

**REPORT OF THE AUDIT OF THE
LIVINGSTON COUNTY
CLERK**

**For The Year Ended
December 31, 2017**



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
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 <i>GOVERNMENT AUDITING STANDARDS</i>	11
SCHEDULE OF FINDINGS AND RESPONSES	15

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Chris Lasher, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston 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 Livingston County, Kentucky, for the year ended December 31, 2017, 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 Chris Lasher, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston 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 Livingston 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 Livingston County Clerk, as of December 31, 2017, 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 Livingston County Clerk for the year ended December 31, 2017, 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 September 14, 2018, on our consideration of the Livingston 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 Livingston County Clerk’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 comments:

- 2017-001 The Livingston County Clerk Has \$90 Of Disallowed Disbursements
- 2017-002 The Livingston County Clerk’s Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 14, 2018

LIVINGSTON COUNTY
 SONYA WILLIAMS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Revenue Supplement	\$	66,599	
State Fees For Services			2,641
Fiscal Court			2,581
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	427,392	
Usage Tax		694,889	
Tangible Personal Property Tax		982,545	
Other-			
Fish and Game Licenses		5,333	
Marriage Licenses		2,663	
Deed Transfer Tax		23,494	
Delinquent Tax		67,873	2,204,189
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		7,818	
Real Estate Mortgages		11,640	
Chattel Mortgages and Financing Statements		29,090	
Affordable Housing Trust		9,480	
All Other Recordings		7,799	
Charges for Other Services-			
Candidate Filing Fees		850	
Copywork		3,662	
Postage		1,852	72,191
Other:			
Miscellaneous		1,592	
IRS Lien Fees		132	
Return Check Fees		400	2,124
Interest Earned			56
Total Receipts			2,350,381

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

LIVINGSTON COUNTY
 SONYA WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 326,575	
Usage Tax	674,042	
Tangible Personal Property Tax	384,364	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	4,994	
Delinquent Tax	7,662	
Legal Process Tax	9,259	
Affordable Housing Trust	9,480	\$ 1,416,376

Payments to Fiscal Court:

Tangible Personal Property Tax	70,605	
Delinquent Tax	6,837	
Deed Transfer Tax	22,319	99,761

Payments to Other Districts:

Tangible Personal Property Tax	487,500	
Delinquent Tax	33,228	520,728

Payments to Sheriff 5,537

Payments to County Attorney 9,077

Tax Bill Preparation 2,179

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 154,269

Materials and Supplies-

Office Supplies 4,594

Other Charges-

Conventions and Travel 3,958

Dues 900

Bank Charges 251

Bad Check Expense 483

Miscellaneous 3,135 167,590

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

LIVINGSTON COUNTY
 SONYA WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2017
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-		
Office Equipment	\$ 9,355	
Total Disbursements		\$ 2,230,603
Less: Disallowed Disbursements - Overdraft Bank Charges		<u>90</u>
Total Allowable Disbursements		<u>2,230,513</u>
Net Receipts		119,868
Less: Statutory Maximum		<u>79,008</u>
Excess Fees		40,860
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,052</u>	<u>7,652</u>
Excess Fees Due County for 2017		33,208
Payment to Fiscal Court - February 27, 2018		<u>24,828</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 8,380</u></u>

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

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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.

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (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. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 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.

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.

Health Insurance Coverage

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.

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.

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2017
 (Continued)

Note 3. Deposits

The Livingston 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 Livingston 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Software Service Agreement

On March 1, 2012, the Livingston County Clerk entered into a hardware service agreement and a software license agreement with a vendor for the right to use their software and technical support. Under the terms of the agreements, the county clerk agrees to pay \$205 per month for the hardware service agreement and \$600 per month for the software license agreement, for a total monthly obligation of \$805. The county clerk uses this software program to maintain all recordings filed at the clerk's office in an electronic format. The agreements ran through February 2017 and were automatically renewed for an additional year. The county clerk was in compliance with the terms of the agreements as of December 31, 2017.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

The county clerk deposited unrefundable duplicate payments and unexplained receipts in a non-interest bearing account. The county clerk's escrowed amounts were as follows:

2016	\$255
2017	\$273

KRS 393.090 states that after three years, if funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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 Chris Lasher, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston 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 Livingston County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated September 14, 2018. The Livingston 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 Livingston 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 Livingston County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Livingston 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 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 2017-002 to be a material weakness.

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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*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Livingston County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

The Livingston 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 Livingston 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,



Mike Harmon
Auditor of Public Accounts

September 14, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LIVINGSTON COUNTY
SONYA WILLIAMS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Livingston County Clerk's Office Has \$90 Of Disallowed Disbursements

This is a repeat finding and was reported in the prior year audit report as finding 2016-002. The county clerk had \$60 of late fees in her fee account and \$30 of overdraft fees in her fish and game account.

The county clerk stated that in January 2017, her account had insufficient funds for usage. When the state withdrew usage funds from her account, it was over drafted and she was charged \$60 in late fees. Also, the county clerk transfers fish and game collections from the fee account to the fish and game account to be automatically withdrawn by the state. However, the clerk overlooked collections of \$265 that were to be transferred to the fish and game account. Therefore, when the state automatically withdrew fish and game fees, her account was overdrawn and was charged a \$30 overdraft fee.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

Because late fees and overdraft fees are not considered necessary or beneficial to the public, the Livingston County Clerk is not in compliance with Funk v. Milliken, therefore, the fees are disallowed. As a result, we recommend the county clerk repay \$60 from her personal funds to the fiscal court for the fees charged to her 2017 fee account and repay \$30 from personal funds to her fish and game account.

County Clerk's Response: The Livingston Co. Clerk will issue one check for \$30 to Fish and Wildlife and a separate check for \$60 to fiscal court today, 9-24-18.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-002 The Livingston County Clerk's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was reported in the prior year audit report as finding 2016-003. The Livingston County Clerk prepares daily deposits, prepares and signs checks, posts to receipts and disbursements ledgers, prepares monthly bank reconciliations, prepares quarterly reports, and occasionally collects cash from customers.

According to the county clerk, rather than segregate the duties noted above, she chooses to complete these duties herself because she feels that she is responsible for these duties since she is ultimately liable for the activity of the clerk's office. A lack of segregation of duties or strong oversight increases the risk of undetected errors.

A proper segregation of duties is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and undetected misstatements, we recommend the Livingston County Clerk separate the duties involved in writing checks, posting to the receipts and disbursements ledgers, preparing monthly bank reconciliations, and preparing quarterly reports. If, due to a limited budget this is not feasible, compensating controls could be implemented and documented by the individual performing the procedure.

County Clerk's Response: The Livingston County Clerk will implement compensating controls and document the individual performing the procedure.