

**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
CLERK**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE ALLEN COUNTY CLERK

**For The Year Ended
December 31, 2015**

The Auditor of Public Accounts has completed the Allen County Clerk's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$15,269 from the prior year, resulting in excess fees of \$87,182 as of December 31, 2015. Receipts increased by \$59,002 from the prior year and disbursements increased by \$74,271.

Lease Agreements:

The Allen County Clerk's office has lease agreements for computer hardware and software. The outstanding lease balance as of December 31, 2015 is \$258,048 with monthly payments of \$6,144 due for the next 42 months.

Report Comment:

2015-001 The Allen County Clerk's Office Lacks Segregation Of Duties Over Receipts, Reconciliations, And Payroll

Deposits:

The county clerk's deposits as of April 13, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$123,769

The county clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Johnny Hobdy, Allen County Judge/Executive
The Honorable Elaine Williams, Allen County Clerk
Members of the Allen 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 Allen County, Kentucky, for the year ended December 31, 2015, 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 as described in Note 1. 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 Johnny Hobdy, Allen County Judge/Executive
The Honorable Elaine Williams, Allen County Clerk
Members of the Allen 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 Allen 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 Allen County Clerk, as of December 31, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

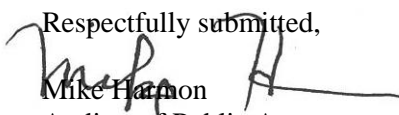
In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Allen County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth 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 December 28, 2016 on our consideration of the Allen County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 comment and recommendation, included herein, which discusses the following report comment:

2015-001 The Allen County Clerk's Office Lacks Segregation Of Duties Over Receipts, Reconciliations, And Payroll

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

December 28, 2016

ALLEN COUNTY
 ELAINE WILLIAMS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Grant - Libraries and Archives	\$	8,868	
HB 537 Revenue Supplement		65,767	
State Fees For Services		7,337	
Fiscal Court		6,420	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	616,190	
Usage Tax		1,056,136	
Tangible Personal Property Tax		1,456,412	
Lien Release Fees		13,438	
Notary Fees		7,090	
Miscellaneous		7,520	
Other-			
Fish and Game Licenses		19,168	
Marriage Licenses		5,325	
Deed Transfer Tax		59,788	
Delinquent Tax		<u>313,583</u>	3,554,650
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		13,783	
Real Estate Mortgages		28,192	
Chattel Mortgages and Financing Statements		61,015	
Powers of Attorney		2,368	
Affordable Housing Trust		22,770	
All Other Recordings		22,254	
Charges for Other Services-			
Copywork		1,030	
Postage		<u>1,339</u>	152,751
Other:			
Refunds and Overpayments		29,281	
Miscellaneous		<u>203</u>	29,484

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

ALLEN COUNTY
 ELAINE WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Receipts (Continued)

Interest Earned	\$ 330
Total Receipts	3,825,607

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 433,203	
Usage Tax	1,024,451	
Tangible Personal Property Tax	518,697	

Licenses, Taxes, and Fees-

Fish and Game Licenses	18,770	
Delinquent Tax	25,210	
Legal Process Tax	20,070	
Affordable Housing Trust	22,770	

Libraries and Archives-

Reimbursement of Unexpended Grant Funding	474	\$ 2,063,645
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Payments to Fiscal Court:

Tangible Personal Property Tax	124,500	
Delinquent Tax	19,387	
Deed Transfer Tax	56,798	
Reimbursement of Start-up Cash Drawer Funds	1,000	201,685

Payments to Other Districts:

Tangible Personal Property Tax	754,720	
Delinquent Tax	171,343	926,063

Payments to Sheriff 26,235

Payments to County Attorney 42,373

Tax Bill Preparation 2,958

Operating Disbursements:

Personnel Services-

Deputies' Salaries	212,391	
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The accompanying notes are an integral part of this financial statement.

