

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
CLERK**

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Myron Lewis, Elliott County Judge/Executive
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott 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 Elliott County, Kentucky, for the year ended December 31, 2018, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Myron Lewis, Elliott County Judge/Executive
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott 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 Elliott 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 Elliott County Clerk, as of December 31, 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Elliott County Clerk for the year ended December 31, 2018, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2020, on our consideration of the Elliott 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 Elliott County Clerk's internal control over financial reporting and compliance.

The Honorable Myron Lewis, Elliott County Judge/Executive
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

- 2018-001 The County Clerk Is Not Fulfilling Her Duties As An Elected County Official
- 2018-002 The County Clerk's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements
- 2018-003 The County Clerk Did Not Comply With The County's Fee Pooling Ordinance
- 2018-004 The County Clerk Did Not Pay Delinquent Taxes To Districts Timely
- 2018-005 The County Clerk Did Not Remit The Correct Amount Or Timely Payments Of Affordable Housing To The State
- 2018-006 The County Clerk Did Not Remit Payments Of Legal Process Tax To The State
- 2018-007 The County Clerk Owes \$16,452 Of Usage Tax To The State
- 2018-008 The County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$79,211
- 2018-009 The County Clerk Did Not Pay License Fees Timely
- 2018-010 The County Clerk Did Not Prepare All Franchise Tax Bills
- 2018-011 The County Clerk Has Not Settled The 2017 Fee Account
- 2018-012 The County Clerk Did Not Deposit Grant Funds Timely

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 2, 2020

ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State Revenue Supplement	\$	67,428
State Fees For Services		1,645
Fiscal Court		82,205
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	166,606
Usage Tax		234,854
Tangible Personal Property Tax		481,815
Other-		
Marriage Licenses		1,071
Spousal Abuse		420
Personalized Plate Fees		50
Disabled Placards		250
Deed Transfer Tax		9,384
Delinquent Taxes		105,677
		1,000,127
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		6,651
Real Estate Mortgages		6,522
Chattel Mortgages and Financing Statements		16,286
Powers of Attorney		158
Affordable Housing Trust		4,458
All Other Recordings		5,523
Charges for Other Services-		
Copy Work		2,301
Postage		623
Lien Fees		5,238
		47,760
Other:		
Miscellaneous		509
Refunds/Overpayments		86
		595
Interest Earned		44
Total Receipts		1,199,804

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

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 115,291	
Usage Tax	227,018	
Tangible Personal Property Tax	179,556	

Licenses, Taxes, and Fees-

Delinquent Tax	9,064	
Legal Process Tax	5,144	
Affordable Housing Trust	5,538	
Miscellaneous	144	\$ 541,755

Payments to Fiscal Court:

Tangible Personal Property Tax	56,654	
Delinquent Tax	9,385	
Deed Transfer Tax	8,971	75,010

Payments to Other Districts:

Tangible Personal Property Tax	226,797	
Delinquent Tax	54,620	281,417

Payments to Sheriff

8,498

Payments to County Attorney

13,620

Operating Disbursements and Capital Outlay:

Other Charges-

Postage	358	
Miscellaneous	1,794	
Refunds	963	3,115

Total Disbursements

\$ 923,415

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

ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2018
(Continued)

Net Receipts	\$ 276,389
Less: Statutory Maximum	<u>78,605</u>
Excess Fees	197,784
Less: Expense Allowance	<u>3,600</u>
Excess Fees Due County for 2018	194,184
Payments to Fiscal Court - Monthly	<u>185,306</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 8,878</u>

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

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2018

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Fee Pooling

The Elliott County Clerk's office is required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The county clerk is responsible for paying all amounts collected for others and applicable refunds to customers. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official.

ELLIOTT COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (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 (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

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

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

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

E. Death Benefit

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

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

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

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The county clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Elliott County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$7,163. The county clerk did not deposit these funds timely, consequently the balance is zero for the grant due to the check being stale dated.

Note 5. Lease Agreements

- A. The county clerk's office committed to a lease agreement for computer equipment maintenance on August 27, 2010, that was completed August 26, 2015. The agreement renews automatically for additional one year terms thereafter, unless written notice is received from either party 60 days prior to renewal date. Fiscal Court makes the annual payment of \$2,209.
- B. The county clerk's office committed to a lease agreement for computer software license and service on August 27, 2010, that was completed August 26, 2015. The agreement renews automatically for additional one year terms thereafter, unless written notice is received from either party 60 days prior to renewal date. Fiscal Court makes the monthly payment of \$750.

