

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

**For The Year Ended
December 31, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Myron Lewis, Elliott County Judge/Executive
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 County Clerk of Elliott County, Kentucky, for the year ended December 31, 2017, 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 Myron Lewis, Elliott County Judge/Executive
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 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 Elliott County Clerk, as of December 31, 2017, 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 Elliott County Clerk for the year ended December 31, 2017, 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 February 12, 2019, on our consideration of the Elliott 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 Elliott County Clerk's internal control over financial reporting and compliance.

The Honorable Myron Lewis, Elliott County Judge/Executive
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott County Fiscal Court

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

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

- 2017-001 The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court Timely
- 2017-002 The County Clerk Did Not Comply With The County's Fee Pooling Ordinance
- 2017-003 The County Clerk Did Not Submit Quarterly Financial Reports To The Department For Local Government
- 2017-004 The County Clerk Did Not Pay License Fees Timely
- 2017-005 The County Clerk Overlooked A Material Error, Made Late Payments, And Did Not Reconcile Ad Valorem Tax Reports
- 2017-006 The County Clerk Did Not Pay Delinquent Taxes To Districts Timely
- 2017-007 The County Clerk's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements

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

February 12, 2019

ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Revenue Supplement	\$	66,599	
State Fees For Services		1,807	
Fiscal Court		78,556	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	165,079	
Usage Tax		202,224	
Tangible Personal Property Tax		462,220	
Other-			
Lien Fees		4,965	
Marriage Licenses		918	
Deed Transfer Tax		10,348	
Delinquent Tax		103,792	949,546
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		4,272	
Real Estate Mortgages		6,929	
Chattel Mortgages and Financing Statements		17,714	
Powers of Attorney		535	
Affordable Housing Trust		4,506	
All Other Recordings		2,585	
Charges for Other Services-			
Candidate Filing Fees		1,150	
Copywork		1,899	
Postage		535	40,125
Other:			
Miscellaneous			1,480
Interest Earned			38
Total Receipts			1,138,151

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

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 112,871	
Usage Tax	196,366	
Tangible Personal Property Tax	170,783	

Licenses, Taxes, and Fees-

Delinquent Tax	9,181	
Legal Process Tax	4,189	
Affordable Housing Trust	4,506	\$ 497,896

Payments to Fiscal Court:

Tangible Personal Property Tax	55,194	
Delinquent Tax	8,935	
Deed Transfer Tax	9,830	73,959

Payments to Other Districts:

Tangible Personal Property Tax	219,982	
Delinquent Tax	52,683	272,665

Payments to Sheriff

9,083

Payments to County Attorney

14,042

Operating Disbursements:

Other Charges-

Refunds	715	
Miscellaneous	6,629	7,344

Total Disbursements

\$ 874,989

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

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Net Receipts	\$ 263,162
Less: Statutory Maximum	<u>74,956</u>
Excess Fees	188,206
Less: Expense Allowance	<u>3,600</u>
Excess Fees Due County for 2017	184,606
Payments to Fiscal Court - Monthly	<u>168,009</u>
Balance Due Fiscal Court at Completion of Audit *	<u><u>\$ 16,597</u></u>

* - The county clerk presented checks to the fiscal court for excess fees on June 13, 2018 and January 16, 2019, for \$14,985 and \$1,612, respectively.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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, 2017
 (Continued)

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

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

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

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

Health Insurance Coverage

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

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

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

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

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

Health Insurance Coverage (Continued)

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

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

Note 3. Deposits

The 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 Elliott 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Elliott County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$7,163. No funds were expended during the year. The unexpended grant balance was \$7,163, as of December 31, 2017.

Note 5. Lease Agreements

- A. The county clerk's office committed to a lease agreement for computer equipment maintenance on August 27, 2010, that was completed August 26, 2015. The agreement renews automatically for additional one year terms thereafter, unless written notice is received from either party 60 days prior to the renewal date. The fiscal court makes the annual payment of \$2,209.
- B. The county clerk's office committed to a lease agreement for computer software license and service on August 27, 2010, that was completed August 26, 2015. The agreement renews automatically for additional one year terms thereafter, unless written notice is received from either party 60 days prior to the renewal date. The fiscal court makes the monthly payment of \$750.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(Continued)

Note 6. On Behalf Payments

The Elliott County Clerk's office is required by the fiscal court to participate in a fee pooling system. Since the county clerk is fee pooling, the fiscal court pays the county clerk's statutory maximum and expense allowance as reflected on the county clerk's financial statement. For the year ended December 31, 2017, the fiscal court's contributions recognized by the county clerk included the amounts that were based on the statutory maximum as required by KRS 64.5275. The Elliott County Clerk recognized receipts from the fiscal court and disbursements for the statutory maximum and expense allowance of \$78,556 for the year ended December 31, 2017.

