

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
CLERK**

**For The Year Ended
December 31, 2020**



**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, 2020, 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, 2020, 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, 2020, 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 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2023, 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 findings:

- 2020-001 The County Clerk Overspent Available Funds And Has A Deficit Of \$10,514 In His 2020 Fee Account
- 2020-002 The County Clerk Failed To Implement Adequate Internal Controls Regarding Oversight And Review Of Daily Activities
- 2020-003 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2020-004 The County Clerk's Fourth Quarter Report Was Not Accurate And Required Numerous Adjustments
- 2020-005 The County Clerk Did Not Remit Usage Tax Fees To The State Timely
- 2020-006 The County Clerk Did Not Remit License Fees To The State Timely And Paid 2019 License Fees Out Of The 2020 Fee Account
- 2020-007 The County Clerk Lacks Adequate Controls Over Ad Valorem Taxes And Did Not Remit Ad Valorem Tax Payments Timely
- 2020-008 The County Clerk Has Not Settled The 2019 Fee Account
- 2020-009 The County Clerk Did Not Prepare Franchise Bills Timely
- 2020-010 The County Clerk Did Not Submit The Maximum Salary Limit For Deputies And Assistants To The Fiscal Court
- 2020-011 The County Clerk Did Not Deposit Funds Timely

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

September 7, 2023

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

For The Year Ended December 31, 2020

Receipts

Federal Grants		\$	23,503
State Revenue Supplement			68,059
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	454,355	
Usage Tax		591,633	
Tangible Personal Property Tax		1,228,910	
Notary Fees		205	
Other-			
Fish and Game Licenses		4,514	
Marriage Licenses		3,080	
Deed Transfer Tax		32,963	
Delinquent Tax		219,608	
Delinquent Tax Deposits		<u>67,338</u>	2,602,606
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		21,193	
Real Estate Mortgages		40,068	
Chattel Mortgages and Financing Statements		37,574	
Powers of Attorney		1,578	
Affordable Housing Trust		14,010	
All Other Recordings		58,170	
Charges for Other Services-			
Candidate Filing Fees		980	
Copy Work		2,079	
Postage		<u>4,856</u>	180,508
Other:			
Miscellaneous		40,571	
Lien Fees		<u>7,410</u>	47,981
Total Receipts			2,922,657

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, 2020
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 326,541

Usage Tax 573,737

Tangible Personal Property Tax 414,330

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,716

Delinquent Tax 16,711

Legal Process Tax 12,688

Affordable Housing Trust 14,010 \$ 1,361,733

Payments to Fiscal Court:

Tangible Personal Property Tax 83,621

Delinquent Tax 13,477

Deed Transfer Tax 31,057 128,155

Payments to Other Districts:

Tangible Personal Property Tax 682,205

Delinquent Tax 121,242 803,447

Payments to Sheriff 18,188

Payments to County Attorney 30,062

Other Regulatory Payments:

Delinquent Tax Deposit Refunds 67,338

Other Refunds 4,913 72,251

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 166,590

Employee Benefits-

Employer's Share Social Security 19,783

Employer's Share Retirement 61,679

Employer's Paid Health Insurance 37,692

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, 2020
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Materials and Supplies-			
Office Supplies	\$	38,667	
Other Charges-			
Conventions and Travel		220	
Dues		1,653	
Insurance and Bonds		2,115	
Miscellaneous		27,187	
Postage		16,393	
Election Expense		<u>17,878</u>	\$ 389,857
Debt Service:			
Operating Lease		<u>37,472</u>	
Total Disbursements			<u>\$ 2,841,165</u>
Net Receipts			81,492
Less: Statutory Maximum			<u>86,250</u>
Excess Fees			(4,758)
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>2,156</u>	<u>5,756</u>
Total Fund Deficit as of December 31, 2020			<u>\$ (10,514)</u>

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

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2020

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 2020 services
- Reimbursements for 2020 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2020

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).

ESTILL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2020
 (Continued)

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. 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.

The county clerk's contribution for calendar year 2018 was \$26,727, calendar year 2019 was \$35,178, and calendar year 2020 was \$61,679.

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 Kentucky Retirement Systems 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 Kentucky Retirement Systems 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 24.06 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:

ESTILL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2020
 (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)

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536.

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 78.5536 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 Kentucky Retirement Systems 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.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2020
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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, Kentucky Retirement Systems 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.

Kentucky Retirement Systems Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement Systems 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.