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

Note 6. On Behalf Payments

The Elliott County Clerk's office is required by the fiscal court to participate in a fee pooling system. Since the county clerk is fee pooling, the fiscal court pays the county clerk's statutory maximum and expense allowance as reflected on the county clerk's financial statement. For the year ended December 31, 2018, the fiscal court's contributions recognized by the county clerk included the amounts that were based on the statutory maximum as required by KRS 64.5275. The Elliott County Clerk recognized receipts from the fiscal court and disbursements for the statutory maximum and expense allowance of \$82,205 for the year ended December 31, 2018.

Note 7. Escrow

During 2016, the former county clerk received delinquent tax payments which were never processed. As a result, the Elliott County Clerk deposited \$2,250 into an interest bearing bank account for the unidentified delinquent tax payments. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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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 Myron Lewis, Elliott County Judge/Executive
The Honorable Jennifer Carter, Elliott County Clerk
Members of the Elliott 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 Elliott County Clerk for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated April 2, 2020. The Elliott 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 Elliott County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Elliott 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 other deficiencies that we consider to be significant deficiencies.

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 2018-001 and 2018-002 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)

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, 2018-011, and 2018-012 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 2, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

FINANCIAL STATEMENT FINDINGS:

2018-001 The County Clerk Is Not Fulfilling Her Duties As An Elected County Official

The county clerk is not fulfilling her duties as an elected county official. The county clerk is not meeting these requirements and other statutory requirements. We have noted the following findings, which are detailed in the subsequent findings:

- The County Clerk's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements
- The County Clerk Did Not Comply With The County's Fee Pooling Ordinance
- The County Clerk Did Not Pay Delinquent Taxes To Districts Timely
- The County Clerk Did Not Remit The Correct Amount Or Timely Payments Of Affordable Housing To The State
- The County Clerk Did Not Remit Payments Of Legal Process Tax To The State
- The County Clerk Owes \$16,452 Of Usage Tax To The State
- The County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$79,211
- The County Clerk Did Not Pay License Fees Timely
- The County Clerk Did Not Prepare All Franchise Tax Bills
- The County Clerk Has Not Settled The 2017 Fee Account
- The County Clerk Did Not Deposit Grant Funds Timely

The county clerk does not devote sufficient time to financial reporting and has not implemented policies and procedures to ensure all financial activity is compiled and reported timely. Additionally, the county clerk has failed to implement policies and procedures to ensure taxes are distributed to taxing districts timely. The county clerk is in violation of many statutes that govern fee office operations. Most importantly, taxing districts (state, county, school, library, health department, extension district, conservation, etc.) are owed substantial amounts of taxes and have been deprived of these resources for a significant time.

KRS 68.210 gives the state local finance officer authority to prescribe a uniform system of accounts, which sets certain minimum accounting requirements for local officials. It is the statutory duty of the county clerk to collect and distribute motor vehicle taxes, delinquent taxes, and various taxes/fees on legal instruments. There are numerous statutes that outline the duties and responsibilities of the county clerk. Please refer to each individual finding for specific information related to that topic.

We recommend the county clerk take immediate action to remedy the issues outlined in these comments and recommendations. Further, we recommend the county clerk implement policies and procedures for her office to ensure these issues are corrected for future periods. This matter will be referred to the Department of Revenue, Office of the Attorney General and the Department for Local Government.

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

2018-002 The County Clerk's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2017-007. The county clerk prepares daily deposits, prepares and signs checks, and collects cash from customers. The bookkeeper posts to receipts disbursements ledger, reconciles bank accounts, and prepares quarterly report. The condition is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to.

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The County Clerk's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Fee Receipts And Disbursements (Continued)

Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which would increase the risk that undetected misappropriation of assets and inaccurate financial reporting will occur. Internal controls and proper segregation of duties protects employees and the county clerk in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the county clerk's office adequately segregate duties and implement internal controls to ensure transactions are recorded timely. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the county clerk or bookkeeper could take on the responsibility of reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations prepared by another employee. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. Further, the county clerk could require dual signatures on all checks, with one signature being the county clerk's.

