

**REPORT OF THE AUDIT OF THE  
LEWIS COUNTY  
CLERK**

**For The Year Ended  
December 31, 2017**



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Anthony T. Ruckel, Lewis County Judge/Executive  
The Honorable Glenda K. Himes, Lewis County Clerk  
Members of the Lewis 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 Lewis County, Kentucky, for the year ended December 31, 2017, 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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The Honorable Anthony T. Ruckel, Lewis County Judge/Executive  
The Honorable Glenda K. Himes, Lewis County Clerk  
Members of the Lewis 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 Lewis 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 Lewis County Clerk, as of December 31, 2017, 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 Lewis County Clerk for the year ended December 31, 2017, 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 August 28, 2018, on our consideration of the Lewis 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 Lewis 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:

2017-001 The County Clerk’s Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 28, 2018

LEWIS COUNTY  
 GLENDA K. HIMES, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Grants	\$	9,273	
State Revenue Supplement			66,599
State Fees For Services			5,058
Fiscal Court			3,995
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	394,643	
Usage Tax		726,569	
Tangible Personal Property Tax		937,907	
Notary Fees		665	
Other-			
Fish and Game Licenses		7,363	
Marriage Licenses		3,550	
Delinquent Tax Registration Fee		510	
Deed Transfer Tax		26,000	
Delinquent Tax		113,445	2,210,652
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		12,688	
Real Estate Mortgages		14,171	
Chattel Mortgages and Financing Statements		45,892	
All Other Recordings		19,387	
Charges for Other Services-			
Candidate Filing Fees		800	
Copywork		6,093	
Postage		582	99,613
Other:			
Refunds		565	
Miscellaneous		330	895
Interest Earned			337
Total Receipts			2,396,422

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

LEWIS COUNTY  
 GLENDA K. HIMES, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 276,539	
Usage Tax	704,972	
Tangible Personal Property Tax	337,824	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	7,218	
Delinquent Tax	9,568	
Legal Process Tax	13,085	
Affordable Housing Trust	22,080	\$ 1,371,286

Payments to Fiscal Court:

Tangible Personal Property Tax	98,195	
Delinquent Tax	11,083	
Deed Transfer Tax	24,562	133,840

Payments to Other Districts:

Tangible Personal Property Tax	464,376	
Delinquent Tax	54,839	519,215

Payments to Sheriff 8,931

Payments to County Attorney 15,120

Tax Bill Preparation 3,150

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	124,411
Part-Time Salaries	470
Overtime	5,469

Employee Benefits-

Employer's Share Social Security	16,231
Unemployment Insurance	90

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



LEWIS COUNTY  
 GLENDA K. HIMES, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Contracted Services-		
Advertising	\$	951
Printing and Binding		9,273
Materials and Supplies-		
Office Supplies		29,103
Other Charges-		
Conventions and Travel		3,945
Dues		900
Postage		8,247
Refunds		3,407
Insurance and Bonds		1,023
Miscellaneous		108
Capital Outlay-		
Office Equipment		10,964
	\$	214,592
Total Disbursements		<u>\$ 2,266,134</u>
Net Receipts		130,288
Less: Statutory Maximum		<u>85,085</u>
Excess Fees		45,203
Less: Expense Allowance		3,600
Training Incentive Benefit		4,052
		<u>7,652</u>
Excess Fees Due County for 2017		37,551
Payment to Fiscal Court - February 16, 2018		<u>37,000</u>
Balance Due Fiscal Court at Completion of Audit *		<u>\$ 551</u>

\* - The county clerk presented a check to the fiscal court for excess fees on August 6, 2018.

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

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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.

LEWIS COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (Continued)

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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 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.

Health Insurance Coverage

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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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.

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.

LEWIS COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (Continued)

Note 3. Deposits

The Lewis 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 Lewis 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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The Lewis County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives on February 2, 2015, in the amount of \$9,273. Funds totaling \$9,273 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2017.

Note 5. Escrow Account

The Lewis County Clerk's escrow amounts as of December 31, 2017, were as follows:

2014	\$463
2015	\$243

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.

Note 6. Lease Agreements

The Lewis County Clerk's office was committed to the following lease agreements as of December 31, 2017:

Item	Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2017
Software	Quarterly	48 months	12/31/2018	7,732
Postage Machine	Monthly	63 months	8/24/2021	2,880
				<u>\$10,612</u>

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 Anthony T. Ruckel, Lewis County Judge/Executive  
The Honorable Glenda K. Himes, Lewis County Clerk  
Members of the Lewis 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 Lewis County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated August 28, 2018. The Lewis 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 Lewis 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 Lewis County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lewis County Clerk's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2017-001 that we consider to be a significant deficiency.



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)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lewis 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 Lewis 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 Lewis 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

August 28, 2018



## SCHEDULE OF FINDINGS AND RESPONSES

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LEWIS COUNTY  
GLEND K. HIMES, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-001 The County Clerk's Office Lacks Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2016-001. The county clerk's office lacks adequate segregation of duties over accounting and reporting functions. The county clerk is responsible for receiving cash, preparing daily deposits, preparing and signing checks, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly and quarterly reports to the ledgers. According to the county clerk, the clerk's office has a small budget which limits the number of employees the county can hire. A lack of segregation of duties or strong oversight increases the risk of undetected errors. A proper segregation of duties over the accounting and reporting functions such as preparation of the quarterly reports, or implementing compensating controls, is essential for providing protection from undetected errors. The county clerk has implemented compensating controls to offset the risk of lack of segregation of duties, but the compensating controls aren't always documented. We recommend the county clerk separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliation, and comparing financial reports to ledgers. The county clerk should continue to document and do random reviews of compensating controls to properly offset the lack of segregation of duties.

*County Clerk's Response: In a small office segregation of duties is difficult but I will continue to document and have compensating controls. We check each others work and I will implement more internal controls.*