

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

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



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

The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Martin County, Kentucky, for the year ended December 31, 2016, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

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

**Auditor's Responsibility**

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

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

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



The Honorable Kelly Callaham, Martin County Judge/Executive  
 The Honorable Susie Skyles, Martin County Clerk  
 Members of the Martin 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 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, 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 Martin County Clerk, as of December 31, 2016, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Martin County Clerk for the year ended December 31, 2016, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

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

- 2016-001 The Martin County Clerk's Office Lacked Adequate Segregation Of Duties
- 2016-002 The Martin County Clerk's Quarterly Financial Report Was Materially Misstated
- 2016-003 The Martin County Clerk Did Not Properly Distribute Delinquent Taxes Which Resulted In The Overpayment Of Excess Fees To The Fiscal Court
- 2016-004 The Martin County Clerk's Office Did Not Implement Internal Controls Over Disbursements
- 2016-005 The Martin County Clerk's Office Did Not Maintain Proper Internal Controls Over Payroll

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

May 8, 2018

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

For The Year Ended December 31, 2016

Receipts

State Revenue Supplement	\$	65,777
State Fees For Services		4,436
Fiscal Court		4,097
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	300,392
Usage Tax		561,387
Tangible Personal Property Tax		749,821
Notary Fees		475
Other-		
Fish and Game Licenses		5,050
Marriage Licenses		2,521
Lien Release Fees		7,252
Deed Transfer Tax		12,969
Delinquent Tax		1,748,053
		3,387,920
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		5,018
Real Estate Mortgages		5,990
Chattel Mortgages and Financing Statements		29,050
Powers of Attorney		598
Affordable Housing Trust		6,384
All Other Recordings		7,793
Charges for Other Services-		
Candidate Filing Fees		470
Postage		3,229
		58,532
Other:		
Miscellaneous		2,119
Overpayments		20,235
		22,354
Interest Earned		591
Total Receipts		3,543,707

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, 2016  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 209,734	
Usage Tax	544,507	
Tangible Personal Property Tax	379,599	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	4,825	
Delinquent Tax	78,562	
Legal Process Tax	8,584	
Candidate Filing Fees	302	
Affordable Housing Trust	6,384	\$ 1,232,497

Payments to Fiscal Court:

Tangible Personal Property Tax	103,052	
Delinquent Tax	104,741	
Deed Transfer Tax	12,321	220,114

Payments to Other Districts:

Tangible Personal Property Tax	237,204	
Delinquent Tax	889,971	1,127,175

Payments to Sheriff 148,473

Payments to County Attorney 210,100

Tax Bill Preparation 1,900

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	113,790
Part-Time Salaries	16,540

Employee Benefits-

Employer's Share Retirement	10,000
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Contracted Services-

Contract Labor	483
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Materials and Supplies-

Office Supplies	25,421
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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, 2016  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	1,461	
Dues		3,885	
Postage		3,249	
Bank Charges		151	
Refunds		22,708	
Miscellaneous		<u>2,546</u>	\$ 200,234
Capital Outlay-			
Office Equipment			2,044
Unpaid Obligations			
State Treasurer (Delinquent Taxes)		173,000	
Fire Taxing District (Delinquent Taxes)		542	
911 Taxing Districts (Delinquent Taxes)		<u>8,944</u>	182,486
Debt Service:			
Lease Purchases			<u>36,996</u>
Total Disbursements			<u>\$ 3,362,019</u>
Net Receipts			181,688
Less: Statutory Maximum			<u>79,386</u>
Excess Fees			102,302
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>1,984</u>	<u>5,584</u>
Excess Fees Due County for 2016			96,718
Payment To The Fiscal Court - March 17, 2017			250,000
Payment To The Fiscal Court - November 30, 2017			<u>20,000</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ (173,282)</u>

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

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

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

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

C. Cash and Investments

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

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

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

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

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

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

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

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

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

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

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

Note 3. Deposits

The Martin 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 Martin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On October 5, 2016, the county clerk's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$800,929

Note 4. Lease Agreement

The Martin County Clerk's office was committed to a lease agreement with Software Management for computer software. The agreement requires a monthly payment of \$3,083 for 60 months to be completed on May 31, 2018. The total balance of the agreement was \$52,411 as of December 31, 2016.

Note 5. Escrow Account

The county clerk maintains an interest bearing escrow account for the purpose of holding unclaimed funds. The balance in the account as of December 31, 2016, was \$855.

2011 - \$70  
 2012 - \$408  
 2013 - \$149  
 2014 - \$228

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 Kelly Callaham, Martin County Judge/Executive  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 Martin County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated May 8, 2018. 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.

