

**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2018**



**MIKE HARMON  
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CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS .....	11
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	15
SCHEDULE OF FINDINGS AND RESPONSES .....	19

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

The Honorable William R. Davis, Martin County Judge/Executive  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 Martin County, Kentucky, for the year ended December 31, 2018, 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 William R. Davis, Martin County Judge/Executive  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 Martin 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 the Martin County Clerk, as of December 31, 2018, 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 Martin County Clerk for the year ended December 31, 2018, 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 12, 2019, on our consideration of the Martin 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 Martin 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:

- 2018-001 The Martin County Clerk's Office Lacked Adequate Segregation Of Duties
- 2018-002 The Martin County Clerk Has A Deficit Of \$3,974 In Her 2018 Official Bank Account

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 12, 2019

MARTIN COUNTY  
 SUSIE SKYLES, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State Grant	\$	3,599
State Revenue Supplement		67,428
State Fees For Services		3,947
Fiscal Court		13,525
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	304,797
Usage Tax		745,201
Tangible Personal Property Tax		735,866
Notary Fees		441
Other-		
Fish and Game Licenses		7,378
Marriage Licenses		2,805
Occupational Licenses		7,330
Deed Transfer Tax		4,568
Delinquent Tax		384,705
		2,193,091
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		4,367
Real Estate Mortgages		4,936
Chattel Mortgages and Financing Statements		29,834
Powers of Attorney		790
Affordable Housing Trust		5,238
All Other Recordings		8,809
Charges for Other Services-		
Candidate Filing Fees		2,580
Postage		1,658
		58,212
Other:		
Refunds/Overpayments		9,648
Miscellaneous		775
		10,423
Interest Earned		172
Total Receipts		\$ 2,350,397

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

MARTIN COUNTY  
 SUSIE SKYLES, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2018  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 214,548	
Usage Tax	722,829	
Tangible Personal Property Tax	372,055	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	7,211	
Delinquent Tax	30,935	
Legal Process Tax	7,823	
Candidate Filing Fees	9,165	
Affordable Housing Trust	<u>6,396</u>	\$ 1,370,962

Payments to Fiscal Court:

Tangible Personal Property Tax	93,931	
Delinquent Tax	22,036	
Deed Transfer Tax	<u>4,340</u>	120,307

Payments to Other Districts:

Tangible Personal Property Tax	240,644	
Delinquent Tax	<u>219,293</u>	459,937

Payments to Sheriff

26,953

Payments to County Attorney

52,302

Tax Bill Preparation

2,636

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	124,140
Part-Time Salaries	1,719

Employee Benefits-

Employer's Share Retirement	20,000
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Contracted Services-

Fish and Game	744
Advertising	180
Microfilming and Indexing Records	3,599

Materials and Supplies-

Office Supplies	11,016
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The accompanying notes are an integral part of this financial statement.



MARTIN COUNTY  
 SUSIE SKYLES, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2018  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Other Charges-		
Conventions and Travel	\$	2,920
Dues		2,271
Postage		3,373
Refunds		13,383
Insurance and Bonds		859
Bad Check Expense		67
Miscellaneous Election Expenses		1,450
Capital Outlay-		
Office Equipment	<u>40,937</u>	\$ 226,658
Total Disbursements		<u>\$ 2,259,755</u>
Net Receipts		90,642
Less: Statutory Maximum		<u>86,879</u>
Excess Fees		3,763
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,137</u>	<u>7,737</u>
Excess of Disbursements Over Receipts		<u>\$ (3,974)</u>

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

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2018

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 clerk's office has 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.

MARTIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2018  
 (Continued)

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

The county clerk's contribution for FY 2016 was \$10,000, FY 2017 was \$20,000, and FY 2018 was \$20,000.

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.

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 covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 KRS Board of Directors 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 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.

The county's contribution rate for nonhazardous employees was 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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%

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2018  
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

MARTIN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018  
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Martin 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 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Grant

The Martin County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$6,576 in July 2017. The balance as of January 1, 2018, was \$6,576. The account earned \$1 in interest and funds totaling \$3,599 were expended during the year. The unexpended grant balance as of December 31, 2018, was \$2,978.

MARTIN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2018  
 (Continued)

Note 5. Lease Agreements

The Martin County Clerk's office was committed to the following lease agreements as of December 31, 2018:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2018
Copier	\$ 122	60 months	7/19/2021	\$ 5,468
Software Management	3,083	24 months	5/31/2020	52,411
Total	<u>\$ 3,205</u>			<u>\$ 57,879</u>

Note 6. Outstanding Checks Held In Escrow

The Martin County Clerk deposited outstanding checks into an escrow account. When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The clerk issued a check to the Kentucky State Treasurer on July 18, 2018, for \$855. The clerk's escrowed amount was as follows:

2015 \$109

MARTIN COUNTY  
SUSIE SKYLES, COUNTY CLERK  
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2018

Assets

Cash in Bank	\$ 60,066
Receivables:	<u>64,024</u>
Total Assets	<u>124,090</u>

Liabilities

Paid Obligations:	
Outstanding Checks	\$ 19,319
Paid Liabilities	<u>108,745</u>
Total Paid Obligations	<u>128,064</u>
Total Liabilities	<u>128,064</u>
Total Fund Deficit as of December 31, 2018	<u>\$ (3,974)</u>

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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 William R. Davis, Martin County Judge/Executive  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 Martin County Clerk for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated December 12, 2019. The Martin 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 Martin 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 Martin County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Martin 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 2018-001 to be a material weakness.



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

**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 2018-002 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Martin 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 Martin 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 Martin 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

December 12, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

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MARTIN COUNTY  
SUSIE SKYLES, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The Martin County Clerk's Office Lacked Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2017-001. The Martin County Clerk's office lacked adequate segregation of duties. One employee collected cash, prepared the daily checkout sheet, prepared the deposit slip, and took the deposit to the bank. No documented compensating controls were noted to offset this control deficiency.

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

Good internal controls dictate that duties should be adequately segregated or compensating controls implemented to ensure accurate financial reporting.

We recommend the county clerk segregate duties or implement strong compensating controls to mitigate risks. If segregation of duties is not feasible due to lack of staff, the county clerk could implement and document compensating controls to offset this control deficiency.

*County Clerk's Response: We are a very small county. A lot of employees have multiple tasks. We will try to segregate as much as possible.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-002 The Martin County Clerk Has A Deficit Of \$3,974 In Her 2018 Official Bank Account

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The county clerk's bank balance as of the audit date was \$11,693. The clerk has outstanding checks totaling \$15,667, leaving a negative balance of \$3,974. Included in the outstanding check amount is a check totaling \$15,391 written to the Kentucky State Treasurer for July 2018 delinquent tax collections. The county clerk nor the bookkeeper followed up on this check to determine why it was not cashed. The clerk had sufficient funds in the bank at the time the outstanding checks were written. Although the clerk did not exceed budgeted operating expenditures, she failed to recognize revenue was not sufficient to cover her expenditures. The county clerk did not review monthly bank balances to determine if there were sufficient funds to pay outstanding liabilities. As a result, the county clerk does not have enough cash in the bank to cover outstanding checks. Good internal controls dictate that expenditures should be monitored closely and compared to budgets to ensure revenue is sufficient. We recommend the county clerk consult with the fiscal court and county attorney to determine how to eliminate this deficit.

*County Clerk's Response: First year bookkeeper did not monitor accounts closely. She is better prepared to determine this kind of mistakes before they happen.*