Kentucky Retirement Systems 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 federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 fiscal court 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. These requirements were met.

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 Estill County Clerk does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2020
(Continued)

Note 4. State Grant – Libraries & Archives Grant

The Estill County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$14,288 during calendar year 2018. No grant funds have been expended to date; however, grant funds were obligated in accordance with the terms of the agreement. The unexpended grant balance as of December 31, 2020 was \$14,288.

Note 5. Federal Grant - Help America Vote Act (HAVA) Grant

The Estill County Clerk's office received a Help America Vote Act (HAVA) grant from the Kentucky State Board of Elections in the amount of \$23,503. Funds totaling \$23,503 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2020.

Note 6. Lease Agreements

The Estill County Clerk's office was committed to the following lease agreements as of December 31, 2020:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2022
Software	\$ 2,963	60 months	May 1, 2023	\$ 112,594
Hardware	<u>832</u>	41 months	May 1, 2023	<u>29,233</u>
Totals	<u>\$ 3,795</u>			<u>\$ 141,827</u>

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

December 31, 2020

Assets

Cash in Bank		\$	64,116
Deposits in Transit			35,244
Receivables:			11,920
Uncollected Receivables			
Due From 2019 Fee Account - Loan	\$	4,595	
Due From 2019 Fee Account - License Fees		25,013	<u>29,608</u>
Total Assets			<u>140,888</u>

Liabilities

Paid Obligations:

Outstanding Checks		2,055	
Motor Vehicle Licenses		7,190	
Usage Tax		33,425	
Legal Process Tax		1,148	
Tangible Personal Property Tax		47,309	
Delinquent Tax		11,579	
Affordable Housing		4,962	
Miscellaneous		<u>135</u>	
Total Paid Obligations			<u>107,803</u>

Unpaid Obligations:

Due to 2021 Fee Account: Tangible Personal Property Tax - State		30,223	
Tangible Personal Property Taxes - County		6,137	
Tangible Personal Property Tax - Library		134	
Tangible Personal Property Tax - Health		288	
Tangible Personal Property Tax - Extension		140	
Tangible Personal Property Tax - Ambulance		360	
Tangible Personal Property Tax - School		1,972	
Tangible Personal Property Tax - City of Irvine		5	
Delinquent Tax - County		890	
Deed Transfer Tax - County		<u>3,450</u>	
Total Unpaid Obligations			<u>43,599</u>

Total Liabilities			<u>151,402</u>
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Total Fund Deficit as of December 31, 2020		\$	<u>(10,514)</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, 2020, and the related notes to the financial statement and have issued our report thereon dated September 7, 2023. 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) as a basis for designing 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 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 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, 2020-009, and 2020-010 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 2020-011 to be a significant deficiency.

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 financial statement. 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 2020-001, 2020-002, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, 2020-009, 2020-010, and 2020-011.

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 dark ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

September 7, 2023

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, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The County Clerk Overspent Available Funds And Has A Deficit Of \$10,514 In His 2020 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The county clerk overspent the funds that were available to him in 2020. For calendar year 2020, the county clerk had recognized receipts of \$2,922,657, and recognized disbursements of \$2,933,171, which resulted in a deficit of \$10,514 in the 2020 fee account. The county clerk overspent his 2020 budget, which contributed to the deficit. Specifically, the amounts for matching retirement and social security were significantly over budget. Due to inaccurate calculations, the original budget did not allot enough matching funds given the deputies salaries that were anticipated. Additionally, the amount spent for elections and postage greatly exceeded the budgeted amounts due to unanticipated costs associated with the COVID-19 pandemic and the necessary changes to operating procedures.

Total actual disbursements (including payroll and all other expenses) were \$376,415 more than budgeted disbursements. Total receipts also exceeded budgeted amounts by a total of \$268,072. When actual receipts and disbursements exceed anticipated and budgeted amounts, it is essential to closely monitor the budget to ensure funds are available to meet all obligations. Budget amendments can be submitted as necessary to account for unanticipated receipts and disbursements.

The combination of inaccurate calculations for payroll matching disbursements and the unanticipated expenses associated with the global pandemic caused the deficit. Further, the county clerk did not have proper internal controls and oversight procedures in place to monitor the budget to ensure expenses did not exceed available funds for 2020.

