

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

**For The Year Ended
December 31, 2018**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Former Green County Clerk
The Honorable Jessica Baker, Green County Clerk
Members of the Green 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 Green County, Kentucky, for the year ended December 31, 2018, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Former Green County Clerk
The Honorable Jessica Baker, Green County Clerk
Members of the Green 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 former Green 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 the former Green County Clerk, as of December 31, 2018, 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 Green County Clerk for the year ended December 31, 2018, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, on our consideration of the former Green 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 former Green County Clerk's internal control over financial reporting and compliance.

The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Former Green County Clerk
The Honorable Jessica Baker, Green County Clerk
Members of the Green County Fiscal Court

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

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

- 2018-001 The Former Green County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2018-002 The Former Green County Clerk Lacked Adequate Internal Controls Over Payroll Information Processed By A Service Organization
- 2018-003 The Former Green County Clerk Did Not Maintain Proper Internal Controls Over Payroll
- 2018-004 The Former Green County Clerk's Fourth Quarter Financial Report Was Materially Inaccurate
- 2018-005 The Former Green County Clerk Did Not Require Third-Party Purchasers Of Delinquent Tax Bills To Make Deposits And Payments In Accordance With 103 KAR 5:180

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

October 30, 2019

GREEN COUNTY
 BILLY JOE LOWE, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State Grants - Libraries and Archives	\$	5,100	
State Revenue Supplement		67,428	
State Fees For Services		3,042	
Fiscal Court		3,500	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	394,014	
Usage Tax		409,927	
Tangible Personal Property Tax		911,915	
Notary Fees		360	
Lien Release Fees		7,054	
Miscellaneous Income		1,406	
Other-			
Marriage Licenses		2,165	
Deed Transfer Tax		32,412	
Delinquent Tax		147,242	1,906,495
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		8,714	
Real Estate Mortgages		17,919	
Chattel Mortgages and Financing Statements		32,995	
Powers of Attorney		1,536	
Affordable Housing Trust		12,540	
All Other Recordings		9,184	
Charges for Other Services-			
Candidate Filing Fees		900	
Copy Work		513	
Postage		622	84,923
Interest Earned			395
Total Receipts			2,070,883

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

GREEN COUNTY
 BILLY JOE LOWE, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 284,427	
Usage Tax	397,720	
Tangible Personal Property Tax	324,533	
Licenses, Taxes, and Fees-		
Delinquent Tax	12,844	
Legal Process Tax	11,193	
Affordable Housing Trust	12,540	\$ 1,043,257

Payments to Fiscal Court:

Tangible Personal Property Tax	82,584	
Delinquent Tax	11,318	
Deed Transfer Tax	30,791	124,693

Payments to Other Districts:

Tangible Personal Property Tax	469,680	
Delinquent Tax	79,573	549,253

Payments to Sheriff

11,998

Payments to County Attorney

18,618

Tax Bill Preparation

2,260

Operating Disbursements:

Personnel Services-

Deputies' Salaries 101,201

Employee Benefits-

Employer's Share Social Security 14,947

Contracted Services-

Payroll Preparation 8,850

Software Maintenance 14,400

Microfilming and Indexing Records 5,100

Materials and Supplies-

Office Supplies 15,450

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

GREEN COUNTY
 BILLY JOE LOWE, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges-		
Conventions and Travel	\$	236
Postage		2,936
Refunds		493
Telephone/Cable/Internet		3,899
Advertising		1,245
Bank Charges		50
Election Expense		1,749
Uncollected Returned Checks		96
		<u>\$ 170,652</u>
Total Disbursements		<u>\$ 1,920,731</u>
Net Receipts		150,152
Less: Statutory Maximum		<u>86,880</u>
Excess Fees		63,272
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,137</u>	<u>7,737</u>
Excess Fees Due County for 2018		55,535
Payment to Fiscal Court - January 29, 2019		<u>54,772</u>
Balance Due Fiscal Court at Completion of Audit*		<u>\$ 763</u>

* - The former county clerk presented a check to the fiscal court for excess fees on October 14, 2019.

GREEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis 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 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2018

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 clerk's office has 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.

GREEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

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 covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute 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 KRS Board of Directors 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 member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

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.

