

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

**For The Year Ended
December 31, 2023**



**ALLISON BALL
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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Teris Swanson, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston County Fiscal Court

Report on the Audit of the Financial Statement

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Livingston County, Kentucky, for the year ended December 31, 2023, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Livingston County Clerk for the year ended December 31, 2023, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws as described in Note 1.

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 section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Livingston County Clerk, as of December 31, 2023, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Livingston County Clerk and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Teris Swanson, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston County Fiscal Court

Basis for Opinion (Continued)

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Livingston County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, 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 and pervasive.

Responsibilities of Management 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.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Livingston County Clerk's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Livingston County Clerk's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Livingston County Clerk's ability to continue as a going concern for a reasonable period of time.

The Honorable Teris Swanson, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2024, on our consideration of the Livingston County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Livingston County Clerk's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report findings:

- 2023-001 The Livingston County Clerk's Office Does Not Have Adequate Segregation Of Duties
- 2023-002 The Livingston County Clerk Allowed Unauthorized Access To The Statewide Kentucky Automated Vehicle Information System

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

September 12, 2024

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

For The Year Ended December 31, 2023

Receipts

State Revenue Supplement	\$	69,995	
State Fees For Services			3,454
Fiscal Court			3,368
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	496,548	
Usage Tax		1,007,845	
Tangible Personal Property Tax		1,335,588	
Disabled Placards		816	
Other-			
Marriage Licenses		2,100	
Deed Transfer Tax		46,032	
Delinquent Tax		142,117	
Delinquent Tax Deposits		<u>2,559</u>	3,033,605
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		24,476	
Real Estate Mortgages		23,732	
Chattel Mortgages and Financing Statements		28,014	
Affordable Housing Trust		8,424	
All Other Recordings		7,616	
Charges for Other Services-			
Candidate Filing Fees		50	
Copy Work		2,150	
Postage		2,586	
Document Storage Fees		14,540	
IRS Liens		<u>230</u>	111,818
Other:			
Miscellaneous		1,206	
Overpayments		<u>8,416</u>	9,622
Interest Earned			<u>95</u>
Total Receipts			3,231,957

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

LIVINGSTON COUNTY
 SONYA WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2023
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 388,930

Usage Tax 977,699

Tangible Personal Property Tax 525,529

Licenses, Taxes, and Fees-

Disabled Placards 664

Delinquent Tax 17,712

Legal Process Tax 8,318

Affordable Housing Trust 8,424 \$ 1,927,276

Payments to Fiscal Court:

Tangible Personal Property Tax 95,435

Delinquent Tax 14,275

Deed Transfer Tax 43,730

Document Storage Fees 14,540 167,980

Payments to Other Districts:

Tangible Personal Property Tax 661,208

Delinquent Tax 66,229 727,437

Payments to Sheriff

11,851

Payments to County Attorney

19,449

Tax Bill Preparation

2,258

Other Regulatory Payments:

Delinquent Tax Deposit Refunds 2,559

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 163,564

Materials and Supplies-

Office Supplies 4,407

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

LIVINGSTON COUNTY
 SONYA WILLIAMS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2023
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued)

Other Charges-			
Bank Charges	\$	233	
Conventions and Travel		3,587	
Dues		3,460	
Bad Debt Expense		254	
Miscellaneous		2,720	
Postage		429	
Overpayments		<u>8,416</u>	\$ 187,070
Capital Outlay-			
Office Equipment			<u>5,944</u>
Total Disbursements			<u>\$ 3,051,824</u>
Net Receipts			180,133
Less: Statutory Maximum			<u>97,126</u>
Excess Fees			83,007
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>4,983</u>	<u>8,583</u>
Excess Fees Due County for 2023			74,424
Payment to Fiscal Court - February 27, 2024			<u>65,080</u>
Balance Due Fiscal Court at Completion of Audit*			<u>\$ 9,344</u>

* - The county clerk presented a check to the fiscal court for excess fees on June 18, 2024.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2023

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 due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing clerk to make a final settlement with the fiscal court by March 15 immediately following the expiration of his or her term of office.