There are outstanding receivables that have not been collected and outstanding obligations that have not been paid from the 2020 fee account. The 2020 fee account is owed \$29,608 from the 2019 fee account for 2019 disbursements paid from the 2020 fee account in the prior year. The 2020 fee account owes the 2021 fee account \$30,223 for December state tangible personal property taxes paid from the wrong account. The county is owed \$6,137 for tangible personal property taxes, \$890 for delinquent property taxes, and \$3,450 for deed transfer taxes. Various taxing districts are owed a total of \$2,899 for tangible personal property taxes.

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: This was due to salary. We have since went from 5 full time employees to 4 and 1 part time.

ESTILL COUNTY
 BRIAN CROWE, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The County Clerk Failed To Implement Adequate Internal Controls Regarding Oversight And Review Of Daily Activities

This is a repeat finding and was included in the prior year audit report as finding 2019-002. The county clerk failed to maintain adequate oversight and review of daily office functions during the period January 1, 2020 through December 31, 2020, resulting in the following issues:

- The budget was overspent and the 2020 fee account has a deficit of \$10,514.
- The fourth quarter financial statement was not materially accurate and required numerous adjustments and reclassifications.
- Usage taxes were not paid to the state timely.
- License fees were not paid to the state timely and weekly reports were not filed timely.
- Tangible taxes are owed to the county and other taxing districts.
- Deposits were not made timely.
- Invoices were not paid timely.
- The 2019 fee account has not been settled.
- 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 \$10,514 as noted in finding 2020-001. 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 processes to ensure all financial activity is complete and accurate and is properly recorded and classified. Procedures should also be implemented to ensure compliance with applicable statutes, regulations, and policies. This matter will be referred to the Department for Local Government.

County Clerk's Response: We are training all employees on monthly, weekly and daily work. Clerk is checking everybody's work daily.

2020-003 The County Clerk's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2019-003. The county clerk's office lacks adequate segregation of duties. According to the county clerk, due to a small staff size, the responsibilities of 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.

ESTILL COUNTY
 BRIAN CROWE, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003 The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

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: We try and have implemented policy to teach different jobs in office. But with small staff it makes this difficult.

2020-004 The County Clerk's Fourth Quarter Report Was Not Accurate And Required Numerous Adjustments

The county clerk's fourth quarter financial report was not accurate and required numerous adjustments. Several errors were made when classifying items on the receipts and disbursements ledgers and when carrying items over from the ledgers to the fourth quarter report. Receipts were misstated by \$138,138 and disbursements were misstated by \$115,872 when comparing amounts reported to actual bank activity. The county clerk did not have procedures in place to ensure amounts reported for receipts and disbursements were accurate on the fourth quarter financial report. As a result, the county clerk's quarterly report submitted to the Department for Local Government was materially inaccurate.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to submit quarterly reports to the Department for Local Government by the 30th day following the close of each quarter. The uniform system of accounts has specific requirements on how to record various types of transactions for different funds and fund types. The most basic requirement of the uniform system of accounts is that all transactions are recorded and classified correctly.

We recommend the county clerk ensure that all quarterly financial reports are accurate prior to submission to the Department for Local Government.

County Clerk's Response: We are looking to outsource our bookkeeping to help us to keep up with our books.

2020-005 The County Clerk Did Not Remit Usage Tax Fees To The State Timely

The county clerk did not pay usage tax payments to the state timely. The county clerk transferred usage tax payments to the usage tax account daily but did not remit the necessary documentation to the Transportation Cabinet in order for the auto withdrawals of fund to occur. Due to inadequate controls, the county clerk failed to remit usage tax to the state timely. Failure to file the required documentation with the state timely resulted in usage tax being withdrawn from the usage tax account by the state in batches of several days or weeks at a time. This makes it harder to track usage payments to ensure proper amounts have been remitted and makes it more difficult to reconcile the usage tax account. Late remittance of usage taxes and late filing of weekly reports could potentially lead to penalties and other fees.

ESTILL COUNTY
 BRIAN CROWE, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The County Clerk Did Not Remit Usage Tax Fees To The State Timely (Continued)

KRS 131.155(2)(c) states, in part, “the clerk shall deposit motor vehicle usage tax and sales and use tax collections in the clerk's local depository account not later than the next business day following receipt. The clerk shall cause the funds to be electronically transferred from the clerk's local depository account to the State Treasury in the manner and at the times prescribed by the department[.]”

KRS 138.464(3) states, “[f]ailure to forward duplicates of all receipts issued during the reporting period or failure to file the weekly report of moneys collected within seven (7) working days after the report is due shall subject the clerk to a penalty of two and one-half percent (2.5%) of the amount of moneys collected during the reporting period for each month or fraction thereof until the documents are filed.”