**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) 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 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, 2016-03, 2016-04, and 2016-005 to be material weaknesses.



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

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the 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 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 2016-002, 2016-003, 2016-004, and 2016-005.

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

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



Mike Harmon  
Auditor of Public Accounts

May 8, 2018



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, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Martin County Clerk's Office Lacked Adequate Segregation of Duties

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The Martin County Clerk's office lacked adequate segregation of duties. One employee collected cash, prepared the daily checkout sheet, prepared the deposit slip, and took the deposit to the bank. Timecards are maintained by the employees, but are not properly reviewed or approved by a supervisor. One employee was compensated for time off work but did not have leave time accrued. Canceled checks did not have dual signatures, one invoice was not properly canceled, and two invoices were not paid within 30 business days.

The county clerk did not provide proper oversight over disbursements, payroll and cash receipts. The county clerk did not maintain proper internal controls over timesheets and usage of leave time.

A lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

Without strong internal controls, errors can remain undetected. It was found during testing that:

- Two disbursements were not paid within 30 business days. (*As referenced 2016-004*)
- One disbursement was not effectively canceled. (*As referenced 2016-004*)
- Timecards were not reviewed by a supervisor or the county clerk. (*As referenced 2016-005*)
- One employee was being compensated without using leave time. (*As referenced 2016-005*)

Good internal controls dictate that adequate controls and sufficient review is necessary to reduce the risk of errors and misstatements. KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; [and] (b) The hours worked each day and each week by each employee[.]" Also, KRS 65.140(2) states in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]"

We recommend the county clerk adequately segregate duties and implement internal controls over the process of cash, disbursements, and payroll. The clerk should approve all disbursements. This can be documented by initialing invoices. The clerk should require all invoices to be marked paid, or a copy of the canceled check attached to the invoice to prevent duplicate payment. The clerk should require dual signatures on all checks. The clerk should also pay all invoices within 30 days in accordance with KRS 65.140(2). The county clerk should adhere to the adopted administrative policy for payroll. Timesheets should be properly reviewed and signed to prevent future errors, and compensation should not be provided when absent, unless the proper form of leave is being utilized. If segregation of duties is not feasible due to a lack of staff, the county clerk should implement and document compensating controls to offset this control deficiency.

*County Clerk's Response: County clerk will implement more internal controls.*

2016-002 The Martin County Clerk's Quarterly Financial Report Was Materially Misstated

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The county clerk's fourth quarter report did not reflect all financial activity for calendar year 2016. Disbursements after December 31, 2016, totaling \$211,328 were not posted to the disbursements ledger. Failure to post these transactions resulted in the fourth quarter financial report being materially misstated.

The county clerk was not aware that disbursements after December 31, 2016, were required to be accounted for on the fourth quarter financial report.

MARTIN COUNTY  
 SUSIE SKYLES, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Martin County Clerk's Quarterly Financial Report Was Materially Misstated (Continued)

The Martin County Clerk did not provide accurate financial information to the fiscal court and the Department for Local Government (DLG). A materially misstated fourth quarter financial report could result in an increased risk of uncorrected errors, theft, loss, and misappropriated assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts as described in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the county clerk to maintain accurate receipts and disbursements ledgers and prepare a fourth quarterly report which includes all receipts collected and disbursements paid during the calendar year.

We recommend the county clerk ensure the quarterly financial report is complete and accurate.

*County Clerk's Response: First year bookkeeper was unaware to make sure that disbursements made after December 31<sup>st</sup> was included on the 4<sup>th</sup> Quarter Financial Statement. She ran the report by calendar year. We are now aware of what needs to be done.*

2016-003 The Martin County Clerk Did Not Properly Distribute Delinquent Taxes Which Resulted In The Overpayment Of Excess Fees To The Fiscal Court

The county clerk did not distribute delinquent taxes properly for calendar year 2016. The county clerk's office collects delinquent taxes and distributes delinquent taxes to the taxing districts, sheriff, and county attorney on a monthly basis. The bookkeeper generates the monthly tax collection reports and prepares the delinquent tax checks to the taxing districts. The county clerk certifies that the monthly tax collection reports are accurate and signs checks to the taxing districts. During September, the delinquent tax reports stated the state taxing district was due \$192,570. However, the amount of the check written to the state was \$19,570, resulting in an underpayment of \$173,000 to the state. For the months of October and November, checks were not written to the fire and 911 taxing districts. The amount due to fire district is \$542 and the 911 district is \$8,944.

