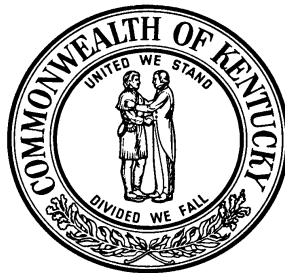


**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
CLERK**

**For The Year Ended
December 31, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley 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 Owsley County, Kentucky, for the year ended December 31, 2019, 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 Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley 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 Owsley 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 Owsley County Clerk, as of December 31, 2019, 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 Owsley County Clerk for the year ended December 31, 2019, 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 9, 2020, on our consideration of the Owsley 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 Owsley County Clerk's internal control over financial reporting and compliance.

The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley 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:

- 2019-001 The Owsley County Clerk Did Not Comply With Department For Local Government (DLG) Requirements Regarding Approval And Submission Of Annual Budget, Quarterly Financial Reports, And Annual Settlement
- 2019-002 The Owsley County Clerk Is Not Remitting Fees In Compliance With Kentucky Revised Statutes
- 2019-003 The Owsley County Clerk Did Not Deposit Funds Timely
- 2019-004 The Owsley County Clerk's Office Lacks Adequate Segregation Of Duties
- 2019-005 The Owsley County Clerk Did Not Prepare Franchise Tax Bills Promptly

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 9, 2020

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

State Revenue Supplement	\$	67,769	
State Fees For Services			21
Fiscal Court			4,742
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	157,638	
Usage Tax		115,330	
Tangible Personal Property Tax		290,548	
Lien Fees		4,188	
Other-			
Marriage Licenses		1,136	
Deed Transfer Tax		5,495	
Delinquent Tax		64,118	638,453
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		4,151	
Real Estate Mortgages		3,831	
Chattel Mortgages and Financing Statements		9,102	
Powers of Attorney		294	
All Other Recordings		2,647	
Charges for Other Services-			
Candidate Filing Fees		200	
Copy Work		12	
Postage		77	20,314
Other:			
Miscellaneous			180
Interest Earned			44
Total Receipts			731,523

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

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2019
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 109,974

Usage Tax 111,870

Tangible Personal Property Tax 106,481

Licenses, Taxes, and Fees-

Delinquent Tax 3,781

Legal Process Tax 3,130

Affordable Housing Trust 2,814 \$ 338,050

Payments to Fiscal Court:

Tangible Personal Property Tax 29,377

Delinquent Tax 5,413

Deed Transfer Tax 5,220 40,010

Payments to Other Districts:

Tangible Personal Property Tax 143,069

Delinquent Tax 34,727 177,796

Payments to Sheriff

5,974

Payments to County Attorney

8,274

Operating Disbursements:

Personnel Services-

Deputies' Salaries 23,169

Overtime 2,397

Employee Benefits-

Employer's Share Social Security 8,037

Employer's Share Retirement 23,920

Materials and Supplies-

Office Supplies 695

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

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2019
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges-			
Conventions and Travel	\$	400	
Postage		550	
Contracted Services		1,800	
Telephone		1,511	
Miscellaneous		23	
Election		15,891	\$ 78,393
		<u>15,891</u>	<u>\$ 78,393</u>
Total Disbursements			<u>\$ 648,497</u>
Net Receipts			83,026
Less: Statutory Maximum			<u>75,891</u>
Excess Fees			7,135
Less: Expense Allowance			<u>3,600</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 3,535</u></u>

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

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2019

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 2019 services
- Reimbursements for 2019 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2019

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.

OWSLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

The county clerk's contribution for calendar year 2017 was \$17,990, calendar year 2018 was \$21,291, and calendar year 2019 was \$23,920.

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 21.48 percent for the first half of the year and 24.06 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%

OWSLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (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.

OWSLEY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
(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 Owsley 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, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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 Cale Turner, Owsley County Judge/Executive
The Honorable Shanna Oliver, Owsley County Clerk
Members of the Owsley 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 Owsley County Clerk for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated October 9, 2020. The Owsley 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 Owsley 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 Owsley County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owsley 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 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, and 2019-004 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)

Internal Control over Financial Reporting (Continued)

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 2019-005 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley 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. 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 2019-001, 2019-002, and 2019-003.

