

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

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
FORMER ELLIOTT COUNTY CLERK

For The Year Ended
December 31, 2015

The Auditor of Public Accounts has completed the former Elliott 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 \$3,681 from the prior year, resulting in excess fees of \$169,596 as of December 31, 2015. Receipts increased by \$26,146 from the prior year and disbursements increased by \$29,827.

Report Comments:

- 2015-001 The Former County Clerk's 2015 Fee Account Had Four Missing Daily Deposits Totaling \$15,607
- 2015-002 The Former County Clerk Has A Known Deficit Of \$6,189 In The 2015 Fee Account
- 2015-003 The Former County Clerk Did Not Present An Annual Financial Statement To The Fiscal Court And Did Not Pay Additional Excess Fees Of \$7,208 For Calendar Year 2015
- 2015-004 The Former County Clerk Failed To Disburse Delinquent Tax Collections Of \$3,958 To Taxing Districts, County Attorney, And Sheriff
- 2015-005 The Former County Clerk Has Disallowed Disbursements Of \$302 In The 2015 Fee Account
- 2015-006 The Former County Clerk Did Not Deposit The Election Commissioner Payment To The Fee Account
- 2015-007 The Former County Clerk Overpaid The Usage Tax Account By \$4,564
- 2015-008 The Former County Clerk Has Uncollected Receivables And Unpaid Liabilities In The 2015 Fee Account
- 2015-009 The Former County Clerk Overspent The Deputies' Maximum Salary Limitation Fixed By The Fiscal Court
- 2015-010 The Former County Clerk's Bond Did Not Meet The Requirements Of KRS 62.055
- 2015-011 The Former County Clerk Did Not Deposit Receipts Intact Daily
- 2015-012 The Former County Clerk Did Not Make Timely Payments To The Fiscal Court
- 2015-013 The Former County Clerk Submitted The Third And Fourth Quarter Financial Reports To The Department For Local Government Late
- 2015-014 The Former County Clerk Did Not Prepare An Accurate Receipts Ledger, Disbursements Ledger, Or Fourth Quarter Report
- 2015-015 The Former County Clerk's Office Lacked Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements
- 2015-016 The Former County Clerk Did Not Prepare Form 1099s For Contract Labor In Calendar Years 2012 And 2013

Deposits:

The former county clerk's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Former Elliott County Clerk
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott 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 Elliott 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 Carl Fannin, Elliott County Judge/Executive
 The Honorable Shelia Blevins, Former Elliott County Clerk
 The Honorable Jennifer Carter, Elliott County Clerk
 Members of the Elliott 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 Elliott County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Elliott 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 former Elliott 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2017, on our consideration of the former Elliott 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 comments and recommendations, included herein, which discusses the following report comments:

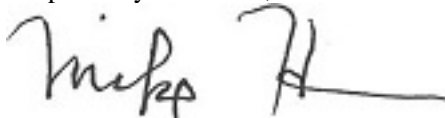
- 2015-001 The Former County Clerk's 2015 Fee Account Had Four Missing Daily Deposits Totaling \$15,607
- 2015-002 The Former County Clerk Has A Known Deficit Of \$6,189 In The 2015 Fee Account
- 2015-003 The Former County Clerk Did Not Present An Annual Financial Statement To The Fiscal Court And Did Not Pay Additional Excess Fees Of \$7,208 For Calendar Year 2015

The Honorable Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Former Elliott County Clerk
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott County Fiscal Court

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

- 2015-004 The Former County Clerk Failed To Disburse Delinquent Tax Collections Of \$3,958 To Taxing Districts, County Attorney, And Sheriff
- 2015-005 The Former County Clerk Has Disallowed Disbursements Of \$302 In The 2015 Fee Account
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- 2015-014 The Former County Clerk Did Not Prepare An Accurate Receipts Ledger, Disbursements Ledger, Or Fourth Quarter Report
- 2015-015 The Former County Clerk's Office Lacked Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements
- 2015-016 The Former County Clerk Did Not Prepare Form 1099s For Contract Labor In Calendar Years 2012 And 2013

