REPORT OF THE AUDIT OF THE HOPKINS COUNTY CLERK

For The Year Ended
December 31, 2019

MIKE HARMON
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Mike Harmon
Auditor of Public Accounts

The Honorable Jack Whitfield, Hopkins County Judge/Executive
The Honorable Keenan Cloern, Hopkins County Clerk
Members of the Hopkins 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 Hopkins County, Kentucky, for the year ended December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

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

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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 Hopkins 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 Hopkins County Clerk, as of December 31, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Hopkins County Clerk for the year ended December 31, 2019, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, on our consideration of the Hopkins 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 Hopkins 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 comment:

2019-001 The Hopkins County Clerk Did Not Have A Written Agreement To Protect Deposits

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

June 16, 2020

HOPKINS COUNTY
KEENAN CLOERN, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts		
State Fees For Services		$ 19,903
Fiscal Court		119,186
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 1,596,848	
Usage Tax	4,192,530	
Tangible Personal Property Tax	4,334,525	
Notary Fees	11,434	
Other-		
Disabled Placards	10,080	
Marriage Licenses	11,109	
Lien Fees	26,732	
Library & Archives	9,820	
Deed Transfer Tax	142,586	
Delinquent Tax	553,973	10,889,637
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	24,849	
Real Estate Mortgages	65,801	
Chattel Mortgages and Financing Statements	122,896	
Powers of Attorney	2,752	
Affordable Housing Trust	40,362	
All Other Recordings	27,502	
Charges for Other Services-		
Candidate Filing Fees	420	
Copy Work	4,273	
Postage	4,268	
Passports	23,031	
Miscellaneous	8,067	324,221
Other:		
Third Party Tax Sale Deposits		104,033
Interest Earned		1,245
Total Receipts		11,458,225

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

HOPKINS COUNTY
KEENAN CLOERN, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2019
(Continued)

Disbursements			
Payments to State:			
Motor Vehicle-			
Licenses and Transfers	$ 1,141,603		
Usage Tax	4,066,730		
Tangible Personal Property Tax	1,572,469		
Licenses, Taxes, and Fees-			
State Boat Fee	5,553		
Delinquent Tax	48,985		
Legal Process Tax	41,165		
Affordable Housing Trust	40,362		
Disabled Parking	8,064	$ 6,924,931	
Payments to Fiscal Court:			
Tangible Personal Property Tax	339,046		
Delinquent Tax	61,458		
Deed Transfer Tax	135,457	535,961	
Payments to Other Districts:			
Tangible Personal Property Tax	2,249,630		
Delinquent Tax	277,871	2,527,501	
Payments to Sheriff		44,359	
Payments to County Attorney		75,678	
Operating Disbursements:			
Other Charges-			
Bad Debt Expense	533		
Postage	628		
Bank Charges	278		
Tax Sale Deposit Refunds	104,033	105,472	
Total Disbursements			$ 10,213,902

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

HOPKINS COUNTY
KEENAN CLOERN, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2019
(Continued)

Net Receipts		$ 1,244,323
Less: Statutory Maximum		107,512
Excess Fees		1,136,811
Less: Expense Allowance	$ 3,600	
Training Incentive Benefit	4,216	7,816
Excess Fees Due County for 2019		1,128,995
Payments to Fiscal Court - Monthly		1,128,995
Balance Due Fiscal Court at Completion of Audit		$ 0

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

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

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

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

- Interest receivable
- Collection on accounts due from others for 2019 services
- Reimbursements for 2019 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2019

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

C. Cash and Investments

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

D. Fee Pooling

The Hopkins 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, postage for election materials and passports, 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.

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 21.48 percent for the first half of the year and 24.06 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

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.

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 Hopkins 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. These requirements were not met because the county clerk did not have a written agreement with the bank.

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 Hopkins 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. On December 31, 2019, the county clerk's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $144,737

Note 4. On Behalf Payments

The Hopkins 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, expense allowance, and training incentive as reflected on the county clerk's financial statement. For the year ended December 31, 2019, 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 Hopkins County Clerk recognized receipts from the fiscal court and disbursements for the statutory maximum of $107,512, clerk expense allowance of $3,600, and training incentive of $4,216 for the year ended December 31, 2019.

Note 5. Outstanding Checks Held In Escrow

The Hopkins County Clerk deposited outstanding checks into an escrow 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:

2015	$128
2016	$323
2017	$192
2018	$5,557
2019	$6

The prior year escrow account was closed during 2019. The balance was deemed unidentifiable and non-refundable. The balance of $225 was paid to the Hopkins County Fiscal Court with excess fees in December 2019.

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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The Honorable Jack Whitfield, Hopkins County Judge/Executive
The Honorable Keenan Cloern, Hopkins County Clerk
Members of the Hopkins 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 Hopkins County Clerk for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated June 16, 2020. The Hopkins 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 Hopkins 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 Hopkins County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hopkins 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2019-001 to be a material weakness.

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Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hopkins 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 2019-001.

Views of Responsible Official and Planned Corrective Action

The Hopkins County Clerk's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hopkins County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

June 16, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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HOPKINS COUNTY
KEENAN CLOERN, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDING:

2019-001 The Hopkins County Clerk Did Not Have A Written Agreement To Protect Deposits

The Hopkins County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC), however, these funds were unsecured. As of December 31, 2019, the Hopkins County Clerk had bank deposits of $394,737; FDIC insurance of $250,000; and collateral pledged or provided of $1,500,000. Even though the Hopkins County Clerk obtained sufficient collateral, there was no written agreement between the Hopkins County Clerk and the depository institution, signed by both parties, securing the clerk's interest in the collateral. Due to a lack of oversight, the Hopkins County Clerk failed to enter into this agreement with the depository institution when opening the bank account. As a result, the public funds were left unsecured and the clerk was not in compliance with federal law 12 U.S.C.A. § 1823(e).

According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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. In addition, good internal controls dictate that management have strong oversight to ensure the office is in compliance with such statutes.

We recommend the clerk comply with federal law 12 U.S.C.A. § 1823(e) by obtaining a properly executed security agreement with the bank.

County Clerk's Response: In December of 2018 the transition from one depository to another was made after the end of a four year term. At that time, I met with all necessary parties of the new bank to ensure the pledge of security collateral was valid and covered in the amount of $1,500,000. The depository provided me with a signed collateral pledge that had been approved by their board of directors which would, in fact, secure the clerk's interest in the collateral deposited.

Upon recommendation from the auditor, the clerk's office now has two signed collateral pledge agreements from the same financial institution.

At no single time were the clerk's funds ever compromised or being deposited without the proper pledge of security from the bank.

Auditor's Reply: Per our confirmation with the bank, there was no written collateral security agreement in place.