KRS 138.464(4) states, “[f]ailure to deposit or, if required, transfer collections as required above shall subject the clerk to a penalty of two and one-half percent (2.5%) of the amount not deposited or, if required, not transferred for each day until the collections are deposited or transferred as required above. The penalty for failure to deposit or transfer money collected shall not be less than fifty dollars (\$50) nor more than five hundred dollars (\$500) per day.”

We recommend the county clerk implement procedures to ensure usage tax fees are remitted in accordance with statutes and ensure weekly reports are sent to the state in a timely manner.

County Clerk's Response: Clerk has changed the way we handle this. Deputy Clerk has took over this and currently we are on time.

2020-006 The County Clerk Did Not Remit License Fees To The State Timely And Paid 2019 License Fees Out Of The 2020 Fee Account

The county clerk did not pay license fee payments to the state timely. The county clerk did not have adequate money in his 2019 fee account to pay weeks 46-53 in the amount of \$24,505, so the county clerk waited until January 2020 and paid license fee payments out of the 2020 Fee account. The county clerk has not reimbursed the 2020 fee account.

Due to inadequate controls to ensure timely payments, the county clerk failed to remit license fees to the state timely. The county clerk owes the 2020 fee account \$25,013 from the 2019 fee account as noted on the Schedule of Excess Liabilities Over Assets. This also results in incorrect totals listed on the fourth quarter report for license fees paid to the state for calendar year 2020 and required adjustment.

KRS 186.230 states, in part, “[t]he county clerk shall see that KRS 186.005 to KRS 186.260 in his county are enforced. In so doing he shall: ... (5) Report and remit each Monday to the Transportation Cabinet all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period. He shall make all checks payable to the State Treasurer. Unless the clerk forwards duplicates of all receipts issued by him during the reporting period with his report and remits the amount shown due by the report within seven (7) days after the report and remittance are due, he shall pay a penalty of one percent (1%) per month or fraction thereof on the amount of money shown to be due on the report. The cabinet may in its discretion grant a reasonable extension of time to file his report and remit all moneys not to exceed ten (10) days for any one (1) report[.]”

ESTILL COUNTY
 BRIAN CROWE, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-006 The County Clerk Did Not Remit License Fees To The State Timely And Paid 2019 License Fees Out Of The 2020 Fee Account (Continued)

We recommend the county clerk ensure that license fees are remitted in accordance with statutes and ensure that payments are made from the correct fee account each year.

County Clerk's Response: We had to pay 2019 fees out of 2020 because lack of funds for 2019. Deputy Clerk is now in charge of weekly reports and we are getting caught up.

2020-007 The County Clerk Lacks Adequate Controls Over Ad Valorem Taxes And Did Not Remit Ad Valorem Tax Payments Timely

The county clerk's office lacks adequate controls over the reporting and disbursement of ad valorem taxes. The county clerk miscalculated the amount due for all taxing districts for the month of June, resulting in districts being underpaid by \$3,277. In addition, the county clerk did not remit ad valorem tax payments of \$5,759 to the county for the month of December and paid \$30,223 to the state from the 2021 fee account. Furthermore, one ad valorem tax payment was paid from the usage account and not recorded on the ledgers or quarterly report.

The errors on the June monthly report were a result of the county clerk using the incorrect amounts. According to the county clerk, he did not remit the amount due the county for December due to insufficient funds in the 2020 fee account to cover the obligation. It is also why the December tangible tax payment to the state was made from the 2021 fee account. The account would have been overdrawn had he remitted those payments.

Due to inadequate controls and no review process, the county clerk failed to properly remit ad valorem tax payments and did not properly record payments on the ledgers or quarterly reports. Also, the lack of oversight resulted in inaccurate financial reporting to external agencies, such as the Department for Local Government. The Estill County Clerk owes the following districts:

Taxing District	Amount Owed
County	\$ 6,137
Library	134
Health	288
Extension	140
Ambulance	360
Board of Education	1,972
City of Irvine	5
2021 Fee Account	30,223
	<u>\$ 39,259</u>

Strong internal controls dictate that all disbursements are reviewed by a knowledgeable employee who is not involved in posting to the ledgers or writing checks. Adequate supervisory review is essential for providing protection from asset misappropriation and inaccurate financial reporting.