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 29, 2017

ELLIOTT COUNTY
SHELIA BLEVINS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Revenue Supplement	\$	65,767	
State Fees For Services			2,014
Fiscal Court			84,497
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	157,669	
Usage Tax			194,471
Tangible Personal Property Tax			411,758
Other-			
Marriage Licenses			2,414
Deed Transfer Tax			4,961
Delinquent Tax		59,398	830,671
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts			4,566
Real Estate Mortgages			4,799
Chattel Mortgages and Financing Statements			16,809
Powers of Attorney			464
All Other Recordings			6,842
Charges for Other Services-			
Copywork			1,525
Postage		141	35,146
Miscellaneous			88
Interest Earned			38
Total Receipts			\$ 1,018,221

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

ELLIOTT COUNTY
 SHELIA BLEVINS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 109,061

Usage Tax 188,266

Tangible Personal Property Tax 150,997

Licenses, Taxes, and Fees-

Delinquent Tax 5,192

Legal Process Tax 5,365

Affordable Housing Trust 3,834 \$ 462,715

Payments to Fiscal Court:

Tangible Personal Property Tax 50,913

Delinquent Tax 5,492

Deed Transfer Tax 4,703 61,108

Payments to Other Districts:

Tangible Personal Property Tax 193,389

Delinquent Tax 28,275 221,664

Payments to Sheriff

4,751

Payments to County Attorney

7,374

Operating Disbursements:

Materials and Supplies-

Office Supplies 245

Other Charges-

Conventions and Travel 3,036

Delinquent Tax Escrow 2,250

Refunds 829

Miscellaneous 573 6,933

ELLIOTT COUNTY
 SHELIA BLEVINS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements (Continued)

Total Disbursements	\$ 764,545	
Less: Disallowed Disbursements	<u>302</u>	
Total Allowable Disbursements		<u>\$ 764,243</u>
Net Receipts		253,978
Less: Statutory Maximum		<u>76,841</u>
Excess Fees		177,137
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>3,941</u>	<u>7,541</u>
Excess Fees Due County for 2015		169,596
Payments to Fiscal Court - Various Dates		<u>162,388</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 7,208</u>

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

ELLIOTT 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).

D. Fee Pooling

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

ELLIOTT 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, 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. 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%

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, nonhazardous 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.

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

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

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 former Elliott 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 Elliott 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

- A. The Elliott County Clerk's office is committed to a lease agreement for computer equipment maintenance. The lease requires four annual payments of \$2,209 to be completed on August 26, 2015. The agreement will renew automatically for additional one-year terms thereafter, unless prior written notice is received. The fiscal court makes the annual payment. Because this lease automatically renews each year, the balance of the lease agreement was zero as of December 31, 2015.
- B. The Elliott County Clerk's office is committed to a lease agreement for a computer software license and service. The lease requires a monthly payment of \$750 to be completed on August 26, 2015. The agreement will renew automatically for additional one-year terms thereafter, unless prior written notice is received. The fiscal court makes the monthly payments. The balance of the lease agreement was \$3,750 as of December 31, 2015, which was paid on August 26, 2016.

Note 5. On Behalf Payments

The Elliott County Clerk's office is required by the fiscal court to participate in a fee pooling system. Since the former Elliott County Clerk was fee pooling, the Elliott County Fiscal Court paid the former Elliott County Clerk's statutory maximum as reflected on the former Elliott County Clerk's financial statement. For the year ended December 31, 2015, the Elliott County Fiscal Court's contributions recognized by the former Elliott County Clerk included the amounts that were based on the statutory maximum as required by KRS 64.5275. The former Elliott County Clerk recognized receipts from the fiscal court and disbursements for statutory maximum, expense allowance, and training incentive of \$84,382 for the year ended December 31, 2015.

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

Note 6. Subsequent Event

The former Elliott County Clerk, Shelia Blevins, resigned on August 10, 2016. The Elliott County Judge/Executive appointed Jennifer Carter as the Elliott County Clerk on August 11, 2016.

