

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

**For The Year Ended  
December 31, 2018**



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

The Honorable Scott Alexander, Perry County Judge/Executive  
The Honorable Haven King, Former Perry County Clerk  
The Honorable Wayne Napier, Perry County Clerk  
Members of the Perry 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 Perry County, Kentucky, for the year ended December 31, 2018, 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 Scott Alexander, Perry County Judge/Executive  
The Honorable Haven King, Former Perry County Clerk  
The Honorable Wayne Napier, Perry County Clerk  
Members of the Perry 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 Perry 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 the former Perry County Clerk, as of December 31, 2018, 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 Perry County Clerk for the year ended December 31, 2018, 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 September 18, 2019, on our consideration of the former Perry 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 former Perry 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 comment:

2018-001 The Former Perry County Clerk’s Office Lacked Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 18, 2019

PERRY COUNTY  
 HAVEN KING, FORMER COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State Grants - Libraries and Archives		\$ 10,000
State Fees For Services		7,042
Fiscal Court		24,875
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 1,001,428	
Usage Tax	3,415,376	
Tangible Personal Property Tax	2,515,084	
Other-		
Marriage Licenses	7,810	
Occupational Licenses	1,880	
Deed Transfer Tax	30,589	
Delinquent Tax	<u>1,035,932</u>	8,008,099
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	14,144	
Real Estate Mortgages	9,171	
Chattel Mortgages and Financing Statements	86,240	
All Other Recordings	26,826	
Charges for Other Services-		
Candidate Filing Fees	1,980	
Copy Work	9,620	
Postage	<u>20,346</u>	168,327
Other:		
Miscellaneous		11,381
Interest Earned		<u>525</u>
Total Receipts		8,230,249

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

PERRY COUNTY  
 HAVEN KING, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2018  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 697,801	
Usage Tax	3,310,452	
Tangible Personal Property Tax	954,624	
Licenses, Taxes, and Fees-		
Delinquent Tax	135,504	
Legal Process Tax	23,045	
Candidate Filing Fees	810	
Affordable Housing Trust	17,730	\$ 5,139,966

Payments to Fiscal Court:

Tangible Personal Property Tax	267,195	
Delinquent Tax	66,923	
Deed Transfer Tax	29,061	
Occupational Licenses	1,729	364,908

Payments to Other Districts:

Tangible Personal Property Tax	1,192,170	
Delinquent Tax	516,397	1,708,567

Payments to Sheriff 86,488

Payments to County Attorney 130,894

Grant Expenditure - Libraries and Archives 10,000

Operating Disbursements and Capital Outlay:

Personnel Services-	
Deputies' Salaries	485,902
Employee Benefits-	
Employer's Share Social Security	44,228
Contracted Services-	
Fish and Game	9,882
Advertising	3,738
Printing and Binding	5,147
Materials and Supplies-	
Office Supplies	29,319
Annual License Fee	8,144

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



PERRY COUNTY  
 HAVEN KING, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2018  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-		
Conventions and Travel	\$	6,260
Dues		1,680
Postage		3,064
Professional Services		1,887
Refunds		22,093
Election Expense		10,243
Miscellaneous		44
Bonds		2,010
		<u>\$ 633,641</u>
Capital Outlay-		
Office Equipment		51,266
Total Disbursements		<u>\$ 8,125,730</u>
Net Receipts		104,519
Less: Statutory Maximum		<u>93,085</u>
Excess Fees		11,434
Less: Expense Allowance		3,600
Training Incentive Benefit		4,137
		<u>7,737</u>
Excess Fees Due County for 2018		3,697
Payments to Fiscal Court - December 31, 2018		<u>3,099</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 598</u>

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

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 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) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2018

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 clerk's office has 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.

PERRY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2018  
 (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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous 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 KRS 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 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

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:

<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%

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2018  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

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

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

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

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

PERRY COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018  
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

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

Note 3. Deposits

The former Perry 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 county clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Grant

The Perry County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives. The beginning balance in the grant account as of January 1, 2018, was \$17,075. The clerk's office received \$2,118 in calendar year 2018. The clerk's office expended \$10,000 to purchase computer workstations for the clerk's office during calendar year 2018 from the grant account. The account earned interest of \$20 leaving a balance of \$9,213 in the grant account as of December 31, 2018.

