

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

**For The Period
March 1, 2017 through December 31, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jesse Perry, Graves County Judge/Executive
The Honorable Devonda Wilford, Former Graves County Clerk
The Honorable Kim Gills, Graves County Clerk
Members of the Graves 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 Graves County, Kentucky, for the year period March 1, 2017 through 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.

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The Honorable Jesse Perry, Graves County Judge/Executive
 The Honorable Devonda Wilford, Former Graves County Clerk
 The Honorable Kim Gills, Graves County Clerk
 Members of the Graves 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 Graves 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 Graves County Clerk, for the period March 1, 2017 through 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 former Graves County Clerk for the year period March 1, 2017 through 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 April 5, 2019, on our consideration of the former Graves County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Graves County Clerk's internal control over financial reporting and compliance.

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

- 2017-001 The Former Graves County Clerk Did Not Reconcile Accounts Receivable Subsidiary Ledgers To The Fee Ledgers
- 2017-002 The Former Graves County Clerk's Fee Disbursements Were Materially Misstated By \$276,273

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

April 5, 2019

GRAVES COUNTY
DEVONDA WILFORD, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Period March 1, 2017 through December 31, 2017

Receipts

State Fees For Services	\$	13,175	
Fiscal Court			19,081
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers		\$ 1,392,069	
Usage Tax		4,084,753	
Tangible Personal Property Tax		2,844,128	
Other-			
Fish and Game Licenses		3,540	
Marriage Licenses		6,171	
Occupational Licenses		1,950	
Spouse Abuse		2,420	
Deed Transfer Tax		79,057	
Delinquent Tax		223,624	
		<u>8,637,712</u>	
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		16,917	
Real Estate Mortgages		38,766	
Chattel Mortgages and Financing Statements		94,098	
Powers of Attorney		1,653	
Affordable Housing Trust		27,372	
Lien Fees		16,682	
All Other Recordings		45,331	
Charges for Other Services-			
Copywork		10,040	
Postage		2,602	
		<u>253,461</u>	
Other:			
Miscellaneous			2,763
Interest Earned			<u>1,733</u>
Total Receipts			8,927,925

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

GRAVES COUNTY
DEVONDA WILFORD, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Period March 1, 2017 through December 31, 2017
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,058,459	
Usage Tax	3,959,985	
Tangible Personal Property Tax	1,081,061	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	3,852	
Delinquent Tax	26,219	
Legal Process Tax	29,179	
Affordable Housing Trust	<u>27,372</u>	\$ 6,186,127

Payments to Fiscal Court:

Tangible Personal Property Tax	232,746	
Delinquent Tax	20,768	
Deed Transfer Tax	74,071	
Occupational Licenses	<u>1,260</u>	328,845

Payments to Other Districts:

Tangible Personal Property Tax	1,413,369	
Delinquent Tax	<u>104,791</u>	1,518,160

Payments to Sheriff 19,311

Payments to County Attorney 28,971

Tax Bill Preparation 8,520

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	369,585	
Employee Benefits-		
Employer's Share Social Security	32,388	
Materials and Supplies-		
Office Supplies	34,688	

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

GRAVES COUNTY
DEVONDA WILFORD, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Period March 1, 2017 through December 31, 2017
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	1,484	
Dues		1,680	
Postage		18,625	
Refunds		25,706	
Bad Debt Expense		999	
Miscellaneous		368	\$ 485,523
Capital Outlay-			
Office Equipment			<u>3,705</u>
Total Disbursements			<u>\$ 8,579,162</u>
Less: Disallowed Disbursements			
Cashed Check			10
Finance Charge			<u>1</u>
Total Disallowed Disbursements			<u>11</u>
Total Allowable Disbursements			<u>8,579,151</u>
Net Receipts			348,774
Less: Statutory Maximum			<u>73,437</u>
Excess Fees			275,337
Less: Expense Allowance		3,000	
Training Incentive Benefit		<u>1,013</u>	<u>4,013</u>
Excess Fees Due County for 2017			271,324
Payment to Fiscal Court - June 23, 2017		845	
Payment to Fiscal Court - March 12, 2018		<u>270,856</u>	<u>271,701</u>
Balance Due From Fiscal Court at Completion of Audit			<u>\$ (377)</u>

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

GRAVES 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).

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.

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

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the period March 1, 2017 through June 30, 2017 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%

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.

