REPORT OF THE AUDIT OF THE ESTILL COUNTY CLERK

For The Year Ended
December 31, 2016

MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kevin Williams, Estill County Judge/Executive
The Honorable Sherry Fox, Estill County Clerk
Members of the Estill 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 Estill County, Kentucky, for the year ended December 31, 2016, 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.

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The Honorable Kevin Williams, Estill County Judge/Executive
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Members of the Estill 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 Estill 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 Estill County Clerk, as of December 31, 2016, 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 Estill County Clerk for the year ended December 31, 2016, 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 25, 2018, on our consideration of the Estill 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 Schedule of Findings and Responses, included herein, which discusses the following report comment:

2016-001 The Estill County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

June 25, 2018

ESTILL COUNTY
SHERRY FOX, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts		
State Revenue Supplement		$ 65,777
State Fees For Services		3,814
Fiscal Court		5,499
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 438,750	
Usage Tax	483,134	
Tangible Personal Property Tax	1,086,567	
Notary Fees	8,828	
Other-		
Fish and Game Licenses	5,546	
Marriage Licenses	3,195	
Deed Transfer Tax	17,959	
Delinquent Tax	185,858	2,229,837
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	8,815	
Real Estate Mortgages	15,218	
Chattel Mortgages and Financing Statements	44,692	
Powers of Attorney	863	
Affordable Housing Trust	12,930	
All Other Recordings	13,256	
Charges for Other Services-		
Candidate Filing Fees	1,070	
Copywork	6,856	
Postage	390	104,090
Other:		
Child Victim Fund	61	
Lien Release Fees	10,298	
Refunds/Overpayments	6,093	
Miscellaneous Income	2,437	18,889
Interest Earned		267
Total Receipts		2,428,173

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

ESTILL COUNTY
SHERRY FOX, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements

Payments to State:		
Motor Vehicle-		
Licenses and Transfers	$ 305,170	
Usage Tax	466,298	
Tangible Personal Property Tax	367,507	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	5,369	
Delinquent Tax	15,144	
Legal Process Tax	13,455	
Affordable Housing Trust	12,906	$ 1,185,849
Payments to Fiscal Court:		
Tangible Personal Property Tax	73,557	
Delinquent Tax	10,292	
Deed Transfer Tax	17,061	100,910
Payments to Other Districts:		
Tangible Personal Property Tax	601,428	
Delinquent Tax	100,414	701,842
Payments to Sheriff		14,680
Payments to County Attorney		24,084
Operating Disbursements and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	132,151	
Employee Benefits-		
Employer's Share Social Security	9,602	
Employer's Share Retirement	23,685	
Employer's Paid Health Insurance	21,185	
Contracted Services-		
Microfilming & Indexing Records	30,130	
Materials and Supplies-		
Office Supplies	16,322	
Other Charges-		
Dues	3,492	
Postage	5,000	
Bank Service Charges	354	
Refunds	12,025	
Insurance and Bonds	1,021	
Miscellaneous	4,687	259,654

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

ESTILL COUNTY
SHERRY FOX, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)		
Capital Outlay-		
Office Equipment	$ 216	
Total Disbursements		$ 2,287,235
Net Receipts		140,938
Less: Statutory Maximum		83,356
Excess Fees		57,582
Less: Expense Allowance	3,600	
Training Incentive Benefit	3,969	7,569
Excess Fees Due County for 2016		50,013
Payment to Fiscal Court - March 14, 2017		50,013
Balance Due Fiscal Court at Completion of Audit		$ 0

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 2016 services
- Reimbursements for 2016 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2016

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, pursuant to KRS 78.530, 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.

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

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 17.06 percent for the first six months and 18.68 percent for the last six months.

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 2014 was $23,443, calendar year 2015 was $21,927, and calendar year 2016 was $23,685.

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.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2016
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (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 Estill 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 Estill 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries And Archives Grant

The Estill County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of $4,910. No funds were expended during the year. The unexpended grant balance was $4,910 as of December 31, 2016.

Note 5. Software and Hardware Agreement

The Estill County Clerk's office was committed to a software license and service agreement and hardware rental agreement. The agreement requires a monthly payment of $3,013 for 60 months to be completed on May 1, 2018. The total balance of the agreement was $48,208 as of December 31, 2016.

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2016
Software	$ 2,750	60 months	May 1, 2018	$ 44,000
Hardware	$ 263	60 months	May 1, 2018	$ 4,208

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 Kevin Williams, Estill County Judge/Executive
The Honorable Sherry Fox, Estill County Clerk
Members of the Estill 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 Estill County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated June 25, 2018. The Estill 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 Estill 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 Estill County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Estill County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 Schedule of Findings and Responses, 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 Schedule of Findings and Responses as item 2016-001 to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Estill 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*.

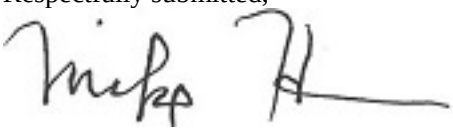
Views of Responsible Official and Planned Corrective Action

The Estill County Clerk's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Estill 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

June 25, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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ESTILL COUNTY
SHERRY FOX, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Estill County Clerk's Office Lacks Adequate Segregation Of Duties

The county clerk's office lacks adequate segregation of duties. This is a repeat finding and was included in the prior year audit report as finding 2015-002. The county clerk prepares all weekly and monthly reports, signs all checks, performs all bookkeeping duties, and prepares all bank reconciliations. According to the county clerk, due to a small staff size, the responsibilities of receiving, recording, depositing, disbursing, reporting, and reconciling funds are delegated to the same individual. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. It increases the risk of undetected fraud and errors. The functions of receiving, recording, depositing, disbursing, reporting, and reconciling should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. If, due to a small staff size duties cannot be adequately segregated, the county clerk could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: another employee comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, reviewing invoices prior to payment, and reviewing all financial reports. The employee could document the review process by initialing reports and supporting documentation. We recommend the county clerk segregate the duties of receiving, recording, depositing, disbursing, reporting, and reconciling funds or implement and document compensating controls to offset this control deficiency.

County Clerk's Response: With limited office staff, we try our best to double check all work and reports that we can.