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 flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

October 9, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 The Owsley County Clerk Did Not Comply With Department For Local Government (DLG) Requirements Regarding Approval And Submission Of Annual Budget, Quarterly Financial Reports, And Annual Settlement

This is a repeat finding and was reported in the prior year audit report as finding 2018-001. The county clerk presented a budget and the annual order setting maximum salary for deputies and assistants to the fiscal court for calendar year 2019; however, it was not presented timely as required by KRS 68.210. Her budget and quarterly report for the period ending September 30, 2019, was presented and approved by the Owsley County Fiscal Court on October 29, 2019. The county clerk has not submitted her annual settlement and excess fees to the fiscal court for the calendar year ending December 31, 2019, nor has she submitted the quarterly reports and annual settlement to the Department for Local Government as required.

Per the county clerk she could not get the fourth quarter to reconcile and was off by \$100 and therefore did not submit the quarterly and annual settlement to the fiscal court and the Department for Local Government. The lack of compliance with applicable state laws and DLG reporting requirements has led to the fiscal court not being adequately informed of the financial activities of the county clerk's office, resulting in the limited ability to appropriately monitor the financial activity and make fully informed financial decisions for the county.

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*, which requires that the fiscal court approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15 of each year.

In addition, the state local finance officer also requires the quarterly report to be submitted to their office no later than 30 days following the close of the quarters ending March 31, June 30, September 30, and December 31.

KRS 64.152(1) states, "[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year[.]" KRS 64.152(2) states, "[a]t the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office, including income from investments, which exceeds the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants."

We recommend the county clerk submit a budget and annual order setting maximum salary for deputies and assistants to the fiscal court for each calendar year by January 15. We further recommend she submit her annual settlement and excess fees accurately and completely to the fiscal court no later than March 15. In addition, we recommend the county clerk comply with the applicable KRS's and the Department for Local Government manual by submitting her annual budget, quarterly financial reports, and annual settlement to Department for Local Government as required.

County Clerk's Response: The county clerk did not provide a response.

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Owsley County Clerk Is Not Remitting Fees In Compliance With Kentucky Revised Statutes

This is a repeat finding and was included in the prior year audit report as finding 2018-002. During calendar year 2019, it was noted that the payments for the following items were not remitted in compliance with the corresponding KRS.

The county clerk collects motor vehicle property tax receipts which are to be paid to the state, county, and districts on or before the tenth of the following month; however, for calendar year 2019 the payments and reports were not submitted timely. Nine of 12 payments due to the state, county, and districts were paid late as noted below:

- February-July checks were not issued/delivered to the payee timely.
- October checks were issued on November 12, 2019 (two days late).
- November checks were issued on December 11, 2019 (one day late).
- December checks were issued on January 10, 2020, but were not delivered to the payee timely.

The county clerk collects delinquent tax receipts which are to be paid to the state, county, and districts on or before the tenth of the following month; however, for calendar year 2019 the payments and reports were not submitted timely. Eight of 12 payment due to the state, county, and districts were paid late as noted below:

- February-July checks were not issued/delivered to the payee timely.
- October checks were issued on November 12, 2019 (two days late).
- November checks were issued on December 11, 2019 (one day late).
- December checks were issued on January 10, 2020, but were not delivered to the payee timely.

The county clerk collects legal processing receipts which are to be paid to the state on or before the 10th of the following month; however, for calendar year 2019 the payments and reports were not submitted timely. Nine of 12 payment due to the state were paid late as noted below:

- January checks were issued on February 11, 2019 (one day late).
- February-July checks were not issued/delivered timely.
- October checks were issued on November 12, 2019 (two days late).
- November checks were issued on December 11, 2019 (one day late).

The county clerk collects affordable housing receipts which are to be paid to the state by the 10th of the month after the quarter ends; however, for calendar year 2019 the first and second quarters were not paid timely.

The county clerk collects deed transfer tax receipts which are to be paid to the county by the 10th of the month after the quarter ends; however, for calendar year 2019 the first and second and fourth quarters were not paid timely.

