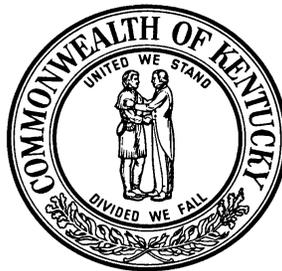


**REPORT OF THE AUDIT OF THE  
FORMER MARTIN COUNTY  
CLERK**

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



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER MARTIN COUNTY CLERK**

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

The Auditor of Public Accounts has completed the former Martin 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 decreased by \$10,310 from the prior year, resulting in excess fees of \$7,430 as of December 31, 2014. Receipts increased by \$123,397 from the prior year and disbursements increased by \$133,707.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$36,996 as of December 31, 2014. Future principal and interest payments of \$126,403 are needed to meet these obligations.

#### **Report Comments:**

2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties  
2014-002 The Former County Clerk's Office Should Have Improved Payroll Procedures

#### **Deposits:**

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



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable Carol Sue Mills, Former Martin County Clerk  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 Martin 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 Kelly Callaham, Martin County Judge/Executive  
The Honorable Carol Sue Mills, Former Martin County Clerk  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 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 former 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 May 28, 2015 on our consideration of the former Martin 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 Martin 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.

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

- 2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- 2014-002 The Former County Clerk's Office Should Have Improved Payroll Procedures

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

May 28, 2015

MARTIN COUNTY  
 CAROL SUE MILLS, FORMER 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			5,821
Fiscal Court			4,150
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	326,387	
Usage Tax		769,028	
Tangible Personal Property Tax		714,521	
Other-			
Fish and Game Licenses		5,936	
Marriage Licenses		3,976	
Lien Release Fees		7,424	
Deed Transfer Tax		7,717	
Delinquent Tax		<u>501,441</u>	2,336,430
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		6,500	
Real Estate Mortgages		6,434	
Chattel Mortgages and Financing Statements		30,454	
Affordable Housing Trust		6,636	
All Other Recordings		8,979	
Charges for Other Services-			
Candidate Filing Fees		1,950	
Copywork		<u>15,431</u>	76,384
Other:			
Notary Fees		398	
Miscellaneous		456	
Overpayments		<u>9,372</u>	10,226
Interest Earned			<u>261</u>
Total Receipts			2,497,890

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

MARTIN COUNTY  
 CAROL SUE MILLS, FORMER 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	\$	227,151	
Usage Tax		745,981	
Tangible Personal Property Tax		364,310	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		5,689	
Delinquent Tax		45,383	
Legal Process Tax		9,150	
Candidate Filing Fees		3,126	
Affordable Housing Trust		<u>5,694</u>	\$ 1,406,484

Payments to Fiscal Court:

Tangible Personal Property Tax		91,112	
Delinquent Tax		39,181	
Deed Transfer Tax		<u>7,332</u>	137,625

Payments to Other Districts:

Tangible Personal Property Tax		230,507	
Delinquent Tax		<u>262,574</u>	493,081

Payments to Sheriff 42,050

Payments to County Attorney 68,409

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries		138,226	
Part-Time Salaries		15,886	
Employee Benefits-			
Employer's Share Retirement		10,000	
Contracted Services-			
Advertising		1,165	
Materials and Supplies-			
Office Supplies		19,700	

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

MARTIN COUNTY  
 CAROL SUE MILLS, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2014  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-		
Conventions and Travel	\$	4,644
Dues		4,782
Postage		4,895
Bank Charges		51
Refunds		9,806
Tax Bill Preparation		2,320
Insurance and Bonds		305
Miscellaneous		2,495
Capital Outlay-		
Office Equipment		<u>1,900</u>
	\$	216,175
Debt Service:		
Lease Purchases		<u>36,996</u>
Total Disbursements		<u>\$ 2,400,820</u>
Net Receipts		97,070
Less: Statutory Maximum		<u>82,130</u>
Excess Fees		14,940
Less: Expense Allowance		3,600
Training Incentive Benefit		<u>3,910</u>
		<u>7,510</u>
Balance Due Fiscal Court at Completion of Audit *	\$	<u>7,430</u>

\* - The County Clerk presented a check to the Fiscal Court for excess fees of \$7,200 on March 26, 2015.

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

MARTIN 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).

MARTIN 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 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 19.55 percent for the first six months and 18.89 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:

<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.

MARTIN 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 former Martin 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 Martin 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, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The office of the County Clerk was committed to a lease agreement with Software Management for computer software. The agreement requires a monthly payment of \$3,083 for 60 months to be completed on May 31, 2018. The total balance of the agreement was \$126,403 as of December 31, 2014.

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 Kelly Callaham, Martin County Judge/Executive  
The Honorable Carol Sue Mills, Former Martin County Clerk  
The Honorable Susie Skyles, Martin County Clerk  
Members of the Martin 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 Martin County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated May 28, 2015. The former 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 former Martin 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 former Martin County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Martin 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 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 2014-001 and 2014-002 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 former Martin 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.

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

The former Martin County Clerk's response to the finding identified in our audit is described in the accompanying comments and recommendations. The former 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,



Adam H. Edelen  
Auditor of Public Accounts

May 28, 2015

COMMENTS AND RECOMMENDATIONS



MARTIN COUNTY  
CAROL SUE MILLS, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties

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The former County Clerk's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The former County Clerk's bookkeeper had access to cash, occasionally posted to the receipts/disbursements ledgers, and reconciled the bank account. These control deficiencies could have adversely affected the former County Clerk's ability to record, process, summarize, and report accurate financial information. Good internal controls dictate the same employee should not receive payments, make deposits, and prepare checks for payment.

If, due to a limited number of staff, it is not possible to segregate duties strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the former County Clerk could have provided the oversight. If the County Clerk's office does implement compensating controls, these should be documented on the appropriate source documentation. Examples of possible compensating controls include the following:

- The County Clerk could periodically compare the daily checkout sheet to the deposit slip and receipts ledger. Any discrepancies should be resolved and the review should be documented by initialing and dating the deposit ticket, the daily checkout sheet, and the receipts ledger.
- The County Clerk could compare total collections per monthly and weekly reports to the daily checkout sheets. Any discrepancies should be resolved and the review should be documented by initialing and dating the report.
- The County Clerk could compare cancelled checks listed on the bank statement to the amounts recorded in the disbursements ledger. Any discrepancies should be resolved and the review should be documented by initialing and dating the bank reconciliations and disbursements ledger.

We recommend the County Clerk's office immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner.

*Former County Clerk Carol Sue Mill's Response: All small offices usually have this comment.*

2014-02 The Former County Clerk's Office Should Have Improved Payroll Procedures

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Our test of payroll revealed employees did not sign time cards at the end of each week. Furthermore, there was no documentation of supervisory review and approval of time cards. Time cards cover one week. At the end of each week, employees should sign (or initial) time cards indicating the accuracy of time reported and the employee's agreement with time reported. A supervisory (or review) employee should sign (or initial) time cards indicating the time cards have been reviewed for accuracy and time worked was approved. We recommend the County Clerk's office improve payroll procedures by having each employee and a supervisory employee sign completed time cards.

*Former County Clerk Carol Sue Mill's Response: None.*