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

Note 3. Deposits

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

Note 4. State Grant

The Graves County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,970. No funds were expended during the year. The unexpended grant balance was \$8,970 as of December 31, 2017.

Note 5. Escrow Account

The former Graves County Clerk maintained a separate account for unclaimed funds resulting from refunds and overpayments. As of December 31, 2017, the former clerk's escrowed amounts were as follows:

2013	\$91
2014	\$180
2015	\$43
2016	\$853

KRS 393.090 states that after three years, if funds have not been claimed, they are presumed abandoned and are required to be sent to the Kentucky State Treasurer per KRS 393.110. This account was transferred to the current clerk in January 2019.

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

Note 6. Delinquent Tax Sale Account

The former Graves County Clerk maintained a separate account for delinquent tax sales. The account holds the fees from potential buyers and refunds fees to the potential buyer if no sale is made. Any sales are transferred to the fee account. The beginning balance of the Delinquent Tax Sale Account was \$0, on March 1, 2017. Receipts totaling \$123,518 were received including \$36 in interest, and \$123,482 was expended. The ending balance as of December 31, 2017, was \$36.

Note 7. Contingencies

The Graves County Clerk's office is involved in lawsuits that arose from the normal course of doing business. While the outcome of these lawsuits may not be significant, due to the uncertainty of the litigations, a reasonable estimate of the financial impact on the Graves County Clerk's office cannot be made at this time.

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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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jesse Perry, Graves County Judge/Executive
The Honorable Devonda Wilford, Former Graves County Clerk
The Honorable Kim Gills, Graves County Clerk
Members of the Graves 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 Graves County Clerk for the period March 1, 2017 through December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated April 5, 2019. The former Graves 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 Graves 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 Graves County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Graves 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 and another deficiency that we consider to be a significant deficiency.

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 2017-002 to be a material weakness.



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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Graves County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

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

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 5, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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GRAVES COUNTY
DEVONDA WILFORD, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Period March 1, 2017 through December 31, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-001 The Former Graves County Clerk Did Not Reconcile Accounts Receivable Subsidiary Ledgers To The Fee Ledgers

During calendar 2017, the former Graves County Clerk allowed customers to charge for services provided by the clerk's office. The former clerk did not maintain subsidiary ledgers to account for charges and charges paid. Instead the former clerk relied on reports which listed charges in total from the point of sale system. The former clerk relied on the point of sale system to account for all customer charges. Due to there not being subsidiary ledgers that reconcile to the amount on the settlement, it is not possible to determine if charges were properly accounted for or if there is an outstanding balance. This could lead to customers receiving services without settling their accounts. Accounts receivable are vulnerable to manipulation and should be accounted for by each individual account and reconciled to the total account balance. Subsidiary ledgers are needed to account for these charges to ensure the correct amounts are reported.

We recommend the Graves County Clerk's office strengthen controls over accounting for these charges by developing a written policy regarding charges and maintaining subsidiary records for each customer that are reconciled to the clerk's ledgers on a monthly basis.

Former County Clerk's Response: The clerk's office used the Point of sales (POS) which was created & maintained by the State of Ky. This option was provided to every county to use if they so desired. We felt their system was accurate so we did not maintain a 2nd way of charging items.

Auditor's Reply: While the point of sale system accounts for charges in total, individual customer charge detail is not tracked within that system. The county clerk's decision to allow customers to charge includes the responsibility to maintain sufficient detail to collect payment from each customer.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-002 The Former Graves County Clerk's Fee Disbursements Were Materially Misstated By \$276,273

The former clerk's fee disbursements were misstated by \$276,273 due to not recording and reporting motor vehicle tax paid for December 2017. Since the former clerk was just appointed to this position in March of 2017, she was not familiar with the proper procedures to completing the quarterly financial report. Due to the former clerk not recording and reporting motor vehicle tax payments for December 2017, the quarterly financial reported submitted to the Department for Local Government was materially misstated. Good internal controls dictate that all expenses be recorded for the calendar year in order to ensure financial information is accurately reported.

We recommend the clerk's office accurately report fee disbursements in the future to ensure financial information submitted to the Department for Local Government is accurate.

Former County Clerk's Response: Motor Vehicle or any other disbursements collected in December 2017 cannot be disbursed until Jan of 2018. Therefore, it gives December a false number. It automatically corrects itself the following month.

Auditor's Reply: Regardless of when the disbursement is made, disbursements should be recorded in the correct period to ensure accurate financial reporting.