ELLIOTT COUNTY
SHELIA BLEVINS, FORMER COUNTY CLERK
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2015

Assets

Cash in Bank		\$ 52,051
Collected Receivables:		
December 30 Daily Deposit	\$ 2,956	
Deposit Of 2015 Fee Monies Returned From 2014 Fee Account	8,990	
Deposit Error	<u>5,566</u>	17,512
Uncollected Receivables:		
Former County Clerk's Personal Funds For:		
Election Commissioner Payment	115	
Disallowed Disbursements	<u>302</u>	417
Overpayment From Usage Tax Account		<u>4,564</u>
Total Assets		74,544

Liabilities

Paid Obligations:		
Outstanding Checks	\$ 6,993	
Deposit Error Correction	5,566	
Motor Vehicle Licenses	11,604	
Usage Tax	3,317	
Tangible Personal Property Tax	27,222	
Affordable Housing Trust	942	
Deed Transfer Tax	338	
Legal Process Tax	370	
Delinquent Tax-	1,904	
Excess Fees - December 2015	<u>12,403</u>	
Total Paid Obligations		70,659

ELLIOTT COUNTY
 SHELIA BLEVINS, FORMER COUNTY CLERK
 SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS
 December 31, 2015
 (Continued)

Liabilities (Continued)

Unpaid Obligations:

Delinquent Tax-		
State Treasurer	\$	76
Elliott County		81
Elliott County Schools		248
Elliott County Health		19
Elliott County Extension		40
Elliott County Ambulance		56
Elliott County Soil Conservation		22
Elliott County Attorney		60
Elliott County Sheriff		14
Delinquent Tax Escrow		2,250
Excess Fees - 2015		<u>7,208</u>
 Total Unpaid Obligations		 <u>\$ 10,074</u>
 Total Liabilities		 <u>\$ 80,733</u>
 Total Fund Deficit as of December 31, 2015		 <u>\$ (6,189)</u>

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 Carl Fannin, Elliott County Judge/Executive
The Honorable Shelia Blevins, Former Elliott County Clerk
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott 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 Elliott County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated August 29, 2017. The former Elliott 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 Elliott 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 Elliott County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Elliott 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 comments and recommendations, 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 comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-011, 2015-014, and 2015-015 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 former Elliott 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 comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, 2015-008, 2015-009, 2015-010, 2015-011, 2015-012, 2015-013, 2015-014, and 2015-016.

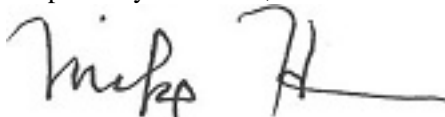
Former County Clerk's Responses to Findings

The former Elliott County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The former Elliott 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

August 29, 2017

COMMENTS AND RECOMMENDATIONS

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ELLIOTT COUNTY
SHELIA BLEVINS, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Former County Clerk's 2015 Fee Account Had Four Missing Daily Deposits Totaling \$15,607

Daily receipts for January 26, January 30, February 2, and February 3, 2015, were not deposited to the former county clerk's 2015 fee account. The former county clerk deposited these funds into the 2014 fee account to cover shortages in that account. \$15,607 was not deposited to the 2015 fee account. Because the 2015 fee account did not receive all funds owed to it, the account is currently unable to pay all liabilities owed. Comment 2015-008 and the Schedule Of Excess Liabilities Over Assets detail the remaining liabilities owed from the 2015 fee account. The county clerk is required to deposit all funds received to the correct fee account in order to be able to pay the appropriate amounts to various other state agencies. Failure to deposit all funds could be an indication of theft. We recommend the county clerk's office deposit each day's receipts to the correct fee account.

Former County Clerk Shelia Blevins' Response: The clerk did not do the daily deposits. The clerk was, however, responsible for daily deposits. Due to lack of observation of this situation, I cannot account for the whereabouts of these deposits.

2015-002 The Former County Clerk Has A Known Deficit Of \$6,189 In The 2015 Fee Account

The former county clerk has a deficit of \$6,189 in the 2015 fee account. As stated in comment 2015-001, the former county clerk had missing daily deposits of \$15,607. The missing daily deposits were deposited to the 2014 fee account to cover shortages in that account. The 2014 fee account returned \$8,990, leaving an expected deficit of \$6,617 in the 2015 fee account. However, because of some daily deposit overages during the year, the 2015 fee account ended in a deficit of \$6,189. A deficit balance indicates funds are owed that have not yet been paid. Comment 2015-008 details the remaining liabilities owed from the 2015 fee account. The fiscal court has not received all excess fees owed to it from the 2015 fee account. KRS 68.210 authorizes the state local finance officer to require certain local officials to make daily deposits intact to a federally insured banking institution. This is one of the minimum requirements for handling public funds as listed in the *County Budget Preparation and State Local Finance Officer Policy Manual*. Fee officials are personally liable for repayment of deficits. We recommend the former county clerk deposit \$6,189 of personal funds to cover the deficit in the 2015 fee account. We also recommend the county clerk's office deposit all funds intact daily.