In addition, some checks are not being issued and released timely as there were 58 outstanding checks and liabilities transactions totaling \$55,410 still outstanding as of January 2020. Of those \$28,184 cleared in January 2020, \$23,807 cleared in February through July 2020, and \$3,419 still remain outstanding as of August 30, 2020.

OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Owsley County Clerk Is Not Remitting Fees In Compliance With Kentucky Revised Statutes
(Continued)

Due to the lateness of the payments due to the state the clerk has received numerous fines, penalties, and interest notifications from the state going back to 2013 and continuing into 2020. The total presently known due to the state in fines, penalties, and interest is \$48,825. Since fines, penalties, and interest is not allowable for late payments the clerk will be personally responsible for the payment of these bills.

The county clerk stated she did not have adequate controls and procedures in place to ensure disbursements were made timely; however, for the later part of calendar year 2019 she stated she had made significant changes to her procedures to ensure compliance and disbursements are made timely. The state, county, and districts did not have all the funds they budgeted for and may have not been able to provide services to tax payers due to lack of funding. In addition, the county clerk is not in compliance with Kentucky Revised Statutes which would also allow for penalties and interest be assessed for late payments.

KRS 134.815(1) states, “[t]he county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository. The county clerk shall be required to deposit state collections in a manner consistent with procedures established by the cabinet for the prompt payment to the state of other moneys collected by the county clerk.”

KRS 134.126(3) states, “[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly. (4) The county clerk shall allocate payments among the various entities entitled to a portion of the payment. The county clerk shall, at the time he or she makes the reports required by subsection (3) of this section: (a) Pay to the department for deposit in the State Treasury all moneys received due the state; (b) Pay to the county treasurer all moneys received due the county; (c) Pay to the authorized officers of the taxing districts the amount due each taxing district; and (d) Pay the amount of fees, costs, commissions, and penalties to the persons, agencies, or parties entitled thereto.”

KRS 64.012(1)(a) states, in part, “[s]ix dollars (\$6) shall be paid to the affordable housing trust fund established in KRS 198A.710 and shall be remitted by the county clerk within ten (10) days following the end of the quarter in which the fee was received. Each remittance to the affordable housing trust fund shall be accompanied by a summary report on a form prescribed by the Kentucky Housing Corporation.”

KRS 142.010 outlines taxes imposed on legal processes and instruments and the applicable fees. Subsection 3 of the statute states, “[t]axes imposed under this section shall be reported and paid to the Department of Revenue by each county clerk within ten (10) days following the end of the calendar month in which instruments subject to tax are filed or marriage licenses issued. Each remittance shall be accompanied by a summary report on a form prescribed by the department. (4) Any county clerk who violates any of the provisions of this section shall be subject to the uniform civil penalties imposed pursuant to KRS 131.180. In every case, any tax not paid on or before the due date shall bear interest at the tax interest rate as defined in KRS 131.010(6) from the date due until the date of payment.”

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Owsley County Clerk Is Not Remitting Fees In Compliance With Kentucky Revised Statutes
 (Continued)

KRS 142.050(4) states, “[t]he county clerk shall collect the amount due and certify the date of payment and the amount of collection on the deed. The county clerk shall retain five percent (5%) as his fee for collection and remit the balance every three (3) months to the county treasurer, who shall deposit the money in the county general fund.”

We recommend the county clerk pay over receipts timely to ensure compliance with all Kentucky Revised Statutes and to prevent penalties and interest payments due for late payments. We further recommend the county clerk settle late fee, fines, and interest due to the Department of Revenue.

County Clerk's Response: The county clerk did not provide a response.

2019-003 The Owsley County Clerk Did Not Deposit Funds Timely

This is a repeat finding and was reported in the prior year audit report as finding 2018-003. The county clerk did not process receipts timely nor did her office make daily deposits. Test of daily receipts for the week of October 7 through October 12 noted the following issues:

- October 7, 2019 receipts included seven checks. Four of these checks did not include the current business date but were dated September 17, September 24, and two dated September 26. These receipts were not deposited until October 18.
- October 8, 2019 receipts included seven checks. One check did not include the current business date but was dated September 30. In addition, these receipts were not deposited until October 18.
- October 9, 2019 receipts were not deposited until October 18.
- October 10, 2019 receipts were not deposited until October 18.
- October 11, 2019 receipts were not deposited until October 21.
- October 12, 2019 receipts included 12 checks. None of the 12 checks included the current business date but had dates ranging from August 28 through October 3. In addition, these receipts were not deposited until October 21, 2019.

