REPORT OF THE AUDIT OF THE PERRY COUNTY CLERK

For The Year Ended December 31, 2006

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
PERRY COUNTY CLERK

For The Year Ended
December 31, 2006

The Auditor of Public Accounts has completed the Perry County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by $41,615 from the prior year, resulting in excess fees of $98,670 as of December 31, 2006. Revenues increased by $680,650 from the prior year and expenditures increased by $639,035.

Report Comments:

2006-01 The County Clerk Has A Deficit Of $21,473 In His Official Fee Account
2006-02 The County Clerk Should Remit All Obligations As Determined By Audit
2006-03 Irregularities Relating To Motor Vehicle Registration Receipts Occurred And Went Undetected As A Result Of Lack Of Adequate Segregation Of Duties Over Motor Vehicle Transactions
2006-04 The County Clerk Should Strengthen Internal Controls Over Voided Registration Certificates
2006-05 Motor Vehicle Accounts Receivable Records Should Be Maintained, Reconciled And Verified On A Regular Basis
2006-06 The County Clerk Should Strengthen Internal Controls Over Chattel Mortgage Receipts
2006-07 The County Clerk Should Strengthen Internal Controls Over Motor Vehicle Billing Invoices
2006-08 The Practice Of Cashing Checks From Office Funds Should Be Prohibited
2006-09 An Accurate And Complete Receipts Ledger Was Not Maintained
2006-10 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Delinquent Tax Transactions And Deed Room Transactions
2006-11 The County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of $33,893 And Enter Into A Written Agreement To Protect Deposits

Deposits:

The County Clerk's deposits as of December 31, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $33,893

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Perry County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2008 on our consideration of the 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 and should be considered in assessing the results of our audit.

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The Honorable Denny Ray Noble, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry County Fiscal Court

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

2006-01 The County Clerk Has A Deficit Of $21,473 In His Official Fee Account
2006-02 The County Clerk Should Remit All Obligations As Determined By Audit
2006-03 Irregularities Relating To Motor Vehicle Registration Receipts Occurred And Went Undetected As A Result Of Lack Of Adequate Segregation Of Duties Over Motor Vehicle Transactions
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2006-10 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Delinquent Tax Transactions And Deed Room Transactions
2006-11 The County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of $33,893 And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Perry County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

December 17, 2008

PERRY COUNTY
HAVEN KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues		
State Grant		$ 13,991
State Fees For Services		7,478
Fiscal Court		63,755
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 897,106	
Usage Tax	3,164,531	
Tangible Personal Property Tax	2,024,444	
Handicap Placards	3,446	
Lien Fees	7,935	
Other-		
Marriage Licenses	11,144	
Occupational Licenses	6,803	
Deed Transfer Tax	34,959	
Delinquent Tax	890,974	7,041,342
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	18,010	
Real Estate Mortgages	13,551	
Chattel Mortgages and Financing Statements	110,502	
All Other Recordings	37,216	
Charges for Other Services-		
Copywork	14,700	193,979
Other:		
Election Filing Fees	2,965	
Extra Pages	24,821	
Miscellaneous	7,421	35,207

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

PERRY COUNTY
HAVEN KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Revenues (Continued)

Refunds:				
Licenses & Transfer		$ 2,910		
Usage Tax		3,129		
Tangible Personal Property Tax		837		
Delinquent Tax		4,028		
Real Estate Mortgage		246		
Chattel Mortgage		168	$	11,318
Interest Earned				985
Total Revenues				7,368,055

Expenditures

Payments to State:			
Motor Vehicle-			
Licenses and Transfers	$ 721,724		
Usage Tax	3,069,595		
Tangible Personal Property Tax	762,196		
Licenses, Taxes, and Fees-			
Delinquent Tax	112,039		
Legal Process Tax	26,209		
Affordable Housing Trust Fund	11,088	4,702,851	
Payments to Fiscal Court:			
Tangible Personal Property Tax	216,914		
Delinquent Tax	106,926		
Deed Transfer Tax	33,265		
Occupational Licenses	6,418	363,523	
Payments to Other Districts:			
Tangible Personal Property Tax	964,047		
Delinquent Tax	448,947	1,412,994	
Payments to Sheriff		7,490	
Payments to County Attorney		133,954	