Former County Clerk Shelia Blevins' Response: All deficits will be taken care of.

2015-003 The Former County Clerk Did Not Present An Annual Financial Settlement To The Fiscal Court And Did Not Pay Additional Excess Fees Of \$7,208 For Calendar Year 2015

The former county clerk did not submit an annual financial settlement to the fiscal court and did not pay \$7,208 in additional excess fees for calendar year 2015. The former county clerk owes additional excess fees because of missing daily deposits and disallowed disbursements. The former county clerk did not provide a reason for failing to ensure an annual financial settlement was presented to the fiscal court. Additional excess fees were not paid because the funds to do so were not available in the 2015 fee account. Under fee pooling, the fiscal court pays for most expenses of the county clerk's office. It is therefore important for the fiscal court to know the financial condition of the county clerk's office. Without presenting an annual settlement, the fiscal court is unaware of the financial condition of the county clerk's office. Furthermore, excess fees are budgeted as income for the fiscal court, and not receiving excess fees timely impacts the fiscal court's ability to provide budgeted services, including payments of expenses of the county clerk's office. KRS 64.152 requires a financial settlement to be presented to the fiscal court by March 15 of each year. On February 4, 2013, the Elliott County Fiscal Court passed Ordinance FY-13-001, which requires the sheriff's office and county clerk's office to participate in fee pooling.

ELLIOTT COUNTY
 SHELIA BLEVINS, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Former County Clerk Did Not Present An Annual Financial Settlement To The Fiscal Court And Did Not Pay Additional Excess Fees Of \$7,208 For Calendar Year 2015 (Continued)

Under fee pooling, the sheriff's office and county clerk's office pay net income (excess fees) monthly to the fiscal court, and the fiscal court pays all salaries and expenses of those offices. Excess fees are due no later than the tenth of the month for the preceding month. We recommend the former county clerk pay additional excess fees of \$7,208 to the fiscal court as soon as possible. We also recommend the county clerk's office submit an annual financial settlement and pay any additional excess fees due to the fiscal court by March 15 of each year.

Former County Clerk Shelia Blevins' Response: Because the year end settlement was incorrect, the clerk did not prepare an annual financial statement nor pay excess fees until after the completion of the 2015 audit.

2015-004 The Former County Clerk Failed To Disburse Delinquent Tax Collections Of \$3,958 To Taxing Districts, County Attorney, And Sheriff

The former county clerk failed to distribute delinquent tax collections properly in the following instances:

- The former county clerk received a payment of \$2,250 in April 2015 from a mortgage company for delinquent taxes for multiple bills. The receipt was posted to the receipts ledger and deposited to the 2015 fee account. However, the \$2,250 was never reported on a monthly delinquent tax report, and therefore was not distributed to the taxing districts, county attorney, and sheriff.
- The July 2015 check to the county attorney in the amount of \$1,092 did not clear the former county clerk's bank account. The county attorney's office indicated the payment had not been recorded as being received. Prior to year-end, the check was removed from the former county clerk's outstanding check listing, but a replacement check was not issued.
- A comparison between the December 2015 delinquent tax report and canceled checks indicates a total of \$616 was underpaid to the taxing districts, county attorney, and sheriff.

The delinquent tax disbursements still unpaid as of the current date total \$3,958. We do not know what caused the \$2,250 in delinquent tax receipts to not be reported and disbursed on the delinquent report. Auditors could not determine if the mortgage company provided documentation that indicated the specific tax bills to be paid because the former county clerk's receipt listed the mortgage company as the customer, and listed only the tax years for the bills to be paid. No taxpayer names were noted on the receipt. We do not know what caused the July 2015 check written to the county attorney to not clear the bank, nor do we know why a replacement check was not prepared. We do not know what caused the December underpayments to taxing districts, county attorney, and sheriff, as the December monthly report and receipts ledger agree as to the amount received by the former county clerk. The lack of attention to detail and lack of reviews of monthly reporting were factors that contributed to these delinquent tax payments not being properly disbursed.