The county's contribution rate for nonhazardous employees was 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS 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%

GREEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

GREEN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. 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.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The former Green 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 former Green County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Green County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,477. Funds totaling \$5,100 were expended during the year. The unexpended grant balance was \$3,377, as of December 31, 2018. The balance was transferred to the incoming county clerk on May 5, 2019.

Note 5. Related Party Transaction

The former Green County Clerk owns and operates a vending machine in the Green County Courthouse. Profits from the vending machine are retained by the former county clerk personally.

GREEN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2018
 (Continued)

Note 6. Lease Agreements

The Green County Clerk's office was committed to the following lease agreements as of December 31, 2018:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2018
Computer Software	\$ 990	60 Months	October 31, 2019	\$ 9,900
Computer Software	\$ 210	58 Months	October 31, 2019	\$ 2,100

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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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Former Green County Clerk
The Honorable Jessica Baker, Green County Clerk
Members of the Green 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 Green County Clerk for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated October 30, 2019. The former Green 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 former Green 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 former Green County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Green County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, 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 Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, and 2018-004 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 Green 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-003 and 2018-005.

Views of Responsible Official and Planned Corrective Action

The former Green County Clerk's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Green County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

October 30, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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GREEN COUNTY
BILLY JOE LOWE, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The Former Green County Clerk's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The former Green County Clerk's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. The former county clerk prepared the daily deposit, prepared and signed checks, and posted to the receipts and disbursements ledger. The former county clerk also prepared all weekly, monthly, and quarterly reports and bank reconciliations for the fee and payroll revolving accounts. The usage tax account was not reconciled.

According to the former county clerk, the condition was a result of a limited budget, which restricted the number of employees the former county clerk could hire or delegate duties to. A lack of segregation of duties increased the former county clerk's risk of misappropriation of assets, errors, and inaccurate financial reporting.

Segregation of duties over receipts, disbursements, and the reconciliation process or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets. Monthly bank reconciliations are essential in detecting discrepancies whether caused by fraud or accounting errors on behalf of the entity or the bank.

We recommend the Green County Clerk's office strengthen internal controls by segregating these duties. If this is not feasible due to a lack of staff, then strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation. We also recommend the county clerk's office prepare bank reconciliations on all bank accounts.

Former County Clerk's Response: No response.

2018-002 The Former Green County Clerk Lacked Adequate Internal Controls Over Payroll Information Processed By A Service Organization

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The former county clerk used a Certified Public Accountant (CPA) to process all payroll transactions. The CPA firm is considered to be a service organization. At the end of each payroll period, the CPA received from the former county clerk the necessary information to process payroll including the clerk's salary information, hours for each employee to be paid, hourly rates, and a listing of required and authorized withholdings. The CPA processed this information and generated a payroll report, which the former county clerk relied upon to pay himself and his employees. The CPA also prepared all monthly and quarterly withholding reports which the former county clerk relied upon to pay state, city, and federal withholding amounts due; maintained individual earning records; and prepared W-2 forms for the former county clerk and his employees. If an error occurred, the former county clerk relied on the CPA to determine what caused the error and tell him how to fix it.

The former county clerk relied on the CPA payroll service organization who prepared individual earnings records and sent the county clerk payroll reports for each pay period. The former county clerk did not review these reports and used them to prepare payroll checks for himself and his employees. As a result, there were numerous discrepancies between employee timesheets and the CPA prepared individual earnings records in relation to holidays and vacation/sick leave used as reported in finding 2018-003.

GREEN COUNTY
 BILLY JOE LOWE, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The Former Green County Clerk Lacked Adequate Internal Controls Over Payroll Information Processed By A Service Organization (Continued)

Without adequate internal controls in place to ensure all information processed by the CPA payroll service organization was accurate, there is a risk that payroll disbursements could be misstated or fraud relating to payroll could occur.

The former county clerk should have implemented internal controls over all information processed by the CPA to ensure all payroll calculations are accurate. This could have been documented on payroll reports. The current county clerk does not use the service organization.

Former County Clerk's Response: No response.

2018-003 The Former Green County Clerk Did Not Maintain Proper Internal Controls Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The former county clerk did not maintain proper internal controls over timesheets and leave balances. The following deficiencies were noted:

- Sixteen instances where the payroll check was issued prior to the public officer or employee working all of the hours for which the individual was being paid.
- Ten instances where the hours per the timesheet did not agree to the regular hours per the Individual Earnings Record (IER).
- One timesheet did not reflect any hours worked or leave taken for one day.
- Two instances when holidays were not noted on the timesheet. Holidays were not noted on IERs at all.
- One timesheet was not signed by the county clerk to indicate his review and approval.
- Four timesheets were not signed by the employee.
- One instance where vacation hours per the timesheet did not agree to the vacation hours per the IER.