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

PERRY COUNTY
HAVEN KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay:			
Personnel Services-			
Deputies' Salaries	$ 306,639		
Part-Time Salaries	18,208		
Overtime	2,770		
Employee Benefits-			
Employer's Share Social Security	29,778		
Contracted Services-			
Printing and Binding	7,912		
Materials and Supplies-			
Office Supplies	28,762		
Other Charges-			
Conventions and Travel	8,203		
Dues	1,100		
Postage	7,058		
Refunds	16,802		
Equipment Repair	6,926		
Telephone Expense	11,056		
Bonds	326		
Election Expense	71,876		
Uncollected Cold Checks	1,109		
Miscellaneous	215		
Capital Outlay-			
Office Equipment	24,765		
Libraries and Archives Grant	13,991	$ 557,496	
Debt Service:			
Lease Payments		9,581	
Total Expenditures			$ 7,187,889

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

PERRY COUNTY
HAVEN KING, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Net Revenues Before Unpaid Obligations		$ 180,166
Less: Unpaid Obligation - Due to Kentucky State Treasurer		
Legal Process Tax		300
Net Revenues		179,866
Less: Statutory Maximum		74,294
Excess Fees		105,572
Less: Expense Allowance	$ 3,600	
Training Incentive Benefit	3,302	6,902
Excess Fees Due County for 2006		98,670
Payments to Fiscal Court - January 19, 2007	50,000	
March 23, 2007	15,000	65,000
Balance Due Fiscal Court at Completion of Audit*		$ 33,670

* Note - On January 7, 2009, the County Clerk presented a check to the County Treasurer for $12,505, leaving a balance due fiscal court of $21,165.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

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 revenues over expenditures 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures 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 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

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

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, 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

The county officials 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. This is a cost-sharing, multiple-employer, defined benefit pension plan that 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 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.18 percent for the last six months of the year.

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.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The 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(4), 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. These requirements were not met, as the depository institution did not have a written agreement with the County Clerk securing the County Clerk's interest in the surety bond provided as collateral.

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 41.240(4). However, as of December 31, 2006, public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured $33,893

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Libraries and Archives Grant

As of December 31, 2005, the County Clerk had a balance of $13,991 in the grant account from the Kentucky Department for Libraries and Archives to be used for microfilming, duplication and evaluation. The County Clerk properly expended grant funds totaling $13,991 during 2006, leaving a $0 balance as of December 31, 2006.

Note 5. Leases

The County Clerk's office was committed to the following lease agreements as of December 31, 2006:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2006
Copier	$ 94	36 months	05/19/09	$ 2,642
Copier	$ 316	48 months	06/01/10	$ 12,956
Copier	$ 234	60 months	08/08/10	$ 10,062

PERRY COUNTY
HAVEN KING, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2006

Assets			
Cash in Bank			$ 884,893
Receivables:			
Collected			18,774
Uncollected - Due from 2007 Fee Account			2,327
Total Assets			905,994
Liabilities			
Paid Obligations:			
Outstanding Checks	$ 44,338		
Liabilities Paid After December 31, 2006	849,159		
Total Paid Obligations		$ 893,497	
Unpaid Obligations:			
State Treasurer - Legal Process Fees	300		
Perry County Fiscal Court - Excess Fees	33,670		
Total Unpaid Obligations		33,970	
Total Liabilities			927,467
Total Fund Deficit as of December 31, 2006			$ (21,473)

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

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
The Honorable Haven King, Perry County Clerk
Members of the Perry 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

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Perry County Clerk for the year ended December 31, 2006, and have issued our report thereon dated December 17, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Perry County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, and 2006-10 to be significant deficiencies in internal control over financial reporting.

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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)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2006-01, 2006-02, 2006-8, 2006-09, and 2006-11.

This report is intended solely for the information and use of management, the Perry County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

December 17, 2008

COMMENTS AND RECOMMENDATIONS

PERRY COUNTY
HAVEN KING, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

2006-01 The County Clerk Has A Deficit Of $21,473 In His Official Fee Account

Based upon available records, the County Clerk has a deficit of $21,473 in his official bank account as of December 31, 2006. This deficit appears to be the result of undeposited receipts. We recommend the County Clerk take appropriate action to eliminate this deficit in his official bank account by contacting the County Attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

County Clerk's Response: Acknowledge deficit as is and we are following the appropriate steps and actions to fully cooperate with investigation.