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

2018-003 The County Clerk Did Not Comply With The County's Fee Pooling Ordinance

This is a repeat finding and was included in the prior year audit report as finding 2017-002. As depicted in the following chart, the county clerk did not remit her monthly excess fees timely to fiscal court per the fee-pooling ordinance:

Excess Fee Month	Date Check Written	Days Late
January	2/20/2018	10
February	4/25/2018	46
March	4/17/2018	7
April	5/29/2018	19
May	6/14/2018	4
June	7/17/2018	7
July	9/26/2018	47
August	9/26/2018	16
September	12/12/2018	63
October	12/12/2018	32
November	12/27/2018	17
December	1/24/2019	14

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The County Clerk Did Not Comply With The County's Fee Pooling Ordinance (Continued)

Also, the county clerk has not remitted all excess due to the county, an additional \$8,876 is due. According to the county clerk, she wanted to ensure she was remitting the correct amount of excess fees which delayed payment timeliness. Also, the clerk does not have adequate controls to ensure that that excess fees are paid timely in accordance with the county fee pooling ordinance. By not submitting the monthly excess fees to the fiscal court by the tenth of each month as required by Elliott County Fiscal Court Ordinance FY-13-001, the county clerk is not in compliance with the ordinance. In addition, the fiscal court is deprived of these funds for a significant amount of time potentially impacting their budget.

On February 4, 2013, the Elliott County Fiscal Court passed Ordinance FY-13-001, which requires the sheriff's office and county clerk's office to participate in fee pooling. Under fee pooling, the sheriff's office and county clerk's office pay net income (excess fees) monthly to the fiscal court, and fiscal court pays all salaries and expenses of those offices. Net income is due no later than the tenth of the month for the preceding month.

We recommend the county clerk comply with the county's fee pooling ordinance by paying excess fees based on calculations from the county clerk's financial records no later than the tenth of the month for the preceding month and implement controls to ensure that excess fees are paid timely.

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

2018-004 The County Clerk Did Not Pay Delinquent Taxes To Districts Timely

This is a similar issue from the prior year and was included in the prior year audit report as finding 2017-006. The county clerk did not pay March delinquent tax payments to districts timely. One taxing district did not get payment in October, seven taxing districts did not get payment in November and nine taxing districts did not get payment in December. The following chart depicts how much is owed to each district:

District	Total Due
State	\$ 356
County	286
Fire Acres	17
School	1,259
Health	203
Extension	474
Soil	178
Ambulance	291
Sheriff	385
<i>Total</i>	\$ 3,449

The county clerk does not have controls in place in order to make sure delinquent tax payments are made and are timely. By not remitting payments timely to taxing districts, cash flow problems can occur for these taxing districts as they rely on tax collections to fund a significant portion of their budgeted services.

ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The County Clerk Did Not Pay Delinquent Taxes To Districts Timely (Continued)

KRS 134.126(3) requires the county clerk to, “report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts.”

We recommend the clerk pay the amounts above to the districts without delay. We also recommend the county clerk implement controls to ensure monthly delinquent tax payments are paid by the tenth of each month in accordance with KRS 134.126(3).

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

2018-005 The County Clerk Did Not Remit The Correct Amount Or Timely Payments Of Affordable Housing To The State

For the first few months affordable housing fees were being posted in the software on vehicle lien releases in error. While customers were not being charged this fee on their transactions, on the reporting end a \$6 affordable housing fee was being posted to every transaction. The county clerk had to manually remove the affordable housing fees in the software that did not belong. The first quarter was remitted timely but was incorrect due to error. The clerk has not remitted second, third, or fourth quarter payments. As a result \$3,954 is due to the state for the calendar year 2018.

The county clerk does not have proper internal controls implemented to ensure that the correct amount and timely payments are made for affordable housing. As a result, the county clerk incorrectly or failed to remit affordable housing to the state. The county clerk is supposed to file a report with the Department of Revenue on or before the tenth day of the month following the quarter covered by the report, and attach payment for the total amount computed due.

We recommend the clerk pay the amount due to the Department of Revenue without delay. We also recommend the county clerk implement internal controls to ensure that affordable housing fees are accounted for properly, and paid timely.

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

2018-006 The County Clerk Did Not Remit Payments Of Legal Process Tax To The State

The county clerk did not remit payments from July to December to the state, a total of \$2,691, for legal process taxes collected during calendar year 2018. These taxes are collected on legal process and instruments received by the county clerk such as marriage licenses, power of attorney, mortgage, financing statements, deeds, etc. The county clerk does not have controls in place to ensure that payments are made to the state for legal process tax. As a result, the county clerk failed to remit legal process tax to the state. KRS 142.010(3) states, [t]axes imposed under this section shall be reported and paid to the Department of Revenue by each county clerk within ten (10) days following the end of the calendar month in which instruments subject to tax are filed or marriage licenses issued. Each remittance shall be accompanied by a summary report on a form prescribed by the department.” We recommend the county clerk implement controls to ensure that legal process tax payments are made to the state timely and pay \$2,691 due.