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) as of December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2023 services
- Reimbursements for 2023 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2023

The measurement focus of a fee official's financial statement is upon current financial resources. Per KRS 64.152(2), remittance of excess fees is due to the fiscal court when the county clerk makes their final settlement.

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).

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2023
 (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 Kentucky Public Pensions Authority (KPPA). 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.

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 CERS 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 CERS 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 26.79 percent for the first six months and 23.34 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2023
(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, they 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, they 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. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2023
 (Continued)

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

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 Livingston 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 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. 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 Livingston 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, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Fiduciary Account

A. Escrow Account

The Livingston County Clerk deposited outstanding checks (checks the clerk wrote during the calendar that have not cleared the bank) into a custodial bank account. When statutorily required, the county clerk will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The county clerk's escrowed amounts were as follows:

2022 \$533

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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ALLISON BALL AUDITOR OF PUBLIC ACCOUNTS

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

The Honorable Teris Swanson, Livingston County Judge/Executive
The Honorable Sonya Williams, Livingston County Clerk
Members of the Livingston County Fiscal Court

We have audited, 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 Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Livingston County Clerk for the year ended December 31, 2023, and the related notes to the financial statement and have issued our report thereon dated September 12, 2024. The Livingston County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Livingston County Clerk's internal control over financial reporting (internal control) 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 Livingston County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Livingston County Clerk's internal control.

Our consideration of internal control over financial reporting 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 2023-001 and 2023-002 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)

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Livingston County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2023-002.

Views of Responsible Official and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Livingston County Clerk's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The Livingston County Clerk's response was not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

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,



Allison Ball
Auditor of Public Accounts
Frankfort, KY

September 12, 2024

SCHEDULE OF FINDINGS AND RESPONSES

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

For The Year Ended December 31, 2023

FINANCIAL STATEMENT FINDINGS:

2023-001 The Livingston County Clerk's Office Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2022-001. The Livingston County Clerk's Office does not have adequate segregation of duties. The county clerk prepares monthly and quarterly reports, prepares daily checkout sheets, posts receipts and disbursements to the ledgers, and performs monthly bank reconciliations. According to the county clerk, this is due to the clerk's decision to have control over those functions of the office. A lack of segregation of duties or strong oversight increases the risk that undetected errors or fraud could occur.

KRS 46.010(2) requires, "each county treasurer, and each county officer who receives or disburses state funds, to keep an accurate account of receipts and disbursements, showing a daily balance of receipts and disbursements." KRS 46.010(3) requires, "all county officers handling state funds, other than taxes, to make an annual report to the Department for Local Government showing receipts and disbursements, and to make other financial statements as the Department for Local Government requires." Segregation of duties is a basic internal control necessary to ensure the accuracy and reliability of financial reports. Proper segregation of duties over the accounting and reporting functions or the implementation of compensating controls is essential for providing protection from errors occurring and not being detected. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in posting to the receipt and disbursement ledgers, preparing monthly bank reconciliations, and preparing quarterly reports. If this is not feasible due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: The Livingston County Clerk's Office employs a small staff thus creating difficulty for an entirety of segregation of duties. At present, deputy clerks prepare individual check out sheets and deposits. The county clerk collects, totals, and prepares an overall daily sheet and deposit which is reviewed by a deputy clerk daily and initialed. Both the county clerk and staff prepare and sign checks with a two signature requirement as a compensating control. Though the clerk posts receipts and disbursement ledgers daily, line items (recording fees, motor vehicle & boat ad valorem, usage tax, deed tax, and lien fees) are reviewed daily, weekly, and monthly by deputy clerks responsible for collecting those individual items, ensuring that totals collected match with corresponding reports. In the future, compensating controls can always be improved upon. As it is the county clerk's duty to be liable for the activity within the office, it is the ultimate goal to receive and disburse county finances responsibly and continue to do the best for Livingston County.