The following are the effects of these findings:

- Those taxpayers whose bills were paid by the mortgage company have not received credit for their payments in the delinquent tax records in the county clerk's office. Potential legal problems could occur in the event those taxpayers need to show proof of the tax payments, and because the tax bills were not marked paid, they could inadvertently be purchased by a third-party during the annual tax sale.
- The taxing districts, county attorney, and sheriff did not receive monies that were owed to them for the months of April, July, and December 2015.

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 SHELIA BLEVINS, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-004 The Former County Clerk Failed To Disburse Delinquent Tax Collections Of \$3,958 To Taxing Districts, County Attorney, And Sheriff (Continued)

- Because the monies were not distributed when received, we have adjusted the Statement of Receipts, Disbursements, and Excess Fees to include these unpaid liabilities, and have also included the liabilities on the Schedule of Excess Liabilities Over Assets.

KRS 134.126 describes the duties of the clerk regarding certificates of delinquency. Those duties require the county clerk to report and pay delinquent taxes by the tenth day of each month, allocate payments among the entities entitled to a payment, and note the name and address of the person making the payment, the amount paid, and mark the certificate of delinquency paid in full.

We recommend the former county clerk pay the following:

- \$2,250 received in April 2015 to a delinquent tax escrow account. The account will be maintained until such time as the taxpayers are identified. Once the taxpayers are identified, the delinquent bills should be marked paid, and funds distributed from the escrow account to the current county clerk's fee account for reporting to the taxing districts, county attorney, and sheriff.
- \$1,092 to the county attorney owed from July 2015.
- \$616 received in December 2015, to the agencies and amounts as listed below:

State	\$ 76	County	\$ 81
School	248	Health	19
Extension	40	Ambulance	56
Soil Conservation	22	County Attorney	60
Sheriff	14		

We further recommend the county clerk's office perform the delinquent tax reporting duties as stated in KRS 134.126.

Former County Clerk Shelia Blevins' Response: Any unpaid tax disbursements will be paid.

2015-005 The Former County Clerk Has Disallowed Disbursements Of \$302 In The 2015 Fee Account

The former county clerk has \$302 of disallowed disbursements in her 2015 fee account. The disallowed disbursements were debit card transactions. According to the bank statement description, the transactions were for meals. The former county clerk failed to provide invoices or supporting documentation for these debit card transactions. When fee account monies are spent on disallowed disbursements, the fiscal court is deprived of excess fees that can be used for other county services. Fee officials are required to expend funds on allowable expenses. In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. These debit card transactions were not adequately documented, and therefore it cannot be determined if the expenses were necessary, reasonable in amount, beneficial to the public and not personal expenses. We recommend the former county clerk deposit personal funds of \$302 in the 2015 fee account for disallowed expenditures. We further recommend the county clerk's office refrain from using a debit card, since doing so weakens internal controls over disbursements, and that supporting documentation be maintained for all disbursements.

Former County Clerk Shelia Blevins' Response: Any disallowed disbursements will be paid to the 2015 fee account.

ELLIOTT COUNTY
 SHELIA BLEVINS, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-006 The Former County Clerk Did Not Deposit The Election Commissioner Payment To The Fee Account

The fiscal court paid the former county clerk \$115 for the former county clerk's required service as an election commissioner on the county's board of elections. The former county clerk did not deposit the election commissioner payment to the fee account. The former county clerk has received income in excess of her authorized salary and deprived the county clerk's office of income. KRS 64.5275 allows county clerks to be paid only statutory maximum and training incentive. KRS 64.017 allows county clerks to be paid an expense allowance. These three items are the only compensation allowed to county clerks. Payments for serving on the county board of elections per KRS 117.035 are considered fees of the county clerk's office. We recommend the former county clerk deposit \$115 from personal funds to the 2015 fee account to reimburse for the election commission payment. This amount has been included in the 2015 excess fee calculation.

Former County Clerk Shelia Blevins' Response: Past Election Commissioner payments have been paid to each commissioner. Further commissioner payments will be deposited to the clerk's fee account.

