

**REPORT OF THE AUDIT OF THE  
ESTILL 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 Donnie Watson, Estill County Judge/Executive  
The Honorable Brian Crowe, Estill County Clerk  
Members of the Estill County Fiscal Court

**Independent Auditor's Report**

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Estill County, Kentucky, for the year ended December 31, 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 Donnie Watson, Estill County Judge/Executive  
The Honorable Brian Crowe, Estill County Clerk  
Members of the Estill County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Estill County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Estill 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 Estill 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 Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The Schedule of Excess Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2021, on our consideration of the Estill County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Estill County Clerk's internal control over financial reporting and compliance.

The Honorable Donnie Watson, Estill County Judge/Executive  
The Honorable Brian Crowe, Estill County Clerk  
Members of the Estill 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 County Clerk Overspent Available Funds And Has A Deficit Of \$30,461 In His 2019 Fee Account
- 2019-002 The County Clerk Failed To Implement Adequate Internal Controls Regarding Oversight And Review Of Daily Functions
- 2019-003 The County Clerk's Office Does Not Have Adequate Segregation Of Duties

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

December 8, 2021

ESTILL COUNTY  
BRIAN CROWE, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

State Revenue Supplement	\$	67,769
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State Fees For Services		285
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Fiscal Court		2,828
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	463,898
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Usage Tax		509,588
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Tangible Personal Property Tax		1,224,803
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Notary Fees		5,493
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Lien Release fees		11,138
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Miscellaneous		588
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Other-

Fish and Game Licenses		10,517
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Marriage Licenses		2,343
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Deed Transfer Tax		25,163
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Delinquent Tax		175,426	2,428,957
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		8,077
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Real Estate Mortgages		16,735
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Chattel Mortgages and Financing Statements		42,644
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Powers of Attorney		980
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Affordable Housing Trust		11,916
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All Other Recordings		11,226
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Charges for Other Services-

Candidate Filing Fees		50
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Copy Work		5,635
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Postage		619
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Refunds/Overpayments		11,938	109,820
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Other:

Miscellaneous		6,872
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Total Receipts		2,616,531
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The accompanying notes are an integral part of this financial statement.



ESTILL COUNTY  
 BRIAN CROWE, 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 \$ 336,117

Usage Tax 496,356

Tangible Personal Property Tax 417,403

Licenses, Taxes, and Fees-

Fish and Game Licenses 10,551

Delinquent Tax 13,726

Legal Process Tax 12,669

Affordable Housing Trust 11,898 \$ 1,298,720

Payments to Fiscal Court:

Tangible Personal Property Tax 82,973

Delinquent Tax 10,756

Deed Transfer Tax 23,905 117,634

Payments to Other Districts:

Tangible Personal Property Tax 678,503

Delinquent Tax 98,009 776,512

Payments to Sheriff

14,510

Payments to County Attorney

23,484

Operating Disbursements:

Personnel Services-

Deputies' Salaries 161,269

Employee Benefits-

Employer's Share Social Security 12,337

Employer's Share Retirement 35,178

Employer's Paid Health Insurance 30,097

Contracted Services-

Printing and Binding 15,445

Materials and Supplies-

Office Supplies 37,055

Other Charges-

Dues 3,504

Postage 4,568

Bank Charges 360

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

ESTILL COUNTY  
 BRIAN CROWE, 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- (Continued)

Refunds	\$	18,685	
Insurance and Bonds		3,332	
Miscellaneous		<u>7,433</u>	<u>\$ 329,263</u>

Total Disbursements			<u>\$ 2,560,123</u>
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Net Receipts			56,408
Less: Statutory Maximum			<u>82,215</u>

Excess Fees			(25,807)
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>1,054</u>	<u>4,654</u>

Total Fund Deficit as of December 31, 2019			<u>\$ (30,461)</u>
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ESTILL 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.

ESTILL 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 \$24,459, calendar year 2018 was \$26,727, and calendar year 2019 was \$35,178.

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:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

ESTILL 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.

ESTILL 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 Estill County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The 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.

Note 4. State Grant

The Estill County Clerk received a local records microfilming grant from the Kentucky Department of Libraries and Archives in the amount of \$14,288. No grant funds were expended during calendar year 2019. The balance as of December 31, 2019 was \$14,288.

Note 5. Lease Agreements

The Estill County Clerk's office was committed to the following lease agreements as of December 31, 2019:

Item	Monthly	Term Of	Ending	Principal Balance
Purchased	Payment	Agreement	Date	December 31, 2019
Software	\$ 2,963	60 months	May 1, 2023	\$ 145,187
Hardware	832	41 months	May 1, 2023	34,112
Totals	<u>\$ 3,795</u>			<u>\$ 179,299</u>

ESTILL COUNTY  
BRIAN CROWE, COUNTY CLERK  
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2019

Assets

Cash in Bank	\$	72,999
Deposits in Transit		17,235
Receivables		<u>42,824</u>
Total Assets		<u>133,058</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$	7,554	
Liabilities		<u>92,348</u>	99,902

Unpaid Obligations:

Due to 2020 Fee Account for Amounts Deposited into Wrong Account	38,604	
Due to 2020 Fee Account for 2019 License Fees Paid from 2020 Account	<u>25,013</u>	<u>63,617</u>

Total Liabilities		<u>163,519</u>
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Total Fund Deficit as of December 31, 2019	\$	<u>(30,461)</u>
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

The Honorable Donnie Watson, Estill County Judge/Executive  
The Honorable Brian Crowe, Estill County Clerk  
Members of the Estill County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Estill County Clerk for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated December 8, 2021. The Estill County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Estill County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Estill County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Estill County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Estill County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 and 2019-002.

