

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
CLERK**

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



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE MAGOFFIN COUNTY CLERK

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

The Auditor of Public Accounts has completed the Magoffin County Clerk's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$7,543 from the prior year, resulting in excess fees of \$31,366 as of December 31, 2015. Receipts decreased by \$467,210 from the prior year and disbursements increased by \$459,667.

Report Comments:

2015-001 The Clerk's Office Lacks Adequate Segregation of Duties
2015-002 The Fourth Quarter Financial Report Is Not Complete And Accurate

Deposits:

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

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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
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>	11
COMMENTS AND RECOMMENDATIONS	15

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Hardin, Magoffin County Judge/Executive
The Honorable Renee Arnett Shepherd, Magoffin County Clerk
Members of the Magoffin 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 Magoffin County, Kentucky, for the year ended December 31, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting 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 Charles Hardin, Magoffin County Judge/Executive
The Honorable Renee Arnett Shepherd, Magoffin County Clerk
Members of the Magoffin 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 Magoffin County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Magoffin County Clerk, as of December 31, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Magoffin County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of the Magoffin 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 entity's internal control over financial reporting and compliance.

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

- 2015-001 The Clerk's Office Lacks Adequate Segregation of Duties
- 2015-002 The Fourth Quarter Financial Report Is Not Complete And Accurate

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 12, 2017

MAGOFFIN COUNTY
 RENEE ARNETT SHEPHERD, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Revenue Supplement	\$	65,767
State Fees For Services		3,746
Fiscal Court		35,902
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	379,996
Usage Tax		417,784
Tangible Personal Property Tax		983,312
Other-		
Fish and Game Licenses		11,260
Marriage Licenses		4,366
Lien Fees		8,374
Beer and Liquor Licenses		1,950
Deed Transfer Tax		7,380
Delinquent Tax		736,626
		2,551,048
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		5,533
Real Estate Mortgages		1,881
Chattel Mortgages and Financing Statements		30,916
Powers of Attorney		506
Affordable Housing Trust		12,648
All Other Recordings		33,829
Charges for Other Services-		
Copywork		10,460
Postage		875
		96,648
Other:		
Refunds/Overpayments		9,541
Unidentified Receipts		9,507
Miscellaneous		141
		19,189
Interest Earned		67
Total Receipts		2,772,367

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

MAGOFFIN COUNTY
 RENEE ARNETT SHEPHERD, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	277,300	
Usage Tax		405,535	
Tangible Personal Property Tax		341,273	

Licenses, Taxes, and Fees-

Fish and Game Licenses		11,010	
Delinquent Tax		65,576	
Legal Process Tax		12,051	
Affordable Housing Trust		12,648	\$ 1,125,393

Payments to Fiscal Court:

Tangible Personal Property Tax		109,366	
Delinquent Tax		159,001	
Deed Transfer Tax		7,030	
Beer and Liquor Licenses		1,870	277,267

Payments to Other Districts:

Tangible Personal Property Tax		500,272	
Delinquent Tax		295,433	795,705

Payments to Sheriff

58,714

Payments to County Attorney

98,003

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries		132,108	
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Employee Benefits-

Employer's Share Social Security		16,164	
Employer's Share Retirement		38,206	
Employer's Paid Health Insurance		43,962	

Materials and Supplies-

Office Supplies		8,096	
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The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY
 RENEE ARNETT SHEPHERD, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	2,985	
Dues		660	
Postage		5,028	
Printing Tax Bills		2,528	
Refunds		9,401	
Xerox		421	
Bank Charges		1,302	
Miscellaneous		<u>6,027</u>	\$ 266,888

Capital Outlay-

Office Flooring		17,000	
Deed Room Maintenance		<u>11,738</u>	<u>28,738</u>

Total Disbursements			<u>\$ 2,650,708</u>
Net Receipts			121,659
Less: Statutory Maximum			<u>82,752</u>
Excess Fees			38,907
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,941</u>	<u>7,541</u>
Excess Fees Due County for 2015			31,366
Payment to Fiscal Court - February 17, 2016			<u>29,916</u>
Balance Due Fiscal Court at Completion of Audit*			<u>\$ 1,450</u>

* - The county clerk presented a check to the fiscal court for excess fees on January 4, 2017.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2015 services
- Reimbursements for 2015 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2015

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

The county official and employees have elected to participate in the County Employees Retirement System (CERS), 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.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

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

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county clerk's contribution for calendar year 2013 was \$42,115, calendar year 2014 was \$40,430, and calendar year 2015 was \$38,206.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

Note 3. Deposits

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

Note 4. Escrow Account

The Magoffin County Clerk deposits the remaining outstanding checks recorded on the year-end bank reconciliation into an interest-bearing escrow account. The county clerk's escrowed amounts for each year are listed below.

2013	\$710
2014	\$123

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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 Charles Hardin, Magoffin County Judge/Executive
The Honorable Renee Arnett Shepherd, Magoffin County Clerk
Members of the Magoffin 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 Magoffin County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated October 12, 2017. The Magoffin 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 Magoffin 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 Magoffin County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin 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 Comments and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Comments and Recommendations as items 2015-001 and 2015-002 to be material weaknesses.



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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Comments and Recommendations as item 2015-002.

County Clerk's Responses to Findings

The Magoffin County Clerk's responses to the findings identified in our audit are described in the accompanying Comments and Recommendations. The Magoffin 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,

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Mike Harmon
Auditor of Public Accounts

October 12, 2017

COMMENTS AND RECOMMENDATIONS

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MAGOFFIN COUNTY
RENEE ARNETT SHEPHERD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The County Clerk's Office Lacks Adequate Segregation Of Duties

The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. This is a repeat finding and was included in the prior year audit report as finding 2014-002. The county clerk is responsible for receiving cash, preparing daily deposits, preparing and signing checks, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of duties increases the risk of undetected errors. The county clerk indicated this is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to. A lack of segregation of incompatible duties or strong oversight increases the risk of undetected errors. A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary because of a limited staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The county clerk should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: Will try to delegate more.

2015-002 The Fourth Quarter Financial Report Was Not Complete And Accurate

The clerk's fourth quarter financial report did not agree to the clerk's receipts and disbursements ledgers and reconciled bank balance. The clerk did not post all receipts and disbursements to the ledgers, which resulted in inaccurate financial reporting. The clerk posted net payroll checks to the disbursements ledger and did not post retirement matching and social security matching to the ledger. Inaccurate financial records provide misleading information to the users of the information. Auditors compared the fourth quarter report to the disbursements ledger and discovered that disbursements per the fourth quarter report differed from the disbursements ledger by \$103,854. KRS 43.075(3) requires that "each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee[.]" Auditors are responsible for determining the accuracy of the clerk's financial information, but are not responsible for correcting the clerk's financial information. In order to present the most accurate information possible to regulatory agencies, the fiscal court, and the public, we recommend the clerk implement procedures for ensuring the accuracy of financial information. Ledgers should be posted accurately and the fourth quarter report should agree to ledgers and the bank balance. Receipts and disbursements ledgers should be reconciled to the bank receipts and disbursements on a monthly basis. This would reduce reporting errors.

County Clerk's Response: Oversight. Will correct in following years.