2006-02 The County Clerk Should Remit All Obligations As Determined By Audit

Based upon the results of test procedures performed, the County Clerk owes additional obligations as follows:

Description	Amount
Perry County Fiscal Court - Additional Excess Fees Due	$ 33,670
Kentucky State Treasurer - Legal Process Fees Due	300
Total Unpaid Obligations	$ 33,970

We recommend the County Clerk remit these obligations as determined by the audit.

County Clerk's Response: $12,504.99 has been paid to Perry Fiscal Court toward $33,970.00 and the remaining amount will be paid after appropriate actions are taken with bonding company and/or law enforcement agency.

2006-08 The Practice of Cashing Checks From Office Funds Should Be Prohibited

During our audit, we noted that personal checks and/or third party checks totaling $10,446 were cashed from the collections of the County Clerk's office. This total consists of checks cashed for a former employee totaling $8,227, of which $3,850 was subsequently returned as non-sufficient funds items. We also noted another instance where a $300 check was cashed for another employee that was subsequently returned by the bank as a non-sufficient funds item. Although the County Clerk collected for the non-sufficient funds items, these transactions were unnecessary for the official business of the County Clerk's office. When personal checks and/or third party checks are cashed, the receipts deposited did not agree with the original form of cash and checks received by the County Clerk's office for collections. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis and reconciling deposits to batched receipts.

STATE LAWS AND REGULATIONS: (Continued)

2007-08 The Practice of Cashing Checks From Office Funds Should Be Prohibited (Continued)

Therefore, the County Clerk should deposit receipts intact (i.e., in the same form as they were collected) as required by the State Local Finance Officer. Furthermore, the practice of cashing checks, whether personal or third party should be prohibited because unrelated receipt transactions distort the cash audit trail and are unnecessary for official business of the County Clerk's office.

County Clerk's Response: We no longer allow the cashing of personal or third party checks.

2006-09 An Accurate And Complete Receipts Ledger Was Not Maintained

The County Clerk's collections were not always recorded in the receipts ledger. Test procedures revealed one hundred thirty one (131) instances (totaling $11,298) where tangible personal property tax collections were not recorded in the receipts ledger. Additionally, we noted license fees totaling $6,705, usage tax totaling $1,685 and chattel mortgage transactions totaling $1,785 that were not posted to the receipts ledger. KRS 43.075(2) requires the County Clerk to maintain an accurate recording of receipts by source. We recommend the County Clerk take necessary steps to ensure all collections are recorded on the receipts ledger.

County Clerk's Response: Clerk has taken all necessary steps to ensure all collections are recorded. Cash register receipts are reconciled with daily ad valorem report.

2006-11 The County Clerk Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of $33,893 And Enter Into A Written Agreement To Protect Deposits

On December 31, 2006, $33,893 of the County Clerk's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The County Clerk should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. The depository institution did not have a written agreement securing the County Clerk's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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. Therefore, the County Clerk should enter into a separate written agreement with the depository institution to secure the County Clerk's interest in the securities or surety bond provided as collateral.

County Clerk's Response: Will have written agreement from bank that we will be additionally insured.

PERRY COUNTY
HAVEN KING, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2006-03 Irregularities Relating To Motor Vehicle Registration Receipts Occurred And Went Undetected As A Result Of Lack Of Adequate Segregation Of Duties Over Motor Vehicle Transactions

The County Clerk did not have adequate segregation of duties over procedures for initiating, recording and reporting motor vehicle license fees, tangible personal property tax and usage tax. As a result, the following irregularities totaling $19,688 were discovered during testing of motor vehicle licensing reports (AVIS).

- We identified one hundred thirty-one (131) tangible personal property tax transactions totaling $11,298 listed on AVIS reports for which there was no corresponding recording on the daily cash register tape and receipts ledger. There were no accounts receivable records or other documentation to explain how these irregularities were accounted for by the County Clerk's office. Of the one hundred thirty-one (131) transactions in question, one hundred eleven (111) (totaling $9,858) were processed under user identification initials of a former employee and the remaining twenty (20) (totaling $1,440) were processed under user identification initials of six other employees.

- Our comparison of license fees listed on AVIS reports with the County Clerk's receipts ledger revealed license fees totaling $6,705 that were not posted to the receipts ledger. We found no accounts receivable records or other documentation to explain how these unrecorded receipts were accounted for by the County Clerk's office. Since these records were not maintained, and due to the volume of license fee transactions, auditors were unable to reconcile daily AVIS reports to daily cash register tapes and the receipts ledger.