ALLEN COUNTY
 ELAINE WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Contracted Services-		
Computer Software	\$	54,120
Office Equipment		1,425
Libraries and Archives Grant - Salary Support Indexing		8,397
Materials and Supplies-		
Office Supplies		32,329
Office Repairs and Upkeep		6,759
Other Charges-		
Conventions and Travel		3,923
Dues		2,545
Postage		5,590
Election Expense		2,633
Refunds and Overpayments		32,050
Insurance and Bonds		325
Bad Debt Expense		180
		<u>362,667</u>
Debt Service:		
Lease Agreements		<u>28,418</u>
Total Disbursements		<u>\$ 3,654,044</u>
Net Receipts		171,563
Less: Statutory Maximum		<u>79,796</u>
Excess Fees		91,767
Less: Expense Allowance		3,600
Training Incentive Benefit		<u>985</u>
		<u>4,585</u>
Excess Fees Due County for 2015		87,182
Payments to Fiscal Court -		
February 9, 2016		85,992
March 8, 2016		<u>805</u>
		<u>86,797</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 385</u>

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

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

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 2015 services
- Reimbursements for 2015 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2015

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).

ALLEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 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 17.67 percent for the first six months and 17.06 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, 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. Members contribute five percent (nonhazardous) 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 member's account is credited with a four percent (nonhazardous) 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:

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%

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(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.

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.

Note 3. Deposits

The Allen 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 Allen 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. As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 13, 2015, public funds were 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 \$123,769

Note 4. Libraries and Archives Grant

The Allen County Clerk's office received a local records indexing grant from the Kentucky Department for Libraries and Archives for salary support in the amount of \$19,630. The former county clerk transferred the unexpended grant balance of \$8,847 and interest earned of \$3 to the current county clerk on January 5, 2015. During calendar year 2015, the account earned interest of \$1 and a refund of bank charges on the former county clerk's bank account of \$20. Funds totaling \$8,397 were expended during the year. The unexpended grant balance of \$474 was returned to the Kentucky Department for Libraries and Archives on August 7, 2015.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 5. Lease Agreements

The Allen County Clerk's office was committed to lease agreements for computer hardware and software. The agreements require total monthly payments of \$6,144 for 60 months to be completed June 30, 2019. The total balance of the agreements was \$258,048 as of December 31, 2015 with 42 monthly payments left.

Note 6. Escrow Account

The former Allen County Clerk deposited \$46 into a separate escrow bank account in September 2013 for an unclaimed check on 2004 delinquent taxes. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer in accordance with KRS 393.110. The former county clerk transferred this account to the current county clerk.

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Johnny Hobdy, Allen County Judge/Executive
The Honorable Elaine Williams, Allen County Clerk
Members of the Allen 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 Allen County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated December 28, 2016. The Allen 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 Allen 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 Allen County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Allen County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 comment and recommendation, 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 comment and recommendation as item 2015-001 to be a material weakness.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Allen 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*.

County Clerk's Response to Finding

The Allen County Clerk's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Allen 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,



Mike Harmon
Auditor of Public Accounts

December 28, 2016

COMMENT AND RECOMMENDATION

ALLEN COUNTY
ELAINE WILLIAMS, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Allen County Clerk's Office Lacks Segregation Of Duties Over Receipts, Reconciliations, And Payroll

Deputies collecting receipts also close out cash drawers, prepare daily checkout sheets, prepare deposit tickets, prepare reports, and reconcile the bank account. In addition, deputies prepare daily, monthly, and weekly reports. Deputies preparing payroll records and payroll checks also sign checks. These incompatible duties create a lack of segregation of duties over receipts, reconciliations, and payroll. No documented compensating controls were noted to offset this control deficiency.

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

We recommend the county clerk adequately segregate duties over receipts, reconciliations, and payroll. If segregation of duties is not feasible due to a lack of staff, the county clerk could implement and document compensating controls to offset this control deficiency.

County Clerk's Response: In regard to Segregation of Duties Over Receipts, Reconciliations and Payroll due to lack of staff, the Allen County Clerk's Office plan to have in place documented compensating controls forthgoing.

