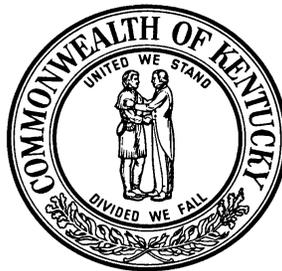


**REPORT OF THE AUDIT OF THE
FORMER ADAIR COUNTY
CLERK**

**For The Period
March 01, 2014 Through January 04, 2015**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER ADAIR COUNTY CLERK**

**For The Period
March 01, 2014 Through January 04, 2015**

The Auditor of Public Accounts has completed the former Adair County Clerk's audit for the period March 01, 2014 through January 04, 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 for the period of March 01, 2014 through January 04, 2015 were \$144,376.

Lease Obligations:

The former Adair County Clerk's office was committed to the following lease agreements as of January 04, 2015:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance January 04, 2015</u>
Copier	\$ 353	60 months	7/1/2018	\$ 14,489

Report Comment:

2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

Deposits:

The former County Clerk's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Stephens, Adair County Judge/Executive
The Honorable Joyce Rodgers, Former Adair County Clerk
The Honorable Lisa Greer, Adair County Clerk
Members of the Adair 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 former County Clerk of Adair County, Kentucky, for the period March 01, 2014 through January 04, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Michael Stephens, Adair County Judge/Executive
The Honorable Joyce Rodgers, Former Adair County Clerk
The Honorable Lisa Greer, Adair County Clerk
Members of the Adair 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 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 former County Clerk, as of January 04, 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 former County Clerk for the period March 01, 2014 through January 04, 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 June 08, 2015 on our consideration of the former Adair 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 solely 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 effectiveness of the former Adair County Clerk's 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.

The Honorable Michael Stephens, Adair County Judge/Executive
The Honorable Joyce Rodgers, Former Adair County Clerk
The Honorable Lisa Greer, Adair County Clerk
Members of the Adair County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

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

2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 08, 2015

ADAIR COUNTY
 JOYCE RODGERS, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period March 01, 2014 Through January 4, 2015

Receipts

State Fees For Services		\$ 5,317
Fiscal Court		2,988
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 769,767	
Usage Tax	1,741,380	
Tangible Personal Property Tax	1,139,946	
Notary Fees	2,072	
Other-		
Marriage Licenses	4,948	
Dog Tags	425	
Deed Transfer Tax	27,853	
Delinquent Tax	<u>150,417</u>	3,836,808
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	14,485	
Real Estate Mortgages	19,151	
Chattel Mortgages and Financing Statements	51,911	
Powers of Attorney	2,021	
All Other Recordings	18,362	
Charges for Other Services-		
Copywork	4,594	
Title Application	<u>2,853</u>	113,377
Other:		
Lien Fees	9,302	
Miscellaneous	<u>608</u>	9,910
Interest Earned		<u>336</u>
Total Receipts		3,968,736

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

ADAIR COUNTY
 JOYCE RODGERS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period March 01, 2014 Through January 4, 2015
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 576,806	
Usage Tax	1,686,854	
Tangible Personal Property Tax	380,751	
Licenses, Taxes, and Fees-		
Delinquent Tax	12,258	
Legal Process Tax	16,231	
Affordable Housing Trust	<u>13,866</u>	\$ 2,686,766

Payments to Fiscal Court:

Tangible Personal Property Tax	81,437	
Delinquent Tax	14,610	
Deed Transfer Tax	<u>26,461</u>	122,508

Payments to Other Districts:

Tangible Personal Property Tax	632,624	
Delinquent Tax	<u>76,759</u>	709,383

Payments to Sheriff 12,743

Payments to County Attorney 18,935

Tax Bill Preparation 3,674

Operating Disbursements:

Personnel Services-	
Deputies' Salaries	124,712
Part-Time Salaries	12,552
Overtime	7,381
Employee Benefits-	
Employer's Share Social Security	15,359
Employer's Paid Health Insurance	12,950
Contracted Services-	
Payroll Services	1,075
Dog Tags	425
Materials and Supplies-	
Office Supplies	18,243

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

ADAIR COUNTY
 JOYCE RODGERS, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period March 01, 2014 Through January 4, 2015
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges-

Conventions and Travel	\$	1,685	
Postage		194	
Bank Charges		129	
Refunds		198	
Miscellaneous		<u>472</u>	\$ 195,375

Debt Service:

Lease Agreements			<u>3,534</u>
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Total Disbursements \$ 3,752,918

Net Receipts 215,818

Less: Statutory Maximum 68,442

Excess Fees 147,376

Less: Expense Allowance 3,000

Excess Fees Due County for 2014 144,376

Payment to Fiscal Court - February 10, 2015 128,436

Balance Due Fiscal Court at Completion of Audit * \$ 15,940

* - The County Clerk presented a check to the Fiscal Court for excess fees on June 09, 2015.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

January 04, 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 January 4 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2014

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 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).

ADAIR COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 04, 2015
 (Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. 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 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

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 (members 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.

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.

ADAIR COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 04, 2015
 (Continued)

Note 3. Deposits

The former Adair 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.

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 Adair County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of January 04, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreements

The former Adair County Clerk's office was committed to the following lease agreements as of January 04, 2015:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance January 04, 2015</u>
Copier	\$ 353	60 months	7/1/2018	\$ 14,489

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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



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael Stephens, Adair County Judge/Executive
The Honorable Joyce Rodgers, Former Adair County Clerk
The Honorable Lisa Greer, Adair County Clerk
Members of the Adair 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 former Adair County Clerk for the period of March 01, 2014 through January 04, 2015, and the related notes to the financial statement and have issued our report thereon dated June 08, 2015. The former County Clerk's financial statement was prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Adair County Clerk's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Adair County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Adair County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 08, 2015

COMMENT AND RECOMMENDATION

ADAIR COUNTY
JOYCE RODGERS, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Period March 01, 2014 Through January 04, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

The former County Clerk's office lacked adequate segregation of duties over the accounting and reporting functions of the clerk's office. The former County Clerk and deputies were responsible for receiving cash and each deputy balances their own cash drawer. Deputies rotated the responsibility of preparing the daily checkout sheet, posting to receipt ledger, and preparing as well as making deposits. The bookkeeper prepared and signed checks, posted to the receipt and disbursements ledger and prepared monthly bank reconciliations. The bookkeeper also prepared weekly, monthly, and quarterly reports.

A lack of segregation of incompatible duties or strong oversight increases the risk that errors could occur and not be detected.

This condition was a result of a limited budget, which restricts the number of employees the former county clerk could hire or delegate duties to.

A proper segregation of duties over the accounting and reporting functions such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The former County Clerk could have separated the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations and comparing financial reports to ledgers, if due to a limited budget, this was not feasible, cross-checking procedures could have been implemented and documented by the individual performing the procedure.

Former County Clerk's Response: No response.