- Our comparison of usage taxes listed on AVIS reports with the County Clerk's receipts ledger revealed usage taxes totaling $1,685 that were not posted to the receipts ledger. We found no accounts receivable records or other documentation to explain how these unrecorded receipts were otherwise accounted for by the County Clerk's office.

As part of our test procedures, we gained an understanding of the control procedures in place that allowed these irregularities to occur and not be detected in a timely manner. We obtained our understanding of the internal control procedures by inquiry and inspection of documents and records. During the course of the audit, we found that a former employee's duties consisted of accepting payments; preparing deposits on a rotating basis; reconciling license and transfer fees and usage taxes recorded on the AVIS weekly reports to registration certificates; preparing AVIS weekly reports; and making license fee and usage tax distributions. We also noted that another employee's duties consisted of accepting payments; preparing deposits on a rotating basis; preparing the receipts ledger and preparing the monthly tangible personal property tax reports. Other employees' duties consisted of accepting payments as well as preparing the deposit on a rotating basis. As a result of this lack of adequate segregation of duties in the area of cash receipts, irregularities occurred and were not detected.

PERRY COUNTY
HAVEN KING, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-03 Irregularities Relating To Motor Vehicle Registration Receipts Occurred And Went Undetected As A Result Of Lack Of Adequate Segregation Of Duties Over Motor Vehicle Transactions (Continued)

We recommend the County Clerk implement adequate internal control procedures to ensure receipts are recorded accurately and deposited intact by segregating the duties of accepting, depositing, and recording receipts as well as preparing and reconciling AVIS reports. If, due to limited staff, adequate segregation of duties is not feasible, appropriate compensating controls to oversee and monitor these activities should be established by the County Clerk.

County Clerk's Response: We now have adequate procedures to monitor and segregate duties of cash receipts.

2006-04 The County Clerk Should Strengthen Internal Controls Over Voided Registration Certificates

Our review of motor vehicle transactions found that internal control procedures over voided registrations were not adequately designed. Procedures should be in place to ensure registrations are properly voided, filed, and monitored by the County Clerk's office. We noted fifteen (15) instances in which customers were charged incorrect fees based upon a voided certificate rather than the corrected certificate amount. Customers were overcharged for motor vehicle transactions as a result of these actions. Additionally, no records were maintained to document if customers received refunds and/or credits for the overcharged amounts. We also noted the blue "owner's copy" of registration certificates were not properly filed with the red "clerk's copy" of the voided certificates. In all fifteen (15) instances, a portion of the transaction was recorded on the cash register tape under a former employee's initials. As previously discussed, key duties over motor vehicle processes were not properly segregated which significantly increased the risk that errors or irregularities could occur and not be detected in a timely manner. In order to properly establish controls over voided registration certificates, we recommend the County Clerk segregate the duty of accepting payments, report preparation and certificate reconciliation. Furthermore, the County Clerk should provide necessary oversight to ensure that all copies of voided certificates are retained and properly marked.

County Clerk's Response: Have segregated duties on voided registration certificates. Certificates are properly marked and checked daily.

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COMMENTS AND RECOMMENDATIONS
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(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2007-05 Motor Vehicle Accounts Receivable Records Should Be Maintained, Reconciled, And Verified On A Regular Basis

We found no internal control procedures in place to ensure motor vehicle accounts receivable records were maintained, reconciled, and verified on a regular basis. During 2006, customers were allowed to charge for motor vehicle transactions. This was referred to as a "hold over", which meant an active registration certificate was issued to the customer but a deputy clerk was awaiting payment and holding the duplicate registration at their desk until payment was received. "Hold over" accounts included transactions for employees, car dealers, and individual customers for which no prior approval from the County Clerk or a designee was required. We found there was no requirement to maintain an accounts receivable ledger documenting the date, nature, and amount of the charge, as well as the date and amount of collection. As a result, a reconciliation of accounts receivable charges and collections with the motor vehicle licensing reports (AVIS), receipts ledger, and deposits could not be performed. These deficiencies limited the County Clerk's ability to effectively monitor accounts receivable charges and collections. In order to strengthen internal controls over receipts, we recommend the County Clerk maintain an accounts receivable ledger documenting daily charges and collections. We also recommend accounts receivable transactions be reconciled and verified on a regular basis.

County Clerk's Response: Customers with hold overs were NOT given registration certificates before payment was received. Certificates were given only after payment was made. We are now keeping a list of daily charges and collections for all hold overs.