ESTILL COUNTY
 BRIAN CROWE, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-007 The County Clerk Lacks Adequate Controls Over Ad Valorem Taxes And Did Not Remit Ad Valorem Tax Payments Timely (Continued)

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 department for the prompt payment to the state of other state tax moneys collected by the clerk.”

We recommend the county clerk strengthen controls and implement procedures to ensure ad valorem taxes are properly calculated and remitted timely. The clerk should remit the amounts due each taxing district as indicated on the Schedule of Excess Liabilities Over Assets.

County Clerk's Response: Ad valorem is currently up to date. We segregated duties to Deputy Clerk to keep this up to date.

2020-008 The County Clerk Has Not Settled The 2019 Fee Account

This is a repeat finding and was included in the prior year audit report as finding 2019-001. Per the prior year audit report, the 2019 fee account has a deficit of \$30,461. Web renewals that had accumulated in the account have been properly paid to the 2020 fee account; however, all other amounts remain outstanding and unpaid.

The county clerk does not have funds available to settle outstanding liabilities for the 2019 fee account and has not created a satisfactory resolution to the deficit. As a December 31, 2020, \$25,013 is still due the 2020 fee account for license fees paid from the wrong account and \$4,596 is due the 2020 fee account for funds borrowed from 2020 to pay 2019 obligations that were not returned. Consequently, the 2020 fee account cannot pay outstanding obligations until these funds are repaid and has a fund deficit of \$10,514, as discussed in finding 2020-001.

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 of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.

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. The settlement for excess fees shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810, and the provisions of this section shall not be construed to amend KRS 64.820.”

We recommend the county clerk consult with the fiscal court and county attorney to determine a resolution to the 2019 fund deficit.

County Clerk's Response: Due to over budget we are still in process to settle 2019.

ESTILL COUNTY
 BRIAN CROWE, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-009 The County Clerk Did Not Prepare Franchise Bills Timely

During calendar year 2020, there were 4 franchise bills out of 29 certified by the Kentucky Department of Revenue that were not prepared timely by the county clerk. Delays of up to five months were noted.

The county clerk was not familiar with the process of preparing franchise bills due to inexperience and did not have adequate controls in place to ensure franchise tax bills were prepared timely.

The total face value of these bills was \$240,541, meaning various taxing districts in the county were delayed in receiving their proportionate share of the franchise taxes. Delays of this magnitude for taxing districts can create cash flow problems, create an unnecessary burden for their budget, and impact the ability to provide services to taxpayers.

KRS 136.180(5) states, “[t]he certification of valuation shall be filed by each county clerk in his office, and shall be certified by the county clerk to the proper collecting officer of the county, city, or taxing district for collection.” While the statute does not provide a time frame, good internal controls and efficient civil servitude require the bills be prepared and sent to the sheriff for collection in a reasonable time frame.

We recommend the county clerk implement procedures to ensure franchise bills are prepared timely.

County Clerk’s Response: Franchise bills went to electronic send and we failed to realize they were sent and got behind. Currently, all franchise bills are up to date.

2020-010 The County Clerk Did Not Submit The Maximum Salary Limit For Deputies And Assistants To The Fiscal Court

The county clerk did not submit the maximum salary limit for deputies and assistants to the fiscal court for approval. This occurred because the county clerk was unfamiliar with the budget process. The county clerk is in violation of KRS 64.530(3).

KRS 64.530(3) states, in part, “[t]he fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant[.]”

Strong internal controls and oversight procedures require the official to closely monitor expenses to ensure they don’t exceed the budgeted amounts, statutory limitations, or funds available to meet obligations.

We recommend the county clerk ensure the maximum salary limit for deputies and assistants is submitted to the fiscal court each year when the budget is submitted.

County Clerk’s Response: Oversight on Clerk’s part. Failure to know I had to do this.

ESTILL COUNTY
BRIAN CROWE, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-011 The County Clerk Did Not Deposit Funds Timely

The county clerk did not deposit all receipts timely during calendar year 2020. During testing procedures, we noted numerous instances in which deposits for several days cleared the bank on the same day indicating that deposits are not being made daily. We also noted that year end deposits did not clear the bank timely and were delayed by up to a month.

The county clerk did not have adequate controls and procedures in place to ensure deposits were made timely. 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 “Daily deposits intact into a federally insured banking institution. (KRS 68.210)”. Additionally, strong internal controls require all payments be deposited timely.

We recommend the county clerk ensure all payments are deposited timely by establishing effective internal controls over deposits.

County Clerk's Response: Segregated duties to Deputy Clerk and currently deposits are made daily.