days following the close of the quarters ending March 31, June 30, September 30, and December 31.

KRS 64.830(2) states, "[e]ach outgoing county official shall make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office for all money received by him as county official and to obtain his quietus, and immediately thereafter he shall deliver these records to the incumbent county official."

The former Breathitt County Clerk should have met the minimum requirements of accountability for compliance with the Uniform System of Accounts and prepared a final quarterly financial report and annual settlement to be in compliance with KRS 64.830.

Former County Clerk's Response: While in office, I did submit a 1st, 2nd and 3rd Quarter Report for CY 2016 to the Department for Local Government as required by statute. As a result of unintentional oversight on the part of the former Bookkeeper, a 4th Quarter Report was not submitted to the Department for Local Government. Additionally, there was confusion as to exactly when my term as Clerk would end, and in fact I was not informed of my final day in office until approximately an hour before the newly elected Clerk was sworn in.

2016-002 The Former Breathitt County Clerk's Salary Was Not Paid In Accordance With The Maximum Salary Authorization Set By The Kentucky Department For Local Government

The former Breathitt County Clerk was overpaid \$3,400 for the period January 1, 2016 through November 13, 2016. The former clerk was paid \$72,383 instead of the maximum amount of \$68,983. During calendar year 2015, the former clerk was underpaid \$2,085, and was not paid the underpayment. Therefore, the former clerk should reimburse the fiscal court a net amount of \$1,315.

The Breathitt County Fiscal Court prepared the payroll for the former clerk. There were no procedures in place to ensure the payroll for the former clerk was calculated correctly for her period in office. As a result, the former clerk was overpaid \$1,315 for January 1, 2016 through November 13, 2016.

BREATHITT COUNTY
 MARY LOIS STEVENS, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period January 1, 2016 Through November 13, 2016
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-002 The Former Breathitt County Clerk's Salary Was Not Paid In Accordance With The Maximum Salary Authorization Set By The Kentucky Department For Local Government (Continued)

KRS 64.5275 establishes maximum salary guidelines under the authority of DLG. Officials are to be paid in accordance with a salary schedule prepared by DLG.

We recommend the former Breathitt County Clerk reimburse the Breathitt County Fiscal Court \$1,315 for the overpayment of the maximum salary authorization for calendar year 2016.

Former County Clerk's Response: While in office, the County Clerk's Office was under a fee-pooling arrangement with the County, via an enacted Ordinance by the County Fiscal Court. As a consequence of this arrangement, it was the direct and sole responsibility of the County Fiscal Court to administer the payroll functions for the Clerk's office. Any discrepancies that occurred with regard to payroll are the direct responsibility of the County employee who performed the payroll functions for the Office.

County Judge/Executive's Response: BCFC will send letter to former clerk supporting the findings and to work on resolution.

2016-003 The Former Breathitt County Clerk Did Not Deposit Election Board Payments Into The Fee Account

The former Breathitt County Clerk received \$5,450 during calendar year 2016 for her service on the local election board. The election board payments were not deposited into the former clerk's fee account. The fiscal court also issued an Internal Revenue Service (IRS) form 1099 to the former clerk for the election board payments as additional income for 2016.

The former clerk was not aware that these payments were not for her personally and were, in fact, part of her official duties as county clerk. The former clerk was in violation of regulations related to election board payments and salary maximums. The former clerk personally owes \$5,450 to the fiscal court as excess fees for calendar year 2016.

KRS 117.035 outlines the regulations applicable to local election boards and KRS 64.5275 established salary maximums for fee officials.

The former Breathitt County Clerk should personally reimburse \$5,450 to the fiscal court as additional excess fees due for calendar year 2016, which is the total amount of payments received by the former clerk as an election board officer. The former clerk should also consult with the fiscal court to determine if a corrected IRS form 1099 should be issued and submitted to the IRS for the election board payments.

Former County Clerk's Response: Pursuant to statute, I was required to serve on the County Board of Elections, as it is a duty of the County Clerk. Since assuming office, it was my understanding that payment rendered for the services of fee officials on the Local Board of Elections was due to the official personally, and not their respective Fee Accounts. Of particular importance, in my opinion, is the fact that these payments, which were issued by the Breathitt County Fiscal Court, were made payable to me personally, and not the office Fee Account.