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

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The County Clerk Owes \$16,452 Of Usage Tax To The State

Usage tax is due to the state in the amount of \$16,452. The county clerk did not ensure the amounts collected for usage tax for each day was properly submitted to the state as required. Usage tax is to be remitted to the state daily, but we found the clerk was up to five weeks behind. In addition, there were four payments made twice.

The county clerk did not have procedures or internal controls in place to ensure the correct amount of usage tax was remitted from the fee account to the usage tax account daily. In addition, the county clerk was not reconciling her usage tax account monthly. As a result, the county clerk was unable to determine if the proper amount of usage tax had been remitted from the fee account to the usage tax account. By not properly remitting usage tax from the fee account to the usage tax account, the county clerk runs the risk of overpaying excess fees to the county, and underpaying usage tax to the state. The clerk also runs the risk of incurring penalties that are prohibited from being paid from the fee account.

KRS 138.464 requires the county clerk to deposit motor vehicle usage tax and sales and use tax collections not later than the next business day following receipt in a Commonwealth of Kentucky, department account in a bank designated as a depository for state funds. The clerk may be required to then cause the funds to be transferred from the local depository bank to the State Treasury in whatever manner and at times prescribed by the commissioner of the department or his designee. Failure 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 pay the \$4,093 from the fee account to the usage account. Also, we recommend the county clerk resolve the \$16,452 in the usage account that has not been remitted to the state. Finally, we recommend the county clerk implement internal controls to ensure the correct amount of usage tax is transferred from the fee account to the usage tax account daily, as well as remit that same amount to the state timely. The easiest way to do this would be to perform monthly bank reconciliations of the usage tax account.

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

2018-008 The County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$79,210

The county clerk did not pay the correct amount of ad valorem taxes to taxing districts. The following chart depicts amount due to or due from districts as well as the corresponding months districts were paid incorrectly:

	State	County	Health	Extension	Ambulance	School	Total
January	\$ 1,990.54						\$ 1,990.54
April	22,353.66	\$ (6,583.83)	\$ (2,671.88)		\$ 3,417.45		16,515.40
September	1,381.51						1,381.51
October	3,305.52	752.18	315.02	\$ 153.42	383.76	\$ 2,168.10	7,078.00
November	12,998.19		1,686.66	843.94	2,110.31	11,920.41	29,559.51
December	9,449.68		1,348.48	674.43	1,686.43	9,526.66	22,685.68
Total Due To (From) Districts	\$51,479.10	\$ (5,831.65)	\$ 678.28	\$ 1,671.79	\$ 7,597.95	\$ 23,615.17	\$ 79,210.64

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$79,210
 (Continued)

The county clerk did not have internal controls or procedures in place to ensure ad valorem taxes were remitted timely. According to the county clerk, there were calculation errors on some of the monthly reports, and the unpaid amounts were an oversight.

As a result, districts were not paid timely and unable to use funds due to them accordingly. The county district was overpaid, and owes money back to the county clerk's office. This could impact the county's budget. The clerk also runs the risk of incurring penalties that are prohibited from being paid from the fee account.

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 her for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository." KRS 134.815(2) states, "[a]ny county clerk who fails to pay over any taxes collected by him on motor vehicles as required by subsection (1) of this section shall be required to pay a penalty of 1% for each 30 day period or fraction thereof, plus interest at the legal rate per annum of such taxes."

We recommend the county clerk ensure ad valorem reports are calculated correctly prior to payment to districts. Further, the county clerk should implement internal controls by having someone else review calculations before the checks are written. The county clerk should pay these taxing districts the amounts due to them, and collect the amount due from the county as soon as possible.

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

2018-009 The County Clerk Did Not Pay License Fees Timely

The county clerk did not remit weekly license fees timely to the state treasurer. Out of 52 weeks in the year, only 21 weeks were paid timely. Week's 43-52 license fees were not paid at all during 2018; instead, they were remitted to the state treasurer as one lump sum in the amount of \$15,820 on February 21, 2019, eight to sixteen weeks late. The county clerk did not have procedures or internal controls in place to ensure weekly license fees were remitted timely. As a result, the state was not paid timely for license fees collected by the county clerk. The clerk also runs the risk of incurring penalties that are prohibited from being paid from the fee account.