The Martin County Clerk's office does not have internal controls over monthly delinquent tax reports and the distribution of delinquent taxes. Although the county clerk signed the monthly tax reports and signed the checks written, she did not compare the monthly tax reports to the checks written to determine if the checks written agreed to the monthly distribution reports.

Failing to implement internal controls over monthly disbursement reports and the distribution of delinquent taxes resulted in the underpayment of three taxing districts and the over payment of excess fees. The county clerk overpaid excess fees to the fiscal court \$182,486 for calendar year 2016. The amounts due to the taxing districts for 2016 delinquent tax collections are as follows:

Kentucky State Treasurer	\$173,000
Fire Taxing District	\$542
911 Taxing District	\$8,944

MARTIN COUNTY  
 SUSIE SKYLES, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2016  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Martin County Clerk Did Not Properly Distribute Delinquent Taxes Which Resulted In The Overpayment of Excess Fees To The Fiscal Court (Continued)

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The county clerk has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of monthly tax reports and payments to taxing districts. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems. Additionally, KRS 134.126 requires the county clerk to pay the county, taxing districts, and other persons entitled to all moneys received for them through the collection of delinquent taxes.

The clerk should be more diligent in the day-to-day operations of her office by providing oversight of the monthly tax reports and payments made to the taxing districts. We recommended the county clerk strengthen internal controls over the monthly reporting and distribution of delinquent taxes by thoroughly reviewing the reports, comparing the reports to the checks, and signing off after the proper review is complete. We also recommend the county clerk request a refund of excess fees from the fiscal court in the amount of \$182,486 and pay the state taxing district \$173,000, the fire taxing district \$542, and the 911 taxing district \$8,944.

*County Clerk's Response: Bookkeeper has made a keypunch error resulting in a major difference for the amount disbursed. There was a lot of Dtax collected for a couple months. County Clerk will make sure to check all reports for errors.*

2016-004 The Martin County Clerk's Office Did Not Implement Internal Controls Over Disbursements

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The Martin County Clerk's office did not implement internal controls over disbursements. The county clerk receives invoices from the vendors and approves payment. The bookkeeper prepares the checks to the vendors, posts to the disbursements ledger, and prepares monthly bank reconciliations. We noted the following errors in the disbursements process:

- Two disbursements were not paid within 30 business days.
- One disbursement was not effectively canceled.

The clerk has not structured her office in a way that segregates duties and responsibilities. The clerk has also not provided sufficient oversight of the disbursement process. By not segregating these duties and providing strong oversight over the disbursement process, there is an increased risk of undetected misappropriation of assets, errors, and fraud.

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 sign checks, post to the disbursements ledger, and prepare monthly bank reconciliations.

KRS 65.140(2) states in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" Employees preparing and signing checks should not post to the disbursements ledger and prepare bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the county clerk 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. The county clerk could also

MARTIN COUNTY  
SUSIE SKYLES, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2016  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-004 The Martin County Clerk's Office Did Not Implement Internal Controls Over Disbursements  
(Continued)

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choose to prepare the bank reconciliations and other reports herself. Furthermore, the county clerk could require dual signatures on all checks, with one signature being the county clerk's.

*County Clerk's Response: The county clerk will take on responsibility of reviewing daily deposits, receipts, and ledgers.*

2016-005 The Martin County Clerk's Office Did Not Maintain Proper Internal Controls Over Payroll

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The county clerk did not maintain proper internal controls over the reviewing of timesheets and usage of leave time accrual. Timecards are maintained by the employee, but are not properly reviewed and signed. One employee during the calendar year 2016 was absent from work without using any leave time and was compensated for these hours. The county clerk did not follow the official administrative policy as provided by the Martin County Fiscal Court.

The county clerk did not have proper controls in place over the payroll process. The lack of adequate review of payroll and failure to adhere to the adopted administrative policy led to discrepancies.

Without proper internal controls, errors might not be detected. No timecards were reviewed by a supervisor or the county clerk. Due to the lack of effective controls, one employee was compensated without properly using any form of leave time.

Good internal controls dictate that adequate controls and sufficient review is necessary to reduce the risk of errors and misstatements. KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; [and] (b) The hours worked each day and each week by each employee[.]"

We recommend the county clerk review the procedures that are in place and strengthen controls over the payroll process. The county clerk should adhere to the adopted administrative policy and ensure it is compliant with all applicable guidelines. Timesheets should be properly reviewed and signed off to prevent future errors, and compensation should not be provided when absent, unless the proper form of leave is being utilized.

*County Clerk's Response: Time cards will be reviewed by County Clerk bi-weekly before payroll is issued. Time is now kept by employee and approved by County Clerk.*