**Views of Responsible Official and Planned Corrective Action**

The Estill 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 Estill County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

Respectfully submitted,

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

Mike Harmon  
Auditor of Public Accounts

December 8, 2021

## SCHEDULE OF FINDINGS AND RESPONSES

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ESTILL COUNTY  
BRIAN CROWE, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001    The County Clerk Overspent Available Funds And Has A Deficit Of \$30,461 In His 2019 Fee Account

---

The county clerk overspent the funds that were available to him in 2019. For calendar year 2019, the county clerk had recognized receipts of \$2,616,531, and recognized disbursements of \$2,646,992, which resulted in a deficit of \$30,461 in the 2019 fee account. The county clerk overspent salary maximums for deputies and assistants as approved by the fiscal court. In addition, the county clerk's budget for payroll expenses did not agree to the annual salary maximum approved by the fiscal court. The fiscal court approved \$220,000 in wages and benefits (employer matching, health insurance, etc.) for deputies and assistants but the county clerk's budget only allotted \$200,000 for these same categories. Even though the salary maximum was exceeded by \$18,881, the county clerk's actual payroll expenses exceeded budgeted amounts by \$38,881.

Total actual disbursements (including payroll and all other expenses) were \$31,196 less than the budgeted amount of expenditures. However, total receipts fell short of the projected and budgeted amount by \$61,654. When actual receipts are less than the anticipated amount, it is essential to reduce expenditures by the same amount so that there are funds available to meet all obligations.

The deficit was caused by a combination of factors. First, the county clerk was unfamiliar with the budgeting process as he was a new official. In fact, the budget for calendar year 2019 was approved before he was in office. Second, the county clerk's office had five full-time positions in 2019 rather than four full-time positions as was the case in previous years under previous administrations. Finally, almost all of the employees were new employees and there was a learning curve associated with a new official with new employees that resulted in some overtime expenses that were not applicable in prior years. Payroll expenses for calendar year 2019 were almost \$50,000 more than the previous year due to more employees, overtime, and increases in retirement matching requirements. Since the county clerk was unfamiliar with the budgeting process and did not have proper internal controls and oversight procedures in place to monitor the budget, expenses exceeded available funds for 2019.

There are outstanding obligations that have not been paid from the 2019 fee account. The 2019 fee account owes the 2020 fee account \$34,008 for web renewals deposited into the 2019 fee account that should have been deposited into the 2020 fee account, \$4,596 for funds borrowed from the 2020 fee account to meet obligations of the 2019 fee account, and \$25,013 of license fees paid from the 2020 fee account that should have been paid from the 2019 fee account.

Strong internal controls and proper oversight procedures require the budget to be monitored to ensure any deviations from expected receipts and disbursements be properly accounted for and considered when financial decisions are made. If funds available are not sufficient to meet obligations, expenses must be reduced to compensate and to avoid overspending and a fund deficit.

We recommend the county clerk consult with the fiscal court and the county attorney to determine how to eliminate this deficit, up to and including using personal funds to pay the office's obligations that are currently outstanding.

*County Clerk's Response: Due to being first year budget was set for me. We overspent on salary used for extra employee and overtime trying to learn job.*

ESTILL COUNTY  
 BRIAN CROWE, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2019  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The County Clerk Failed To Implement Adequate Internal Controls Regarding Oversight And Review Of Daily Functions

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The county clerk failed to maintain adequate oversight and review of daily office functions during the period January 1, 2019 through December 31, 2019, resulting in the following issues:

- The fourth quarter report was not submitted timely to the Department for Local Government (DLG) as required.
- Usage tax fees were not paid to the state timely.
- License fees in the amount of \$25,013 were not paid timely and were paid out of the 2020 fee account.
- The annual order of the maximum amount for deputies and assistants was overspent.
- The local records microfilming grant funds not expended were not turned over to the department of libraries and archives timely.
- Franchise tax bills were not prepared timely.

The county clerk was inexperienced and was unaware of all compliance requirements. The county clerk has several noncompliance issues, undetected errors, and a deficit totaling \$30,461 as noted in finding 2019-001. Good internal controls dictate that strong supervisor review and oversight should be in place to reduce the risk of misstatement, uncorrected errors, and unnecessary penalties.

We recommend the county clerk's office strengthen internal controls over daily work by providing strong oversight and review process to ensure all financial activity is complete and accurate and is properly recorded and classified. Procedures should also be implemented to ensure compliance will applicable statutes, regulations, and policies.

*County Clerk's Response: I have segregated duties to my deputy clerk to help me be able to keep up. Franchise bills email sent to deputy also instead of just me.*

2019-003 The County Clerk's Office Does Not Have Adequate Segregation Of Duties

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

We recommend the county clerk segregate the duties of receiving, recording, depositing, disbursing, reporting, and reconciling funds or implement and document compensating controls to offset this control weakness.

*County Clerk's Response: I have segregated out accounts payable to deputy, also weekly to MVL clerk and rotating deposit between myself and chief deputy.*