

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

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER PULASKI COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Pulaski 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 \$22,707 from the prior year, resulting in excess fees of \$695,337 as of December 31, 2006. Revenues increased by \$971,613 from the prior year and expenditures increased by \$948,906.

Debt Obligations:

Capital lease principal agreements totaled \$6,408 as of December 31, 2006. Future principal and interest payments of \$6,408 are needed to meet these obligations.

Report Comments:

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits

Deposits:

The former County Clerk's deposits were exposed to custodial credit risk as follows:

- Uninsured and Uncollateralized - \$29,866 - February 16, 2006 - Cumberland Security Bank
- Uninsured and Uncollateralized - \$100,000 - December 31, 2006 - Monticello Banking Company

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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

The Honorable Barty Bullock, Pulaski County Judge/Executive
The Honorable Trudy Denham, Former Pulaski County Clerk
The Honorable Ralph Troxtell, Pulaski County Clerk
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Pulaski 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 former County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2007 on our consideration of the former 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.



The Honorable Barty Bullock, Pulaski County Judge/Executive
The Honorable Trudy Denham, Former Pulaski County Clerk
The Honorable Ralph Troxtell, Pulaski County Clerk
Members of the Pulaski 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:

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered 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 Pulaski 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,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 26, 2007

PULASKI COUNTY
 TRUDY DENHAM, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grant - Libraries and Archives	\$	30,595	
State Fees For Services			6,804
Fiscal Court			19,970
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,880,582	
Usage Tax		7,600,735	
Tangible Personal Property Tax		4,196,119	
Other-			
Fish and Game Licenses		6,967	
Marriage Licenses		18,664	
Occupational Licenses		1,792	
Election Commission		20,839	
Deed Transfer Tax		292,138	
Delinquent Tax		632,428	14,650,264
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Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		79,158	
Real Estate Mortgages		148,263	
Chattel Mortgages and Financing Statements		191,601	
Powers of Attorney		9,112	
All Other Recordings		92,057	
Charges for Other Services-			
Copywork		39,464	559,655
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Other:			
Postage		8,564	
Refunds		24,566	
Notary Bill of Sale		18,175	
Miscellaneous		8,061	59,366
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Interest Earned			13,660
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Total Revenues			15,340,314

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

PULASKI COUNTY
 TRUDY DENHAM, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,398,965	
Usage Tax	7,372,154	
Tangible Personal Property Tax	1,666,843	

Licenses, Taxes, and Fees-

Fish and Game Licenses	6,641	
Delinquent Tax	103,317	
Legal Process Tax	58,628	
KAFTF	39,720	\$ 10,646,268

Payments to Fiscal Court:

Tangible Personal Property Tax	270,166	
Delinquent Tax	39,397	
Deed Transfer Tax	277,533	
Occupational Licenses	762	587,858

Payments to Other Districts:

Tangible Personal Property Tax	2,093,912	
Delinquent Tax	304,813	2,398,725

Payments to Sheriff

11,135

Payments to County Attorney

82,816

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	607,137	
Part-Time Salaries	10,495	

Contracted Services-

Advertising	420	
Printing and Binding	59,933	

Materials and Supplies-

Office Supplies	38,258	
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Other Charges-

Conventions and Travel	3,276	
Dues	5,360	
Postage	19,269	
Refunds	24,566	
Uncollected Returned Checks	1,019	
Telephone	4,774	
Maintenance and Repairs	30,487	

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

PULASKI COUNTY
 TRUDY DENHAM, FORMER 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: (Continued)

Capital Outlay-			
Office Equipment	\$	11,858	
Miscellaneous		<u>5,949</u>	\$ 822,801
Debt Service:			
Lease Purchases			<u>4,272</u>
Total Expenditures			<u>\$ 14,553,875</u>
Net Revenues			786,439
Less: Statutory Maximum			<u>84,200</u>
Excess Fees			702,239
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,302</u>	<u>6,902</u>
Excess Fees Due County for 2006			695,337
Payments to Fiscal Court - March 2, 2007		50,942	
- March 5, 2007		<u>644,395</u>	<u>695,337</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

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

PULASKI 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).