2023-002 The Livingston County Clerk Allowed Unauthorized Access To The Statewide Kentucky Automated Vehicle Information System

Auditors were notified of a possible breach of access to official record keeping applications in the Livingston County Clerk's Office. We found that the Livingston County Clerk allowed a former employee of her office to access the Kentucky Transportation Cabinet's Kentucky Automated Vehicle Information System (KAVIS). This individual was no longer authorized to access KAVIS, as her credentials had been cancelled upon leaving employment with the county clerk. The county clerk provided her personal login credentials to the former employee who then accessed the KAVIS system. The KAVIS system is used primarily by county clerk offices to perform vehicle and vessel-related transactions and contains detailed motor vehicle information as well as personally identifiable information (PII) of all motor vehicle registrants across the state of Kentucky.

LIVINGSTON COUNTY
 SONYA WILLIAMS, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2023
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2023-002 The Livingston County Clerk Allowed Unauthorized Access To The Statewide Kentucky Automated Vehicle Information System (Continued)

The former employee was tasked with the motor vehicle reporting that is required of the county clerk's office. The former employee was not paid for performing the reporting for the clerk, nor was she on contract with the county clerk's office. The former employee did the reporting as a favor to the county clerk. The county clerk stated the only login credentials shared with the former employee were for accessing KAVIS.

The breach of access controls was allowed to occur when the county clerk was on vacation. The county clerk's office employee, who is the county clerk's backup, was on vacation as well. The backup is responsible for sending the daily and weekly motor vehicle reports when the county clerk is out of the office. Since these reports are required to be submitted on the prescribed schedule, the clerk thought it would be acceptable to have the former employee come in and submit these reports in KAVIS for her.

By allowing an unauthorized user access to a system after leaving the employment of the county clerk's office, the opportunity increases for unauthorized modification to motor vehicle information, destruction of assets, interruption of services, or inappropriate and illegal use of system resources. Additionally, this unauthorized access provides an opportunity for the possible misuse of PII of the millions of Kentucky vehicle registrants.

KRS 186A.265(3) requires a certification by the county clerk that states "I will not willfully permit anyone other than those persons shown hereon, or on another certificate of this same type executed by me, and persons authorized in writing by the Department of Vehicle Regulation, to use telecommunications terminals linked to the automated system and under my control."

The Commonwealth Office of Technology's Office of the Chief Information Security Officer (CISO) establishes internal controls designed to protect access to information technology (IT) systems, applications, network resources, and data. Access Control is defined in *CIO-072: IT Access Control and User Access Management Policy* as the process that limits and controls access to a system, application, or network resources. This policy states, "The Commonwealth Office of Technology (COT) and agencies shall restrict access to resources based on the principles of need-to-know and least privilege to ensure only authorized users have access to Commonwealth of Kentucky resources and data."

Additionally, CISO's *ENT-201 Enterprise Security Controls and Best Practices* details security controls that CISO requires for information systems and activities for the Commonwealth of Kentucky. Section AC-3 – Access Enforcement (5) of this document states that agencies shall ensure service providers "Prevent access to security functions or security services in a manner that could result in a failure to enforce system security policies".

We recommend the Livingston County Clerk refrain from sharing login credentials with anyone. Each system user should be required to maintain personal login credentials which allows for the tracking of changes made within KAVIS or any system used by the county clerk's office. The Livingston County Clerk should change her personal login credentials immediately and never share them again. The Livingston County Clerk should also institute physical access control policies for all electronic record keeping systems used in the county clerk's office. As this breach of access controls was not reported to the Kentucky Transportation Cabinet, Department of Vehicle Regulation, or the Commonwealth Office of Technology's Office of the Chief Information Security Officer, this finding will be referred to both.

County Clerk's Response: Please refer to the Exit Addendum Finding 002 content as it scribed the event correctly. I appreciate and will adhere to the auditor's recommendations.