Each pay period the former county clerk provided a payroll summary to the service organization who prepared the IERs which tracked hours worked, holiday hours, overtime hours worked, vacation leave, and sick leave. The former county clerk relied on reports he received from his payroll service organization without reviewing the reports. As a result of inaccurate timesheets, employees could be paid for more or less hours than actually worked. In addition, without accurate tracking of vacation and sick leave balances, there is an increased risk that employees could be paid for leave not earned.

KRS 337.320(1) requires that “[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires.” Additionally, KRS 45.340 and OAG 79-448 state that checks shall be tendered to an officer or employee only after he/she has completed the work for which he/she is being paid.

We recommend the county clerk’s office strengthen internal controls over the payroll process to ensure timesheets are accurately prepared and signed by all employees for each pay period, and are reviewed, approved, and signed by the county clerk or his designee. We also recommend the county clerk review payroll reports and compare them to timesheets each pay period to ensure they are accurate. Finally, checks should not be dated before the end of the pay period to ensure employees are paid for the actual hours worked.

Former County Clerk's Response: No response.

GREEN COUNTY
 BILLY JOE LOWE, FORMER COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Former Green County Clerk's Fourth Quarter Financial Report Was Materially Inaccurate

The former Green County Clerk's fourth quarter financial report submitted to the Department for Local Government (DLG) was materially inaccurate. The book balance on Part One – Summary and Reconciliation of All Accounts on the fourth quarterly report shows \$(54,433), which does not reconcile to the bank. In addition, total receipts were understated by \$93,769 and disbursements were overstated by \$16,200, which exceeds the threshold of materiality for receipts, causing the fourth quarterly report to be materially misstated.

Receipts and disbursements for the first quarter were erroneously posted to the previous fee account in the computer software. The former county clerk did not properly reconcile the fee account financial quarterly reports to the bank which would have revealed the error. When financial statements contain material errors, they do not provide accurate results of the operations, financial position, and cash flows of the entity needed to make future decisions regarding the amount and timing of future cash flows. Reconciling financial records to the bank is essential for identifying errors in financial reporting due to accounting errors or fraud. Any discrepancies should be investigated and corrected timely.

We recommend the county clerk's office implement controls to ensure accurate financial reporting and submit amended financial reports to DLG when necessary.

Former County Clerk's Response: No response.

2018-005 The Former Green County Clerk Did Not Require Third-Party Purchasers Of Delinquent Tax Bills To Make Deposits And Payments In Accordance With 103 KAR 5:180

The former Green County Clerk did not require third-party purchasers of delinquent tax bills to make deposits at the time of registration as required by 103 KAR 5:180 for priority tax bills and current tax bills. This is a repeat finding and was included in the prior year audit report as finding 2017-004.

According the former Green County Clerk, this occurred because he did not agree with the requirements set forth in 103 KAR 5:180 and chose to not make the deposits prior to the tax sale date.

Failure to collect deposits could result in the county clerk not being able to cover any additional costs and expenses associated with any purchaser who fails to make full payment at the time of the tax sale. In addition, this resulted in non-compliance with 103 KAR 5:180.

103 KAR 5:180 Section 4 requires third party purchasers make a deposit with county clerk for tax bills they wish to purchase at the tax sale. Purchasers are required to provide a deposit of 100% of tax bills listed on the purchaser's priority tax bill list and a deposit 25% of the tax bills listed on the purchaser's current tax bill list. The deposits should be applied to the payment of the tax bills the purchaser purchases at the tax sale and any balances refunded to the third party purchasers.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. It requires daily deposits be made intact to a federally insured financial institution, so those deposits paid by the third party purchasers should be deposited to an official bank account when received.

GREEN COUNTY
BILLY JOE LOWE, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Former Green County Clerk Did Not Require Third-Party Purchasers Of Delinquent Tax Bills
To Make Deposits And Payments In Accordance With 103 KAR 5:180 (Continued)

We recommend the county clerk's office require third party purchasers make deposits for tax bills they wish to purchase as required by 103 KAR 5:180.

Former County Clerk's Response: Uncalled for.