2015-007 The Former County Clerk Overpaid The Usage Tax Account By \$4,564

The former county clerk did not pay the correct amount of usage tax to the usage tax account. In calendar year 2015, \$4,564 was overpaid and should be returned to the 2015 fee account. The former county clerk was not reconciling her usage tax account. Reconciliation of the usage account would have allowed these errors to be corrected timely. Because the former county clerk did not pay the correct amount to the usage tax account, \$4,564 is owed to the 2015 fee account. These funds will have to be collected in order for the former county clerk to pay all of the liabilities of the 2015 fee account. Additional time was spent by auditors determining how much was owed to the 2015 fee account, as well as determining the current location of the funds. Auditors compared the daily payments made from the 2015 fee account to what was actually owed to the usage tax account. The \$4,564 overpayment was the result of numerous daily payment errors. These errors were found by auditors, not by the former county clerk, which indicates the former county clerk was not reconciling the usage tax account. Due to a misunderstanding, the current county clerk used the funds in the former county clerk's usage tax account to pay her usage tax liabilities until there were no funds remaining. The current county clerk corrected this error by depositing the \$4,564 to the former county clerk's 2016 fee account, where it remains. We recommend the former county clerk transfer \$4,564 from her 2016 fee account to the 2015 fee account in order to be able to pay all liabilities of the 2015 fee account. We also recommend the county clerk's office reconcile the usage tax account at least monthly in order to prevent these types of undetected errors.

Former County Clerk Shelia Blevins' Response: Excess usage tax account money will be transferred to the 2015 fee account.

2015-008 The Former County Clerk Has Uncollected Receivables And Unpaid Liabilities In The 2015 Fee Account

The former county clerk should collect receivables and pay liabilities in order to settle the 2015 fee account. The former county clerk also has two stale dated outstanding checks totaling \$1,096 that should be escrowed until the checks clear the bank. The former county clerk did not properly account for receipts and disbursements of the 2015 fee account.

The former county clerk should collect the following amounts:

Former county clerk's personal funds for election commissioner payment (Comment 2015-006)	\$ 115
Former county clerk's personal funds for disallowed disbursements (Comment 2015-005)	302
Overpayment from usage tax account (Comment 2015- 007)	4,564

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 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-008 The Former County Clerk Has Uncollected Receivables And Unpaid Liabilities In The 2015 Fee Account (Continued)

The former county clerk should pay the following amounts:

Delinquent taxes owed to various agencies (Comment 2015-004)	2,866
Excess fees to fiscal court (Comment 2015-003)	7,208

Currently, the bank account balance is \$0. However, there are two outstanding checks totaling \$1,096 (\$1,092 July delinquent tax to county attorney and \$4 refund to taxpayer) that would cause the account to be overdrawn if cashed. The outstanding checks represent obligations owed by the county clerk's office, and as such, cannot be written off. The two outstanding checks, combined with the receivables and liabilities listed above, indicate a deficit of \$6,189. The Schedule Of Excess Liabilities Over Assets provides detailed information on all receivable and liability activity since December 31, 2015. The outstanding checks can be reissued, but if they do not clear the bank within a reasonable amount of time, they should be escrowed and held for three years. If after three years the funds are still unclaimed, the funds should be turned over to the state treasury as property assumed abandoned per KRS 393.090 and KRS 393.110. Each comment referenced above contains additional criteria used to determine the receivables and liabilities. We recommend the former county clerk collect receivables and pay liabilities as detailed in the Schedule Of Excess Liabilities Over Assets, and escrow any checks still outstanding after a reasonable amount of time. We further recommend the county clerk's office establish procedures to ensure an annual settlement is presented to fiscal court by March 15 of each year and any additional excess fees be paid at that time.

Former County Clerk Shelia Blevins' Response: Any and all unpaid liabilities in the 2015 fee account will be paid.

2015-009 The Former County Clerk Overspent The Deputies' Maximum Salary Limitation Fixed By The Fiscal Court

The former county clerk overspent the deputies' maximum salary limitation as fixed by the fiscal court by \$3,764. The fiscal court approved the deputies' salary limit at \$47,720, and later amended it to be increased by \$3,200, for a total salary limit of \$50,920. The former county clerk expended \$51,484, causing the salary limit to be exceeded by \$564. Disbursements for deputies' salaries were not monitored by the former county clerk. The former county clerk was not in compliance with KRS 64.530(3). Overspending the amount approved for county clerk's deputies' salaries reduces the funds available to the fiscal court to pay for other expenses of county government. KRS 64.530(3) states, "the fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the county clerk's office and fiscal court monitor payroll disbursements during the year and not exceed the deputies' maximum salary limitation without fiscal court approval.