Note 7. Escrow

During 2016, the former county clerk received delinquent tax payments which were never processed. As a result, the Elliott County Clerk deposited \$2,250 into an interest bearing bank account for the unidentified delinquent tax payments. 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 pursuant to KRS 393.110 and its accompanying regulations.

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 Myron Lewis, Elliott County Judge/Executive
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 Elliott County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated February 12, 2019. The 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 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 Elliott County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Elliott County Clerk's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-007 to be a material weakness.

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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*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the 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 Schedule of Findings and Responses as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, and 2017-006.

Views of Responsible Official and Planned Corrective Action

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

February 12, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court Timely

The county clerk presented her fourth quarter financial report in lieu of an annual settlement to the fiscal court for calendar year 2017 on September 26, 2018. According to the county clerk, she did not have her settlement prepared to be able to present it timely. As a result, the fiscal court was not aware of the financial activities for calendar year 2017, unable to verify if the amount of excess fees remitted were accurate, and in violation of KRS 64.152. KRS 64.152(1) states, “the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.” We recommend the county clerk present an annual settlement along with her final excess fees check to fiscal court by March 15, and ensure that it is documented in the fiscal court minutes.

County Clerk’s Response: The county clerk did not provide a response.

2017-002 The County Clerk Did Not Comply With The County’s Fee Pooling Ordinance

This is a similar finding included in the prior year audit report as finding 2016-002. As depicted in the following chart, the county clerk did not remit her monthly excess fees timely to the fiscal court per the fee-pooling ordinance:

Months Late	Month(s)
5 or more	March, November and December
4	January and April
3	February, May and June
2	July
1	August, September and October

According to the county clerk, she wanted to ensure she was remitting the correct amount of excess fees which delayed payment timeliness. By not submitting the monthly excess fees to the fiscal court by the 10th of each month as required by Elliott County Fiscal Court Ordinance FY-13-001, the county clerk is not in compliance with the ordinance. In addition, the fiscal court is deprived of these funds for a significant amount of time, potentially impacting their budget. 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 the fiscal court pays all salaries and expenses of those offices. Net income is due no later than the 10th of the month for the preceding month. We recommend the county clerk comply with the county’s fee pooling ordinance by paying excess fees based on calculations from the county clerk’s financial records no later than the 10th of the month for the preceding month.

County Clerk’s Response: The county fee-pooling ordinance – effective prior to my administration – lacks consideration of time restraints placed on the county clerk’s office who have limited staff with limited hours. 10 days is not adequate considering bank statements aren’t received until well into or after the 1st week of the month. We are making efforts to pull all reports in earlier and disperse excess fees by the 10th.

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-003 The County Clerk Did Not Submit Quarterly Financial Reports To The Department For Local Government

The quarterly financial reports were not submitted to the Department for Local Government's (DLG) state local finance officer. Further, the county clerk received delinquent notices from DLG dated July 12, 2017 (for the first quarter), September 7, 2017 (for the second quarter), December 1, 2017 (for the third quarter), and March 14, 2018 (for the fourth quarter) that her quarterly reports were not received. The county clerk did not ensure that she prepared and submitted the quarterly reports to DLG. As a result, the county clerk's financial condition is not known to the state local finance officer and DLG, which is the regulatory agency for county officials. 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 30th day following the close of the quarter in order to satisfy this requirement. We recommend the county clerk ensure quarterly reports are prepared and submitted by the 30th of each month following the close of the quarter.

County Clerk's Response: The county clerk did not provide a response.

2017-004 The County Clerk Did Not Pay License Fees Timely

Nine weekly license payments (week #2 through #8, week #9, and week #11) to the state from the county clerk were over a week late. The final week (#53) license fees was eight weeks late. It appears the late payments were either the result of errors or an oversight by the county clerk. As a result, the state was not paid timely for license fees collected by the county clerk. KRS 138.464(1) states, "[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period." KRS 138.464(3) states, "[f]ailure to forward duplicates of all receipts issued during the reporting period or failure to file the weekly report of moneys collected within seven (7) working days after the report is due shall subject the clerk to a penalty of two and one-half percent (2.5%) of the amount of moneys collected during the reporting period for each month or fraction thereof until the documents are filed." We recommend the county clerk ensure that payments to the state for license fees are paid timely in the future.

County Clerk's Response: The county clerk did not provide a response.