BREATHITT COUNTY
 MARY LOIS STEVENS, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period January 1, 2016 Through November 13, 2016
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-003 The Former Breathitt County Clerk Did Not Deposit Election Board Payments Into The Fee Account (Continued)

Former County Clerk's Response: (Continued)

During the course of my term as Clerk, the County Clerk's Office had a fee-pooling arrangement in place, via an Ordinance, with the County Fiscal Court. It was my understanding that the Fiscal Court would provide guidance with regard to the fiscal operations of my office. There was never an instance in which I was advised by a representative of the Fiscal Court, or no one else for that matter, that it was my responsibility to turn these payments over to the Office Fee Account. In fact, the Fiscal Court held a special-called meeting in which they voted to lower the reimbursement rate that each member of the Local Board of Elections received for each meeting held. It was their concern, and opinion, that these expenditures were too high and needed to be lowered. That, in and of itself, is counterintuitive to the notion that it would be a Fee Official's responsibility to reimburse the Fee Account these payments, due to the fact that if these payments were deposited into my Fee Account, they would be turned over to the Fiscal Court at month end as excess fees, per the Fee Pooling Agreement that was in place. Another reason for my belief that these payments were mine personally is the fact that the County Treasurer issued me a 1099-MISC at the end of CY 2016 for these Election Board payments. If these payments were not mine personally, and in fact were due to the Fee Account, how could I, on a personal level, be issued a 1099-MISC and be forced to claim this as income, and consequently pay taxes on it?

County Judge/Executive's Response: BCFC will send letter to former clerk supporting the findings and to work on resolution.

Auditor's Reply: Serving on the county board of elections is part of the county clerk's official duties. The former county clerk should have complied with KRS 117.035 which outlines the regulations applicable to local election boards and KRS 64.5275 which established salary maximums for fee officials. The payment for serving on the county board of elections is part of the county clerk's official duties, and therefore, should be included in the maximum salary amount. As part of the Breathitt County Fiscal Court's corrective action plan, the treasurer should issue corrected 1099 tax forms for the amount the county clerk is required to repay.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-004 The Former Breathitt County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2015-001. The former clerk's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. The employee who collected cash receipts also prepared the daily checkout sheets, prepared the deposit slips, delivered the deposit to the bank, prepared disbursement checks, and performed bank reconciliations.

According to the former county clerk, the former county clerk's office had a limited budget which restricted the number of employees and prevented a proper segregation of duties. Numerous audit adjustments and reclassifications were recommended to make the former clerk's financial information complete and accurate. The lack of segregation of duties allowed undetected errors, resulting in inaccurate financial reporting to external agencies, and also increases the risk of misappropriation of assets.

BREATHITT COUNTY
MARY LOIS STEVENS, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2016 Through November 13, 2016
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2016-004 The Former Breathitt County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations (Continued)

Segregation of duties over receipts, disbursements, and the reconciliation process, or implementation of compensating controls when needed, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

Adequate segregation of duties prevents the same person from having a significant role in the receiving and disbursing of funds, recording, and reporting of those receipts and disbursements.

The former Breathitt County Clerk should have strengthened internal controls by segregating these duties over receipts, disbursements, and the reconciliation process. If segregation of duties were not possible, strong oversight should have been implemented. The employee that provided this oversight could have documented his or her review by initialing all source documentation and ensuring it was accurate.

Former County Clerk's Response: As a direct consequence of the erosion of the County's tax base and subsequent revenue that was generated from it, the Clerk's Office was faced with significant financial constraints with regard to the budget for support personnel that performed the financial functions of the Clerk's Office. However, despite this, there was one employee whose responsibility was to maintain the daily receipts and expenditures ledgers, while it was another employee's responsibility to reconcile these ledgers. Additionally, while in office, the County Clerk's Office shared a fee-pooling arrangement with the Fiscal Court, via an enacted Ordinance by the Fiscal Court. As a result, it was my understanding that an additional level of review would occur at the County level, either by the County Finance Officer or the County Treasurer.