Former County Clerk Shelia Blevins' Response: A revised 2015 salary cap was submitted and approved by the Elliott County Fiscal Court. The overexpenditure was an oversight in employee scheduling.

2015-010 The Former County Clerk's Bond Did Not Meet The Requirements Of KRS 62.055

The former county clerk's bond did not meet the requirements of KRS 62.055. The former county clerk had obtained a bond in the amount of \$50,000. However, KRS 62.055 requires \$100,000. The former county clerk and fiscal court did not ensure that the bond met the requirements of KRS 62.055. Funds of the county clerk's office are at risk when the bond coverage is not obtained at the required amount. KRS 62.055(2) states "...the amount of the county clerk's bond shall be at least one hundred thousand dollars (\$100,000)." KRS 62.055(3) states "[t]he bond of the county clerk shall be examined and approved by the fiscal court, which shall record the approval in its minutes."

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For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-010 The Former County Clerk's Bond Did Not Meet The Requirements Of KRS 62.055 (Continued)

We recommend the current county clerk obtain a bond of at least \$100,000 to comply with KRS 62.055. We also recommend fiscal court review bond coverage for the current county clerk.

Former County Clerk Shelia Blevins' Response: The clerk was not aware of new bond requirements. The clerk's bond is paid by the Elliott County Fiscal Court.

2015-011 The Former County Clerk Did Not Deposit Receipts Intact Daily

The former county clerk's office made 254 daily deposits during the year. Of those, 14 deposits did not clear the bank within three business days, and supporting documentation was not available for 133 deposits. The former county clerk did not ensure that deposits were made intact daily, and that all supporting documentation was maintained. Receipts not deposited intact daily can result in the county clerk's office not being able to distribute funds timely to other agencies and increases the risk that funds could be misplaced or stolen. The lack of supporting documentation for daily deposits means that \$444,132 of deposits cannot be traced to copies of customer receipts. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* include that deposits be made intact daily. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the county clerk's office deposit receipts intact daily and maintain all supporting documentation for deposits.

Former County Clerk Shelia Blevins' Response: Although some 2015 deposits were not deposited daily, a correction was made and any subsequent deposits were made daily.

2015-012 The Former County Clerk Did Not Make Timely Payments To The Fiscal Court

All 12 of the former county clerk's excess fees payments and seven of 12 deed transfer tax payments were paid late to the fiscal court. The excess fees payments ranged from six days to over six months late. The deed transfer tax payments ranged from one to four months late. The former county clerk did not provide a reason for the late payments. However, the missing cash deposits noted in Comment 2015-001 may have been a contributing factor. The fiscal court did not receive much needed revenues in a timely manner, which impacted its ability to meet its financial obligations. Excess fees are budgeted as income for the fiscal court, and not receiving excess fees timely impacts the fiscal court's ability to provide budgeted services, including paying expenses of the county clerk's office. On February 4, 2013, the Elliott County Fiscal Court passed Ordinance FY-13-001, which requires the sheriff's office and county clerk's office to participate in fee pooling. Under fee pooling, the sheriff's office and county clerk's office pay net income (excess fees) monthly to the fiscal court, and fiscal court pays all salaries and expenses of those offices. Net income is due no later than the tenth of the month for the preceding month. KRS 142.050(4) requires the county clerk to remit the deed transfer tax every three months to the county treasurer. We recommend the county clerk's office remit excess fee and deed transfer tax payments timely to the fiscal court.

Former County Clerk Shelia Blevins' Response: Some payments were not made by the 10th of each month. However, all payments were made as timely as possible.

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 SHELIA BLEVINS, FORMER COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2015
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-013 The County Clerk Submitted The Third And Fourth Quarter Financial Reports To The Department For Local Government Late

The third and fourth quarterly financial reports were not received by the Department For Local Government (DLG) until March 2, 2016. DLG is the regulatory agency for county officials. The former county clerk did not ensure that she or her staff submitted the quarterly reports to DLG timely. The former county clerk's financial condition was not known to the state local finance officer and DLG in a timely manner. KRS 68.210 authorizes the state local finance officer to require officials from local governments to submit financial reports. Quarterly reports are to be submitted by the twentieth day following the close of the quarter in order to satisfy this requirement. We recommend the county clerk's office ensure quarterly reports are prepared and submitted by the twentieth of each month following the close of the quarter.