2017-005 The County Clerk Overlooked A Material Error, Made Late Payments, And Did Not Reconcile Ad Valorem Tax Reports

The following errors were noted during ad valorem tax report testing:

- The state was overpaid April ad valorem taxes in the amount of \$26,795. Total collections for all districts were carried over to the monthly district calculation report instead of the state only amount. Auditors brought this to the county clerk's attention and she requested a refund from the state.
- The county clerk paid January and February ad valorem taxes to the taxing districts on April 4, 2017, each at least a month late. The county clerk paid April and May ad valorem taxes to the taxing districts on July 11, 2017, each at least a month late.
- Ad valorem taxing districts are paid monthly from an amount on the revenue county tax collection journal. Daily collection activity is summarized on a point of sale report. Finally, the clerk posts receipts to a receipts ledger. The county clerk is not ensuring all three source documents agree and reconcile to one another.

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2017
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-005 The County Clerk Overlooked A Material Error, Made Late Payments, And Did Not Reconcile Ad Valorem Tax Reports (Continued)

According to the county clerk, the error and late payments were an oversight. The county clerk does not know why the three receipt reports differ and how to reconcile them. The county clerk does not have procedures in place to ensure accurate reporting. As a result of overpaying the state for April ad valorem taxes, the county clerk did not have funds available to pay necessary payments of the fee account, including November and December excess fees, January through June delinquent taxes to the state, health, extension, ambulance, and soil taxing districts, and second quarter affordable housing due to the state. Once the county clerk receives the refund from the state for the April ad valorem overpayment, adequate funds will be available to make these payments.

Untimely payments create a delay in funds to the state and other taxing districts; therefore, they cannot use funds if needed. Finally, it is important to reconcile the receipt totals prior to making payments to taxing districts to prevent overpayment which would result in underpayment of excess fees to the fiscal court. KRS 134.815(1) states, “[t]he county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository.” KRS 134.815(2) states, “[a]ny county clerk who fails to pay over any taxes collected by him on motor vehicles as required by subsection (1) of this section shall be required to pay a penalty of one percent (1%) for each thirty (30) day period or fraction thereof, plus interest at the legal rate per annum of such taxes.”

We recommend the county clerk ensure that payments to the state and other taxing districts for ad valorem taxes are paid timely in the future. The county clerk should ensure all reports are reconciled to one another, and have someone review the monthly ad valorem tax reports for accuracy and then compare them to the checks written prior to distribution to the taxing districts.

County Clerk’s Response: The county clerk did not provide a response.

2017-006 The County Clerk Did Not Pay Delinquent Taxes To Districts Timely

This is a similar issue from the prior year and was included in the prior year audit report as finding 2016-005. The county clerk did not pay delinquent tax payments to districts timely. Delinquent tax payments for the period January through June 2017 were not paid until January 2019 for six taxing districts, almost two years late. According to the county clerk, there was an unresolved issue with her reports causing the delay in payments to districts. By not remitting payments timely to taxing districts, cash flow problems can occur for these taxing districts as they rely on tax collections to fund a significant portion of their budgeted services. KRS 134.126(3) requires the county clerk to, “report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts.” We recommend the county clerk ensure monthly delinquent tax payments are paid by the 10th of each month in accordance with KRS 134.126(3).

County Clerk’s Response: The county clerk did not provide a response.

ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2017
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-007 The County Clerk's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2016-006. The county clerk's office lacks key components of an adequate internal control system. Those key components include the following:

- The county clerk did not prepare receipts and disbursements ledgers or a fourth quarter financial report timely. Subsequent to the audit period, the clerk did prepare these documents.
- The county clerk did not have an adequate segregation of duties in place. The county clerk maintained control of daily deposits, posted to receipts and disbursements ledgers, wrote checks, prepared monthly and annual reports, and reconciled bank accounts. Other employees who worked in the office handled transactions with customers only.

According to the county clerk, she did not structure her office in a way that segregates duties and responsibilities. No one reviewed the work of the county clerk and there were no compensating controls in place. Without adequate segregated duties and internal controls in place, there is no way to document that the fee account financial information is accurate. By not segregating duties, there is an increased risk of undetected misappropriation of assets either by 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 employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the county clerk's office adequately segregate duties and implement internal controls to ensure transactions are recorded timely. Employees receiving payments and preparing deposits should not also post to the receipts ledger and prepare bank reconciliations. Employees preparing and signing checks should not also 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. Further, the county clerk could require dual signatures on all checks, with one signature being the county clerk's.

County Clerk's Response: I have delegated extra duties to deputies and am currently cross-training each.