

**REPORT OF THE AUDIT OF THE  
KNOTT COUNTY  
CLERK**

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



**MIKE HARMON  
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## **EXECUTIVE SUMMARY**

### **AUDIT OF THE KNOTT COUNTY CLERK**

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

The Auditor of Public Accounts has completed the Knott 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 increased by \$42,908 from the prior year, resulting in excess fees of \$44,563 as of December 31, 2015. Receipts increased by \$1,327,172 from the prior year and disbursements increased by \$1,284,264.

#### **Lease Agreement:**

Future lease obligations totaled \$8,980 as of December 31, 2015. Future lease payments of \$8,980 are needed to meet these obligations.

#### **Report Comments:**

2015-001 The County Clerk Lacks Segregation Of Duties Over Receipts  
2015-002 The County Clerk Does Not Have Adequate Internal Controls Over Accounts Receivable

#### **Deposits:**

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



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

The Honorable Zach Weinberg, Knott County Judge/Executive  
The Honorable Ken Gayheart, Knott County Clerk  
Members of the Knott 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 Knott 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 Zach Weinberg, Knott County Judge/Executive  
The Honorable Ken Gayheart, Knott County Clerk  
Members of the Knott 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 Knott 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 Knott 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 Knott County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

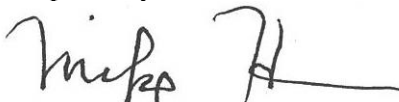
**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 on our consideration of the Knott 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 County Clerk Lacks Segregation Of Duties Over Receipts
- 2015-002 The County Clerk Does Not Have Adequate Internal Controls Over Accounts Receivable

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 15, 2016



KNOTT COUNTY  
 KEN GAYHEART, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

HB 537 Revenue Supplement	\$	65,767	
State Fees For Services			6,101
Fiscal Court			4,352
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	486,981	
Usage Tax		1,027,397	
Tangible Personal Property Tax		1,057,047	
Other-			
Fish and Game Licenses		5,628	
Marriage Licenses		4,083	
Deed Transfer Tax		8,088	
Delinquent Tax		<u>1,792,273</u>	4,381,497
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		9,124	
Real Estate Mortgages		14,356	
Chattel Mortgages and Financing Statements		44,646	
Affordable Housing Trust		10,644	
All Other Recordings		16,307	
Charges for Other Services-			
Candidate Filing Fees		20	
Copywork		2,757	
Postage		<u>897</u>	98,751
Other:			
Miscellaneous		2,448	
Overpayments		<u>4,555</u>	7,003
Interest Earned			<u>619</u>
Total Receipts			4,564,090

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

KNOTT COUNTY  
 KEN GAYHEART, 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	\$ 353,117	
Usage Tax	996,561	
Tangible Personal Property Tax	442,219	

Licenses, Taxes, and Fees-

Fish and Game Licenses	5,721	
Delinquent Tax	237,359	
Legal Process Tax	12,089	
Affordable Housing Trust	<u>10,644</u>	\$2,057,710

Payments to Fiscal Court:

Tangible Personal Property Tax	114,144	
Delinquent Tax	192,936	
Deed Transfer Tax	<u>7,706</u>	314,786

Payments to Other Districts:

Tangible Personal Property Tax	458,403	
Delinquent Tax	<u>724,556</u>	1,182,959

Payments to Sheriff 143,824

Payments to County Attorney 364,482

Tax Bill Preparation 2,245

Operating Disbursements:

Personnel Services-

Deputies' Salaries 191,180

Employee Benefits-

Employer's Share Social Security 19,888

Employer's Share Retirement 44,570

Contracted Services-

Legal and Accounting 8,000

Contract Labor 175

Materials and Supplies-

Office Supplies 69,709

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

KNOTT COUNTY  
 KEN GAYHEART, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2015  
 (Continued)

Disbursements (Continued)

Operating Disbursements (Continued):