Note 5. Lease Agreements

- A. The Perry County Clerk's office was committed to a lease agreement for a copier. The agreement required 48 monthly payments of \$235 to be completed as of February 2022.
- B. The Perry County Clerk's office was committed to a lease agreement for computer equipment and software. The agreement requires 60 monthly payments of \$1,610 to be completed in April 2021.

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2018  
(Continued)

Note 5. Lease Agreements (Continued)

- C. The Perry County Clerk's office was committed to a lease agreement for a copier. The agreement required 60 monthly payments of \$197 to be completed in May 2022.
- D. The Perry County Clerk's office was committed to a lease agreement for a postage meter and scale. The agreement requires quarterly payments of \$495 to be completed in January 2021.

Note 6. Court Ordered Restitution

The Commonwealth's Attorney conducted an investigation resulting in the prosecution of the former bookkeeper of the Perry County Clerk's office. On March 25, 2010, the former employee pled guilty, pursuant to North Carolina v. Alford, 400 U.S. 25 (1970), to the amended count of Official Misconduct 1st Degree (a Class A misdemeanor), which was committed between January 30, 2006 and December 29, 2006. The circuit court ordered restitution of \$21,473, payable to the Perry County Circuit Clerk's office in monthly payments of \$150. During calendar year 2018, the Perry County Circuit Clerk collected \$1,350 from the former employee in restitution. Subsequently, the restitution was paid to the Perry County Fiscal Court as 2006 calendar year excess fees. As of December 31, 2018, total restitution due to the Perry County Fiscal Court as 2006 excess fees is \$6,373 with \$300 of this total being due to the Kentucky State Treasurer for 2006 legal process fees.

Note 7. Escrow Account

The former county clerk maintained an escrow account for the purpose of holding unclaimed funds. The balance in the account as of December 31, 2018, was \$252. The account was transferred to the new clerk.

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 Scott Alexander, Perry County Judge/Executive  
The Honorable Haven King, Former Perry County Clerk  
The Honorable Wayne Napier, Perry County Clerk  
Members of the Perry 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 Perry County Clerk for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated September 18, 2019. The Perry 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 Perry 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 Perry County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Perry County Clerk's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider to be a significant deficiency.



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 Perry 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 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**

The former Perry County Clerk's views and planned corrective action for the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The former Perry County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 18, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

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PERRY COUNTY  
HAVEN KING, FORMER COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Former Perry County Clerk's Office Lacked Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. The former county clerk's office lacked segregation of duties over receipts, disbursements, and reconciliations. During our review of internal controls, we noted all of the former county clerk's employees received cash. The bookkeeper received cash, prepared deposits on a rotated basis with other deputy clerks, posted revenue to the ledger, prepared disbursements other than those listed elsewhere in this comment, posted disbursements to the ledger and completed the monthly bank reconciliations. The former county clerk assigned different deputies to be responsible for the usage, registration, delinquent tax, legal process, and chattel disbursements. Employees were not cross-trained, therefore, only the deputy responsible for a certain report was knowledgeable about those reports. The deputy who prepared the report was also responsible for preparing all disbursement checks. Although the former county clerk reviewed the monthly reports and disbursements, auditors found no evidence that he reviewed refund or overpayment disbursements. In order to post all disbursements, the bookkeeper used the check register instead of the actual disbursement check and supporting documentation.

A limited budget placed restrictions on the number of employees the clerk could hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities. When one deputy collects revenue, prepares deposits, prepares the reports and prepares the disbursements, that deputy has control over the entire process. Auditors could find no evidence that the former county clerk or another deputy verified the receipts or disbursements (with the exception of payroll) before they were remitted or posted to the ledger. Also, allowing one person control over an entire process without oversight subjected the monies of the former county clerk's office to inaccurate financial reporting or misappropriation.

Segregation of duties over cash collections, daily checkout procedures, deposit preparation and the preparation over checks are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk's office segregate duties and institute compensating controls. Examples of controls include, but are not limited to, cross-training employees, requiring deputies to periodically rotate duties, routinely recalculating daily checkout procedures for accuracy, obtaining bank statements unopened, re-performing bank reconciliations, and ensuring that reports and financial statements are accurate by comparing to the ledgers. The county clerk should appoint one individual to be responsible for issuing all disbursements. The county clerk should approve all refunds. The county clerk's office should document the review processes by initialing the reports and supporting documentation.

*Former County Clerk's Response: Limited budget and limited staff makes proper segregation of duties difficult.*