KRS 138.464(1) states, "[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period." 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 on-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."

We recommend the county clerk implement internal controls to ensure that payments to the state for license fees are paid timely in the future.

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

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-010 The Clerk Did Not Prepare All Franchise Tax Bills

The county clerk's office receives the certifications from the Department of Revenue. Once the certification is received, the clerk's office is responsible for preparing the franchise tax bill. However, there are 26 unbilled franchise tax bills, totaling \$138,216. Of this amount, \$5,650 is commission due to the sheriff, and the remaining \$132,566 is due to the taxing districts.

The county clerk does not have internal controls in place to ensure that franchise bills are being prepared when certifications are received. By not preparing the franchise tax bills, the sheriff's office is unable to mail them, and the county, school, and other taxing districts cannot receive the tax revenues they are entitled (see chart). These tax districts rely on the timely receipt of tax revenues; therefore, the tax districts' budgets and cash flows were negatively affected. The share of the unbilled franchise taxes for each taxing district are as follows:

<u>Taxing Districts</u>	<u>Amount Due</u>
County	\$18,459
School	\$70,561
Ambulance	\$15,549
Health	\$12,180
Extension	\$15,695
Soil	<u>\$122</u>
Total	\$132,566

The county clerk should prepare franchise tax bills upon receipt of the state assessment certification and promptly give to the sheriff to mail. KRS 133.220 requires the county clerk to prepare tax bills and in part, states "the county clerk shall prepare for the sheriff...a correct tax bill for each taxpayer in the county."

We recommend the county clerk implement controls to ensure that franchise tax bills are prepared promptly after the certification is received. Furthermore, the clerk needs to immediately prepare the 26 unbilled franchise tax bills and give to the sheriff for collection.

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

ELLIOTT COUNTY
 JENNIFER CARTER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2018
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-011 The Clerk Has Not Settled The 2017 Fee Account

The county clerk has not settled her 2017 Fee Account. Several liabilities are due to districts in order to settle the account. Those liabilities are as follows:

<u>Liabilities</u>			
Ambulance	Ad Valorem	October	2,366
Ambulance	Delinquent Tax	October	152
Ambulance	Delinquent Tax	Jan-June	4,022
Extension	Delinquent Tax	Jan-June	2,842
County	Delinquent Tax	Jan, Feb, May	22
Health	Delinquent Tax	Jan-June	3,085
Soil	Delinquent Tax	Jan-June	2,125
State	Legal Process	Additional	258
State	Delinquent Tax	Jan-June	4,977
State	Affordable Housing		678
County	Ad Valorem	Remaining Due	157
Health	Ad Valorem	Remaining Due	157
Ambulance	Ad Valorem	Remaining Due	157
School	Ad Valorem	Remaining Due	157
Extension	Ad Valorem	Remaining Due	158
County	Excess Fees	Interest Earned	3
	Total Due to Districts		21,316

The clerk does not have controls in place to ensure that accounts have been settled in a timely manner.

The failure to pay liabilities timely causes taxing districts and other governmental agencies to be deprived of funds for a significant time periods.

KRS 64.152 states, “(1) In 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. (2) At 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 clerk pay these liabilities as soon as possible.

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

ELLIOTT COUNTY
JENNIFER CARTER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2018
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-012 The County Clerk Did Not Deposit Grant Funds Timely

The county clerk did not deposit libraries and archives grant funds timely. The county clerk received a check from libraries and archives in September 2017 to be used for scanning documents, but did not deposit the check until September 20, 2018. The check was returned on September 24, 2018 due to being stale dated.

The county clerk did not have procedures or internal controls in place to ensure grant funds were deposited timely. According to the county clerk, her intention was to wait until the company performing the scanning completed their services before she did anything with the check. In addition, the county clerk indicated she needed the county judge/executive to go with her to the bank to open a grant bank account to deposit the check into.

As a result, the check had become stale and was no longer valid when the county clerk set up a grant bank account and deposited the check. Therefore, the county clerk had to request a new check from the department of libraries and archives. By not making deposits timely the county clerk's office could create the opportunity for the misappropriation of assets to occur and go unnoticed. Additionally, the county clerk was not in compliance with KRS 68.210.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* includes performing daily check-out procedures and making daily deposits intact into a federal insured banking institution.

We recommend the county clerk's office make deposits daily in accordance with KRS 68.210. We also recommend the clerk implement controls to ensure all checks are deposited daily.

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