Other Charges-

Conventions and Travel	\$ 4,916	
Dues	625	
Postage	3,376	
Bank Charges	277	
Refunds	10,588	
Miscellaneous	<u>753</u>	\$ 354,057

Debt Service:

Lease Purchases	<u>9,171</u>	
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Total Disbursements		<u>\$ 4,429,234</u>
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Net Receipts		134,856
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Less: Statutory Maximum		<u>82,752</u>
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Excess Fees		52,104
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Less: Expense Allowance	3,600	
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Training Incentive Benefit	<u>3,941</u>	<u>7,541</u>
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Balance Due Fiscal Court at Completion of Audit *		<u>\$ 44,563</u>
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\* - The county clerk presented a check for \$25,000 to the fiscal court for excess fees on September 22, 2016. The county clerk owes the fiscal court additional excess fees of \$19,563.

KNOTT 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).

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.

KNOTT COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2015  
 (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 the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

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

The county clerk's contribution for calendar year 2013 was \$41,458, calendar year 2014 was \$43,546, and calendar year 2015 was \$44,570.

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:

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

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.

KNOTT 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 Knott 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 Knott County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Agreements

A. Copier Lease Agreement

On February 12, 2013 the office of the county clerk committed to a lease agreement for a copier. The agreement requires a monthly payment of \$345 for 60 months to be completed on February 12, 2018. The county clerk was in compliance with all lease requirements as of December 31, 2015. The balance of the lease agreement at December 31, 2015 is \$8,980.

B. Hardware Service Agreement

The county clerk's office is committed to an agreement for computer equipment maintenance. The agreement requires two annual payments of \$2,364 to be completed on December 8, 2016. The agreement will renew automatically for additional one year terms thereafter, unless prior written notice is received.

C. Software Service Agreement

The county clerk's office is committed to an agreement for computer software license and service. The agreement requires a monthly payment of \$200 to be completed on December 10, 2016. The agreement will renew automatically for additional one year terms thereafter, unless prior written notice is received.

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

Note 5. Escrow Account

The county clerk maintains an escrow account for the purpose of holding unclaimed funds. The balance in the account as of December 31, 2015 was \$156.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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

The Honorable Zach Weinberg, Knott County Judge/Executive  
The Honorable Ken Gayheart, Knott County Clerk  
Members of the Knott 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 Knott County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated December 15, 2016. The Knott 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 Knott 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 Knott County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knott County Clerk's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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.



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)**

Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying comments and recommendations as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 15, 2016

COMMENTS AND RECOMMENDATIONS



KNOTT COUNTY  
KEN GAYHEART, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2015-001 The County Clerk Lacks Segregation Of Duties Over Receipts

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A lack of segregation of duties exists over receipts. The bookkeeper collects cash, prepares the daily checkout sheets, and posts to the receipts ledger. A limited budget, which restricts the number of employees the county clerk could hire or delegate duties to makes it difficult for segregation of duties to be implemented.

Segregation of duties over cash collection, daily checkout procedures, deposit preparation, and the preparation of checks are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Without segregation of duties, errors could go undetected and result in misappropriation of assets and inaccurate financial reports.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the county clerk separate the duties involved in receiving cash, preparing bank deposits, check preparation, posting to ledgers, reconciliation of bank records to the ledgers, and preparation of reports.

*County Clerk's Response: None.*

2015-002 The County Clerk Does Not Have Adequate Internal Controls Over Accounts Receivable

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The county clerk lacks internal controls over accounts receivable. The county clerk allows automobile dealerships to charge services on account. These charges are written in a notebook and are marked when paid. During the course of the audit, we found that a dealer had not paid one of their charges.

Controls which would prevent accounts receivable from being overlooked and ensure all accounts receivable are collected timely have not been implemented.

Good internal controls dictate that all accounts receivable should be collected by the end of the calendar year.

We recommend the county clerk strengthen controls over charges and ensure accounts receivable are collected by the end of each calendar year.

*County Clerk's Response: None.*

