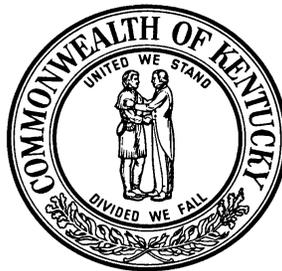


**REPORT OF THE AUDIT OF THE  
MAGOFFIN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2014**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**MAGOFFIN COUNTY CLERK**

**For The Year Ended**  
**December 31, 2014**

The Auditor of Public Accounts has completed the Magoffin County Clerk's audit for the year ended December 31, 2014. 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 \$3,499 from the prior year, resulting in excess fees of \$23,823 as of December 31, 2014. Receipts increased by \$34,750 from the prior year and disbursements increased by \$31,251.

**Report Comments:**

2014-001 The County Clerk Did Not Maintain Appropriate And Accurate Accounting Records  
2014-002 The County Clerk's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The County Clerk's deposits as of April 4, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$50,668

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.



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

The Honorable Charles E. 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, 2014, 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 Charles E. 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 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 County Clerk, as of December 31, 2014, 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 County Clerk for the year ended December 31, 2014, 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 January 13, 2016 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 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 Magoffin 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 Charles E. Hardin, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

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

- 2014-001 The County Clerk Did Not Maintain Appropriate And Accurate Accounting Records
- 2014-002 The County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

January 13, 2016

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

For The Year Ended December 31, 2014

Receipts

HB 537 Revenue Supplement	\$	64,618
State Fees For Services		4,976
Fiscal Court		9,764
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	380,430
Usage Tax		356,114
Tangible Personal Property Tax		993,703
Other-		
Fish and Game Licenses		10,672
Marriage Licenses		4,428
Beer and Liquor Licenses		2,250
Deed Transfer Tax		15,296
Delinquent Tax		313,358
Lien Fees		8,478
		2,084,729
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		4,345
Real Estate Mortgages		2,320
Chattel Mortgages and Financing Statements		30,305
Powers of Attorney		649
Affordable Housing Trust		10,842
All Other Recordings		30,976
Charges for Other Services-		
Candidate Filing Fees		1,760
Copywork		30,529
Postage		1,292
		113,018
Other:		
Miscellaneous		13,726
Refunds		14,276
		28,002
Interest Earned		50
Total Receipts		\$ 2,305,157

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, 2014  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 290,436	
Usage Tax	345,431	
Tangible Personal Property Tax	345,168	

Licenses, Taxes, and Fees-

Fish and Game Licenses	10,672	
Delinquent Tax	23,991	
Legal Process Tax	11,437	
Affordable Housing Trust	<u>10,884</u>	\$ 1,038,019

Payments to Fiscal Court:

Tangible Personal Property Tax	110,092	
Delinquent Tax	64,535	
Deed Transfer Tax	13,971	
Beer and Liquor Licenses	<u>1,050</u>	189,648

Payments to Other Districts:

Tangible Personal Property Tax	498,645	
Delinquent Tax	<u>133,609</u>	632,254

Payments to Sheriff

23,429

Payments to County Attorney

35,105

Operating Disbursements:

Personnel Services-

Deputies' Salaries	131,232	
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Employee Benefits-

Employer's Share Social Security	15,794	
Employer's Share Retirement	40,430	
Employer's Paid Health Insurance	28,793	

Contracted Services-

Deed Room Maintenance	13,391	
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Materials and Supplies-

Office Supplies	6,724	
Xerox	328	

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, 2014  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges-			
Conventions and Travel	\$	2,632	
Dues		600	
Refunds		14,276	
Postage		6,061	
Miscellaneous		12,977	\$ 273,238
			<u>                    </u>
Total Disbursements			<u>\$ 2,191,693</u>
Net Receipts			113,464
Less: Statutory Maximum			<u>82,131</u>
Excess Fees			31,333
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,910	<u>7,510</u>
Excess Fees Due County for 2014			23,823
Payment to Fiscal Court - March 15, 2015			<u>22,982</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 841</u></u>

\* - The County Clerk presented a check to the Fiscal Court for excess fees on January 4, 2016 in the amount of \$841.

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

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2014

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 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).

MAGOFFIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2014  
 (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 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 19.55 percent for the first six months and 18.89 percent for the last six months.

The County Clerk's contribution for calendar year 2012 was \$41,511, calendar year 2013 was \$42,115, and calendar year 2014 was \$40,430.

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:

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

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.

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Employee Retirement System (Continued)

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.

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(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 Magoffin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 4, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$50,668

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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





MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles E. 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, 2014, and the related notes to the financial statement and have issued our report thereon dated January 13, 2016. The County Clerk's financial statement is 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 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 opinions 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comments and recommendations as item 2014-002 that we consider to be a significant deficiency.



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 2014-001.

### **County Clerk's Response to Finding**

The Magoffin County Clerk's response to the finding identified in our audit is included in the accompanying comments and recommendations. The Magoffin County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

January 13, 2016

COMMENTS AND RECOMMENDATIONS



MAGOFFIN COUNTY  
RENEE ARNETT SHEPHERD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The County Clerk Did Not Maintain Appropriate And Accurate Accounting Records

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The County Clerk did not maintain appropriate and accurate accounting records for the 2014 fee account. During our proof of cash procedures, we could not reconcile the bank records to the Clerk's receipts and disbursements ledgers. An adjustment of \$20,000 was required to agree the bank records to the receipts ledger. Failure to maintain appropriate and accurate accounting records can result in amounts being misrecorded or not recorded on the ledgers for receipts and disbursements, which can result in the amount of operating funds and excess fees being misreported. KRS 68.210 requires the Clerk to maintain accurate and complete receipts and disbursements ledgers and to reconcile the bank records to the ledgers on a monthly basis. We recommend that the County Clerk implement controls that will detect posting errors or amounts not recorded on the ledgers.

*County Clerk's Response: I understand how to fix now.*

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

2014-002 The County Clerk's Office Lacks Adequate Segregation Of Duties

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The County Clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the Clerk's office. 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.

This condition is a result of a limited budget, which restricts the number of employees the County Clerk can hire or delegate duties to.

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 number of 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: No response.*