The county clerk said she did not have adequate controls and procedures in place to ensure deposits were made daily and all mail was processed timely. She further stated she has implemented a new process to ensure items are being processed in a timely manner and the deposits are made daily. Inadequate controls over deposits increase the risk that undetected fraud, errors, and misstatements will occur. Delaying deposits also increases the risk that funds will be lost, stolen, or otherwise misappropriated.

The Department for Local Government has issued standards regarding “Handling Public Funds Minimum Requirements Pursuant To KRS 68.210 for All Local Government Officials (And Employees)”. One of the requirements is “[d]aily deposits intact into a federally insured banking institution. (KRS 68.210)”. Additionally, strong internal controls require all payments be deposited timely and on the date received.

We recommend the county clerk comply with KRS 68.210 regarding deposits. We further recommend the county clerk ensure all payments are deposited timely by establishing effective internal controls over receipts and deposits.

County Clerk's Response: The county clerk did not provide a response.

OWSLEY COUNTY
 SHANNA OLIVER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 The Owsley 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 2018-005. The Owsley County Clerk and her employees all collect cash and process transactions. In addition, the Owsley County Clerk prepares the daily deposits, daily, weekly and monthly reports as well as writes and signs disbursement checks and although a receipt/disbursement ledger is prepared by another employee, there is no documentation of a review nor does it appear to be completed in a timely manner.

According to the county clerk, this lack of segregation of duties is a result of a limited budget; which restricts the number of employees the county clerk can hire and delegate responsibilities to. Without adequate segregation of duties, there is an increased risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing deposits, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Owsley County Clerk segregate duties over receipts, report preparation, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the Owsley County Clerk should implement compensating controls to help mitigate any weaknesses. These compensating controls can and should be documented by initialing and dating the supporting documentation by the person who completes the comparison or review.

County Clerk's Response: The county clerk did not provide a response.

2019-005 The Owsley County Clerk Did Not Prepare Franchise Tax Bills Promptly

The county clerk received 10 notifications from the Department of Revenue regarding certifications for 2019 franchise bills. Six of the 10 notifications were billed and turned over to the sheriff in a timely manner, one was under \$10 and therefore not billed. Two were issued by the Department of Revenue on April 18, 2019 and May 3, 2019. The clerk delivered these bills to the sheriff on November 15, 2019. The remaining bill certification was issued by the Department of Revenue on December 20, 2019; however, the clerk's office did not prepare a bill for this certification until September 15, 2020.

The county clerk stated she is the only one in her office who knows how to calculate and issue the franchise bills. She further stated she is in the process of acquiring a computerized program to help expedite the process.

Since the county, school district, sheriff, and other taxing districts rely on franchise taxes to create their budgets and meet the associated expenses, not issuing franchise taxes bills timely could have a negative cash flow effect on the districts or sheriff.

OWSLEY COUNTY
SHANNA OLIVER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-005 The Owsley County Clerk Did Not Prepare Franchise Tax Bills Promptly (Continued)

In accordance with KRS 133.220, the county clerk is the local official responsible for the preparation of property tax bills each year. Public service (franchise) and other centrally assessed companies are handled in Frankfort by the Division of State Valuation, Public Service Branch, within the Department of Revenue. Assessments for these companies can get quite complicated and they can be finalized at any time during the year. This means that the county clerk's office will likely receive assessment certifications throughout the year. When these certifications are received by the county clerk, a franchise property tax bill needs to be generated as soon as possible.

We recommend the county clerk implement procedures and controls to ensure franchise tax bills are prepared promptly after receiving the state assessment certification from the state and recommend they are immediately presented to the sheriff to be mailed and collected.

County Clerk's Response: The county clerk did not provide a response.