

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

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Garrett Gruber, 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, 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 Garrett Gruber, 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 the Livingston 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 Livingston 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 July 2, 2019, 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:

- 2018-001 The Livingston County Clerk Had \$198 Of Disallowed Expenditures
- 2018-002 The Livingston County Clerk’s Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 2, 2019

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

For The Year Ended December 31, 2018

Receipts

State Revenue Supplement	\$	67,428	
State Fees For Services		2,353	
Fiscal Court		12,989	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	442,988	
Usage Tax		809,183	
Tangible Personal Property Tax		1,041,597	
Lien Fees		6,956	
Other-			
Fish and Game Licenses		5,155	
Marriage Licenses		2,272	
Disabled Placards		540	
Deed Transfer Tax		35,249	
Delinquent Tax		75,705	2,419,645
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		8,074	
Real Estate Mortgages		10,701	
Chattel Mortgages and Financing Statements		29,150	
Affordable Housing Trust		9,090	
All Other Recordings		7,475	
Charges for Other Services-			
Candidate Filing Fees		1,370	
Copy Work		3,055	
Postage		2,093	
Miscellaneous		711	
IRS Lien Fees		72	71,791
Interest Earned		72	72
Total Receipts			2,574,278

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, 2018
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 347,238	
Usage Tax	784,907	
Tangible Personal Property Tax	407,632	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	5,059	
Delinquent Tax	9,328	
Legal Process Tax	9,007	
Affordable Housing Trust	9,090	
Disabled Placards	432	\$ 1,572,693

Payments to Fiscal Court:

Tangible Personal Property Tax	74,635	
Delinquent Tax	7,576	
Deed Transfer Tax	33,487	115,698

Payments to Other Districts:

Tangible Personal Property Tax	516,730	
Delinquent Tax	36,213	552,943

Payments to Sheriff 5,771

Payments to County Attorney 10,008

Tax Bill Preparation 2,172

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	156,873	
Part-Time Salaries	346	
Materials and Supplies-		
Office Supplies	1,637	

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, 2018
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	5,574	
Dues		1,058	
Postage		7	
Bank Charges		207	
Miscellaneous		1,927	
Election Expense		269	\$ 167,898
			<hr/>

Capital Outlay-

Office Equipment		19,860	
			<hr/>

Total Disbursements \$ 2,447,043

Less: Disallowed Disbursements

Overdraft Charges		108	
Prior Year Disallowed Expenditures Paid From 2018 Account		90	
			<hr/>

Total Disallowed Disbursements 198

Total Allowable Disbursements 2,446,845

Net Receipts 127,433

Less: Statutory Maximum 80,738

Excess Fees 46,695

Less: Expense Allowance 3,600

Training Incentive Benefit		4,137	<u>7,737</u>
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Excess Fees Due County for 2018 38,958

Payment to Fiscal Court - March 12, 2019 36,374

Balance Due Fiscal Court at Completion of Audit * \$ 2,584

* - The county clerk presented a check in the amount of \$391 to the fiscal court for excess fees on April 11, 2019.

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

LIVINGSTON 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.

LIVINGSTON 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%

LIVINGSTON 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.

LIVINGSTON 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 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 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Livingston County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$7,150. No funds were expended during the year. The unexpended grant balance was \$7,150, as of December 31, 2018.

Note 5. Software Service Agreement

On June 20, 2018, 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 \$75 a month for the equipment, \$165 a month for maintenance, and \$605 a month for the software, for a total monthly obligation of \$845. The county clerk uses this software program to maintain all recordings filed at the clerk's office in an electronic format.

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

Note 6. Outstanding Checks Held In Escrow

The Livingston County Clerk deposited outstanding checks into an escrow account. When statutorily required, the county clerk will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The county clerk's escrowed amounts were as follows:

2016	\$256
2017	\$273
2018	\$390

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 Garrett Gruber, 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, 2018, and the related notes to the financial statement and have issued our report thereon dated July 2, 2019. 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 and another deficiency that we consider to be a significant deficiency.

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 2018-002 to be a material weakness.



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)

Internal Control over Financial Reporting

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-001 to be a significant deficiency.

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 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 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

July 2, 2019

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, 2018

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Livingston County Clerk Had \$198 Of Disallowed Expenditures

This is a repeat finding and was included in the prior year report as finding 2017-001. The county clerk had \$90 disbursed from the 2018 fee account to cover 2017 disallowed expenditures. In addition, the clerk's fish and game account had \$108 of overdraft fees during 2018.

Due to an oversight by the clerk, the \$90 due from her personal funds were never deposited into her fee account. Therefore, when settling with the fiscal court for 2017, the 2018 fee account paid for the 2017 disallowed expenditures. In addition, internal control deficiencies resulted in the clerk's fish and game account being overdrawn and charged \$108 in overdraft fees. 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.

Strong internal controls are essential to ensuring receipts and disbursements are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets. 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.

We recommend the county clerk repay \$198 from personal funds to fiscal court to cover 2017 disallowed expenditures paid by the 2018 fee account and bank charges charged to the fish and game account.

County Clerk's Response: The County Clerk will pay \$198 to the Livingston County Fiscal Court from personal funds to cover the 2017 disallowed expenditures paid by the 2018 fee account and bank charges charged to the fish and game account.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-002 The Livingston County Clerk's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year report as finding 2017-002. The Livingston County Clerk's office lacks adequate segregation of duties. The clerk prepares daily checkout sheets, prepares deposits, takes the deposit to the bank, prepares and signs checks, posts to the receipts and disbursements ledgers, performs monthly bank reconciliations, and prepares quarterly reports.

According to the 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.

The segregation of duties, or the implementation of compensating controls, over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing monthly reports is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

LIVINGSTON COUNTY
SONYA WILLIAMS, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2018-002 The Livingston County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting or misappropriation of assets, we recommend the clerk separate the duties noted above. If this is not feasible, the clerk should continue using strong management oversight and the compensating controls already in place. We also recommend the clerk's office to review all monthly bank reconciliations by documenting the comparison of bank reconciliations and any adjustments that are made as a result of the comparison.

County Clerk's Response: The Livingston County Clerk's Office employs a small staff creating difficulty for an entirety of segregation of duties. At present, the county clerk prepares daily checkout sheets with a deputy clerk reviewing and initialing as well as prepares daily deposits with a separate deputy clerk performing the same duties. All staff members along with the county clerk prepare and sign checks with a two signature minimum as a compensating control. Though the clerk posts receipts and disbursement ledgers daily, line items such as recording fees, motor vehicle & boat ad valorem, usage tax, deed tax, lien fees, and fish and game fees are reviewed daily, weekly, and monthly with various deputy clerks responsible for collecting those individual items, ensuring that totals collected match in all available reports. In the future, compensating controls can be improved upon regarding monthly bank reconciliations and quarterly reports by separate deputy clerks performing reconciliation of both and the clerk reviewing them. As it is the county clerk's duty to be liable for the activity within the office, it is the ultimate goal to receive and disburse county finances responsibly and continue to do the best for the citizens of Livingston County.

Auditor Reply: The compensating controls mentioned by the county clerk are not effective because the clerk is directly performing some of the functions. Subordinate employees do not have the ability to adequately monitor and address functions performed by their supervisor.