2007-06 The County Clerk Should Strengthen Internal Controls Over Chattel Mortgage Receipts

During our test of chattel mortgage receipts, we noted a variance of $1,785 between computed chattel fees and the County Clerk's receipts ledger that had not been reconciled. We found no accounts receivable records or other documentation to explain how these unrecorded receipts were accounted for by the County Clerk's office. We also noted invoices for motor vehicle business related customers (dealers) included charges for chattel fees. However, there were no procedures in place to ensure that payments for charges were properly recorded. We also noted there was no reconciliation of the number of chattel recordings filed in the deed room with the receipts ledger and the number of recordings reported on the legal process report. To ensure complete and accurate recording of legal process fees, these reconciliations should occur monthly. Furthermore, to adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the County Clerk separate the duties involving collection of receipts, preparation of daily deposits, preparation of disbursements, and preparation of monthly reports. If due to limited staff, segregation of these duties is not feasible, the County Clerk or designee should provide strong oversight in these areas. The County Clerk's designee should not be an employee currently performing any of these functions. Oversight should include initialing source documents as evidence of review.

County Clerk's Response: Reconciliation of number of chattel recordings and receipts ledger are now being performed.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2007-07 The County Clerk Should Strengthen Internal Controls Over Motor Vehicle Billing Invoices

During our review of motor vehicle transactions, we noted inconsistencies in the procedures used to control motor vehicle registration billing invoices. Although the County Clerk's procedure to prepare invoices is intended to function as a control over registration certificates issued for dealer related transactions, we noted the following design deficiencies that prevent this control from operating effectively:

- Invoices include only the date prepared, and do not include the dates on which registration certificates were printed/billed. Since these invoices may include accounts receivable transactions, we were unable to determine the completeness of invoice charges.
- Invoices were correctly marked paid; however, the date paid was not included or recorded on the invoices.
- Invoices may be altered or deleted. No procedures were in place to account for the numeric sequence of invoices issued, or to prevent an invoice from being deleted or altered after being paid.
- Invoices were prepared at the discretion of deputy clerks based on time constraints, workload, and customer requests. No procedures were in place to require invoice preparation in a routine or consistent manner. As a result, we were unable to determine when an invoice should have been prepared, but was not, or whether an invoice had been prepared and possibly deleted.
- Payments received for invoice charges were not always properly recorded on the cash register tape. We noted instances in which customers were incorrectly overcharged on invoices, but the correct charge was recorded on the cash register tape. Similarly, charges on invoices were not always recorded on the cash register tape.

In an effort to eliminate the effects of this material weakness, we recommend the County Clerk strengthen internal control over MVR billing invoices by requiring invoice preparation on a consistent basis, including the date each charge was generated, the date each invoice was prepared, and the date each invoice was paid. Furthermore, the County Clerk should retain copies of all invoices prepared in order to account for the numerical sequence of invoices and to ensure invoices are not subsequently altered or deleted. Total charges billed on invoices should be compared and reconciled to charges recorded on the cash register tape. The employee performing the comparison of invoice billings to cash register tape recordings should not be the same employee who prepared the invoice or recorded the payment on the cash register tape.

County Clerk's Response: Clerk has taken measures to strengthen internal control by requiring numbered invoices and requiring that copies of all prepared invoices be retained. Registration receipts are also compared to cash register tape recordings.

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INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-10 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Delinquent Tax Transactions And Deed Room Transactions

A lack of adequate segregation of duties exists over delinquent tax transactions and deed room transactions because the function of delinquent tax and legal process report preparation was not segregated from the functions of accepting payments, preparing and co-signing monthly taxes for distribution, and preparing deposits on a rotating basis. Additionally, there was no reconciliation between total collections recorded on delinquent tax reports and the receipts ledger. There also was no reconciliation between recordings filed in the deed room and recordings reported on legal process reports. These reconciliations should occur monthly to ensure complete and accurate recording of legal process taxes. To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the County Clerk separate the duties involving collection of receipts, preparation of daily deposits, preparation of disbursements, and preparation of monthly reports. If due to limited staff, segregation of these duties is not feasible, the County Clerk or designee should provide strong oversight in these areas. The County Clerk's designee should not be an employee currently performing any of these functions. Oversight should include initialing source documents as evidence of review.

County Clerk's Response: Receipts ledger is now reconciled with delinquent tax collections and recordings in deed room.