REPORT OF THE AUDIT OF THE LEE COUNTY CLERK

For The Year Ended
December 31, 2016

MIKE HARMON
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CONTENTS PAGE

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Kim Noe, Lee County Clerk
Members of the Lee 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 Lee County, Kentucky, for the year ended December 31, 2016, 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 Lee 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 each fund of the Lee County Clerk, as of December 31, 2016, 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 Lee County Clerk for the year ended December 31, 2016, 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 October 13, 2017, on our consideration of the Lee 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 entity'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 discuss the following report comments:

2016-001 The County Clerk's Office Lacks Adequate Segregation Of Duties
2016-002 The County Clerk Did Not Timely Prepare Franchise Bills Totaling $43,430

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

October 13, 2017

LEE COUNTY
KIM NOE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts		
State Revenue Supplement		$ 65,777
State Fees For Services		4,100
Fiscal Court		6,173
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	$ 207,348	
Usage Tax	174,157	
Tangible Personal Property Tax	454,884	
Auto Liens	4,092	
Other-		
Fish and Game Licenses	10,473	
Marriage Licenses	1,385	
Deed Transfer Tax	14,866	
Delinquent Tax	178,971	1,046,176
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	7,862	
Real Estate Mortgages	6,967	
Chattel Mortgages and Financing Statements	20,070	
Powers of Attorney	230	
All Other Recordings	8,667	
Charges for Other Services-		
Candidate Filing Fees	295	
Copywork	3,040	47,131
Other:		
Overpayments	1,578	
Miscellaneous	1,145	2,723
Interest Earned		8
Total Receipts		1,172,088

LEE COUNTY
KIM NOE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements

Payments to State:		
Motor Vehicle-		
Licenses and Transfers	$ 148,554	
Usage Tax	169,287	
Tangible Personal Property Tax	163,991	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	10,053	
Delinquent Tax	15,539	
Legal Process Tax	5,649	
Affordable Housing Trust	5,868	
Marriage Licenses	566	$ 519,507
Payments to Fiscal Court:		
Tangible Personal Property Tax	63,908	
Delinquent Tax	47,084	
Deed Transfer Tax	14,231	125,223
Payments to Other Districts:		
Tangible Personal Property Tax	208,744	
Delinquent Tax	63,394	272,138
Payments to Sheriff		17,834
Payments to County Attorney		18,452
Operating Disbursements and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	108,580	
Employee Benefits-		
Other Payroll Expenditures	1,378	
Contracted Services-		
Election Expense	550	
Maintenance	5,875	
Printing and Binding	1,942	
Materials and Supplies-		
Office Supplies	1,939	

LEE COUNTY
KIM NOE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2016
(Continued)

Disbursements (Continued)			
Operating Disbursements and Capital Outlay: (Continued)			
Other Charges-			
Conventions and Travel	$ 620		
Dues	480		
Postage	1,326		
Refunds	2,632		
Miscellaneous	1,881		
Capital Outlay-			
Office Equipment	1,014	$ 128,217	
Total Disbursements			$ 1,081,371
Net Receipts			90,717
Less: Statutory Maximum			77,402
Excess Fees			13,315
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,969	7,569
Excess Fees Due County for 2016			5,746
Payment to Fiscal Court - March 14, 2017			5,746
Balance Due Fiscal Court at Completion of Audit			$ 0

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

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 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 2016 services
- Reimbursements for 2016 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2016

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

C. Cash and Investments

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

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

The county official and employees have 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.

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

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 the plan. The county's contribution rate for nonhazardous employees was 17.06 percent for the first six months and 18.68 percent for the last six months.

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 members contribute five percent of their annual creditable compensation and 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 Board 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 nonhazardous 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.

CERS also 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%

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.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. 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.

Note 3. Deposits

The Lee 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 Lee 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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 Steve Mays, Lee County Judge/Executive
The Honorable Kim Noe, Lee County Clerk
Members of the Lee 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 Lee County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated October 13, 2017. The Lee 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 Lee 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 Lee County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee 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 and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-001 to be a material weakness.

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The Lee County Clerk's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Lee County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

October 13, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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LEE COUNTY
KIM NOE, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The County Clerk's Office Lacks Adequate Segregation Of Duties

The Lee County Clerk's office lacks adequate segregation of duties. This is a repeat finding and was included in the prior year audit report as finding 2015-001. According to the county clerk, due to the entity's diversity of official operations, small size, and budget restrictions, the Lee County Clerk has limited options for establishing an adequate segregation of duties. The county clerk employs a part-time bookkeeper that completes all bookkeeping functions such as all posting to the ledgers, preparing the compilation of daily checkouts, preparing the daily deposits, preparing all checks, preparing all reports except the weekly reports for usage and license, reconciling the bank statements and preparing the financial statements. Good internal controls dictate one employee should not have control over all of these duties. This could result in misappropriation of assets and inaccurate financial reporting to external agencies. The county clerk prepares the weekly reports for usage and license. She agrees each report to the ledgers but does not initial the supporting documentation. The county clerk does not have an independent individual review reports, checks, or the disbursements ledger. In order to improve controls, we recommend the county clerk implement the following:

- The county clerk should require the deputy clerks to count each other's cash drawers.
- The county clerk should reconcile monthly reports to the ledgers for receipts and disbursements. This can be documented by initialing the ledgers and the monthly reports.
- The county clerk should review the bank reconciliation and agree it to the ledgers. This can be documented by initialing the bank reconciliation.
- The county clerk should review the financial statements and agree them to the ledgers and bank reconciliations. This can be documented by initialing the financial statements.

County Clerk's Response: Due to size of office and budget for employees we cannot segregate duties.

Auditor's Reply: The Clerk should implement compensating controls such as those recommended above in order to offset the lack of segregation of duties.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2016-002 The County Clerk Did Not Timely Prepare Franchise Bills Totaling $43,430

The county clerk did not prepare 24 franchise tax bills totaling $43,430 timely. These franchise bills were certified by the state during 2014, 2015, and early 2016. However, the county clerk did not present these bills to the sheriff until March 30, 2017. The county clerk should prepare franchise bills upon receipt of the state assessment certification and promptly give the bills to the sheriff to mail. The portion of unbilled franchise taxes for each taxing district is listed below:

County	$17,609
School	$11,972
Library	$ 6,693
Health	$ 1,859
Extension	$ 5,042
Soil	$ 255

LEE COUNTY
KIM NOE, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2016
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2016-002 The County Clerk Did Not Prepare Franchise Bills Totaling $43,430 Timely (Continued)

The county clerk failed to perform this duty of timely preparing franchise tax bills and submitting them to the sheriff to collect, and as a result, the county, school, and other taxing districts did not receive the tax revenues to which they were entitled. These tax districts rely on the timely receipt of tax revenues. Controls were not in place to ensure that franchise tax bills were prepared and submitted to the sheriff in a timely manner.

We recommend the county clerk prepare any franchise tax bills that have not yet been prepared and ensure franchise bills are prepared and submitted timely to the sheriff in the future.

County Clerk's Response: Due to bills being sent to wrong email address and encrypted the clerk's office did not prepare or give tax bills to sheriff in a timely manner.