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

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 13.19 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 former 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. The former County Clerk had deposits with three banks during calendar year 2006. These requirements were met with Cumberland Valley National Bank. However, these requirements were not met with the other two banks, as the former County Clerk did not have a written agreement with Cumberland Security Bank, and the agreement with the Monticello Banking Company was not signed by the Board of Directors of the depository institution or its loan committee.

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

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, the deposits with Cumberland Valley National Bank were covered by FDIC insurance or a properly executed collateral security agreement. However, the former County Clerk did not have a written agreement with Cumberland Security Bank and the agreement with the Monticello Banking Company was not properly executed since the bank's Board of Directors did not approve the agreement. The former County Clerk's deposits were exposed to custodial credit risk as follows:

- Uninsured and Uncollateralized - \$29,866 - February 16, 2006 - Cumberland Security Bank
- Uninsured and Uncollateralized - \$100,000 - December 31, 2006 - Monticello Banking Company

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$30,595 on February 17, 2005. The former County Clerk spent the grant monies during 2006 leaving a \$0 balance in the account as of December 31, 2006.

Note 5. Lease

The Office of the former County Clerk was committed to a rental/lease agreement with Pitney Bowes, Inc. for various pieces of office equipment including a mailing/postage system on March 29, 2003. The agreement requires 21 quarterly payments of \$1,068 for a total of \$22,428, with the rental/lease agreement to be completed on March 29, 2008. The remaining balance of the agreement was \$6,408 as of December 31, 2006.

**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 Barty Bullock, Pulaski County Judge/Executive
The Honorable Trudy Denham, Former Pulaski County Clerk
The Honorable Ralph Troxtell, Pulaski County Clerk
Members of the Pulaski 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 former Pulaski County Clerk for the year ended December 31, 2006, and have issued our report thereon dated March 26, 2007. The former 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 former Pulaski 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 former Pulaski County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Pulaski 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 deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties



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 deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Pulaski 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management, the Pulaski County Fiscal Court, and the Kentucky Governor's Office for Local Development 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

March 26, 2007

COMMENTS AND RECOMMENDATIONS

PULASKI COUNTY
TRUDY DENHAM, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former County Clerk's Office Lacked Adequate Segregation Of Duties

During the testing of expenditures and review of internal controls we noted several significant deficiencies in the internal control structure that should have been strengthened.

- The former Clerk should have appointed a person having no access to cash or accounts receivable records to open incoming mail and to list all mail receipts. The list of mail receipts should have been compared to cash receipts ledger and authenticated copies of deposit slips by an employee having no access to cash. The person responsible for bookkeeping should not have been involved with the general cashier function. The employee preparing checks should have been independent of purchasing and receiving. The employee authorized to sign checks should have been independent of report preparation and approval for payment, check preparation, cash receiving, purchasing, and receiving. An employee independent of all payable, disbursing, cash, receiving, and general ledger functions should have had custody of checks after signature and before mailing.
- The former County Clerk should have periodically reviewed the daily checkout sheet and daily bank deposit.
- The former County Clerk should have periodically compared invoices to payments. The former County Clerk could have documented this by initialing the invoices.
- Bank reconciliations should have been prepared by someone other than persons who participated in the receipt or disbursement of cash.
- The former County Clerk should have periodically prepared monthly bank reconciliations and reconciled to the receipts and disbursements ledgers. Any differences should have been investigated.
- The former County Clerk should have required two (2) signatures on all checks written with one being the County Clerk's signature.
- The former County Clerk should have done surprise cash counts on a regular basis.

- *Former County Clerk's Response: No Response.*

STATE LAWS AND REGULATIONS:

The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits

On February 16, 2006, \$29,866, and on December 31, 2006, \$100,000 of the former 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 former County Clerk should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

PULASKI COUNTY
TRUDY DENHAM, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits (Continued)

The former County Clerk should have entered into a written agreement with the depository institutions to secure the former County Clerk's interest in the collateral pledged or provided by the depository institution. 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.

Former County Clerk's Response: No Response.