Former County Clerk Shelia Blevins' Response: Quarterly reports were submitted as soon as they could be prepared.

2015-014 The Former County Clerk Did Not Prepare An Accurate Receipts Ledger, Disbursements Ledger, Or Fourth Quarter Report

The former county clerk's receipts ledger, disbursements ledger, and fourth quarterly report were not accurate. Numerous adjustments were necessary to report accurate information on the audited financial statement. The former county clerk did not ensure that accurate financial information was prepared and provided to auditors. Errors in financial reporting are time consuming for auditors, costly for the official, and bring into question the qualifications of those preparing the information. Errors can be corrected during the audit; however, there is typically a significant amount of time that passes before that occurs, which could create budgeting difficulties for the fiscal court and other agencies that receive payments from the county clerk's office. 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 the *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's office ensure all financial information is accurate.

Former County Clerk Shelia Blevins' Response: All ledgers and reports must be prepared manually. This action requires much time and effort. These reports take more time than most. Compiled with the regular duties of the clerk, this leaves more room for human error.

2015-015 The Former County Clerk's Office Lacked Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements

The former county clerk's office was structured so that the former county clerk or her chief deputy maintained control of daily deposits, posting to receipts and disbursements ledgers, writing checks, preparing monthly and annual reports, and reconciling bank accounts. Other employees who worked in the office handled transactions with customers only. As previously stated, the former county clerk did not structure her office in a way that segregated duties and responsibilities. No one reviewed the work of the former county clerk and there were no compensating controls in place.

Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of misappropriation of assets by undetected error or 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 receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks and post to the disbursements ledger; and the same

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 For The Year Ended December 31, 2015
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FINANCIAL STATEMENT FINDINGS: (Continued)

2015-015 The Former County Clerk's Office Lacked Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements (Continued)

employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports. We recommend the county clerk's office segregate duties and implement internal controls. Employees receiving payments and preparing deposits should not post to the receipts ledger and prepare bank reconciliations. 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 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.

Former County Clerk Shelia Blevins' Response: Due to the size of the Elliott County Clerk's office, there is not enough personnel for adequate segregation of duties.

2015-016 The Former County Clerk Did Not Prepare Form 1099s For Contract Labor In Calendar Years 2012 And 2013

The former county clerk did not prepare and distribute a Form 1099 to her daughter for scanning and indexing work performed during calendar years 2012 and 2013. The former county clerk's daughter was paid \$3,552 in calendar year 2012 and \$5,380 in calendar year 2013 as part of a Department for Libraries and Archives grant. Auditors were not given a reason as to why this did not occur. This is a repeated comment. The former county clerk's daughter's wages were not properly reported to the appropriate agencies so that taxes could be paid if owed. The Department for Libraries and Archives scanning and indexing grants are required to be spent as contract labor. The former county clerk agreed to this when the grant agreement was signed. The former county clerk was responsible for reporting contract labor payments to the appropriate agencies timely. The Internal Revenue Service requires Form 1099 to be issued to individual contractors for services resulting in income of \$600 or more during a calendar year. We recommend the county clerk's office prepare and provide a Form 1099 to the contract labor employee for calendar years 2012 and 2013, and submit corrected Form 1099 to the IRS for calendar years 2012 and 2013. We also recommend the county clerk's office ensure Form 1099 is prepared and provided to any contract labor employee when Department for Libraries and Archives grants are received.

Former County Clerk Shelia Blevins' Response: The clerk had Form 1099s prepared by [vendor name redacted]. During relocation of records, the forms were lost.

Auditor's Reply: Based on the response of the former clerk, we suggest the current county clerk contact the vendor to request a copy of the lost or misplaced 1099 in order to confirm and document whether appropriate 1099s were actually prepared. If the vendor has no evidence that the 1099 in question was prepared, the county clerk should follow the recommendation above to ensure that corrected 1099s are prepared and provided to the contract employee.