

**REPORT OF THE AUDIT OF THE  
FORMER GRAVES COUNTY  
CLERK**

**For The Period  
January 1, 2017 Through February 28, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	11
SCHEDULE OF FINDINGS AND RESPONSES .....	15

THIS PAGE LEFT BLANK INTENTIONALLY



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

The Honorable Jesse Perry, Graves County Judge/Executive  
The Honorable Barry Kennemore, Former Graves County Clerk  
The Honorable Kim Gills, Graves County Clerk  
Members of the Graves 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 former County Clerk of Graves County, Kentucky, for the period January 1, 2017 through February 28, 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.

209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912  
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



The Honorable Jesse Perry, Graves County Judge/Executive  
 The Honorable Barry Kennemore, Former Graves County Clerk  
 The Honorable Kim Gills, Graves County Clerk  
 Members of the Graves 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 former Graves 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 former Graves County Clerk for the period January 1, 2017 through February 28, 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 former Graves County Clerk for the period January 1, 2017 through February 28, 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 April 5, 2019, on our consideration of the former Graves 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 former Graves 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 Former Graves County Clerk Did Not Reconcile Accounts Receivable Subsidiary Ledgers To The Fee Ledgers

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

April 5, 2019

GRAVES COUNTY  
 BARRY KENNEMORE, FORMER COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2017 Through February 28, 2017

Receipts

Fiscal Court		\$ 8,360
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 211,333	
Usage Tax	797,676	
Tangible Personal Property Tax	498,115	
Lien Fees	2,646	
Other-		
Fish and Game Licenses	580	
Marriage Licenses	612	
Spouse Abuse	240	
Deed Transfer Tax	9,300	
Delinquent Tax	4,914	1,525,416
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	3,123	
Real Estate Mortgages	6,586	
Chattel Mortgages and Financing Statements	17,470	
Powers of Attorney	434	
Affordable Housing Trust	5,148	
All Other Recordings	9,800	
Charges for Other Services-		
Copywork	1,914	
Postage	494	44,969
Other:		
Miscellaneous Receipts		452
Interest Earned		5
Total Receipts		1,579,202

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

GRAVES COUNTY  
 BARRY KENNEMORE, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2017 Through February 28, 2017  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 127,694	
Usage Tax	773,943	
Tangible Personal Property Tax	185,902	

Licenses, Taxes, and Fees-

Fish and Game Licenses	128	
Delinquent Tax	508	
Legal Process Tax	5,064	
Affordable Housing Trust	5,148	\$ 1,098,387

Payments to Fiscal Court:

Tangible Personal Property Tax	41,101	
Delinquent Tax	464	
Deed Transfer Tax	8,835	50,400

Payments to Other Districts:

Tangible Personal Property Tax	250,696	
Delinquent Tax	2,629	253,325

Payments to Sheriff

293

Payments to County Attorney

556

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	90,954	
--------------------	--------	--

Employee Benefits-

Employer's Share Social Security	8,154	
----------------------------------	-------	--

Materials and Supplies-

Office Supplies	2,860	
Election Expense	10,353	

Other Charges-

Conventions and Travel	457	
Dues	1,520	
Postage	2,401	
Bad Debt Expense	823	
Refunds	5,910	
Insurance and Bonds	2,869	

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



GRAVES COUNTY  
 BARRY KENNEMORE, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2017 Through February 28, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Miscellaneous	<u>\$ 2,224</u>	\$ 128,525
Capital Outlay-		
Office Equipment		<u>4,670</u>
Total Disbursements		<u>\$ 1,536,156</u>
Net Receipts		43,046
Less: Statutory Maximum *		<u>16,207</u>
Excess Fees		26,839
Less: Expense Allowance	600	
Training Incentive Benefit	<u>4,052</u>	<u>4,652</u>
Excess Fees Due County for 2017		22,187
Payment to Fiscal Court - April 24, 2017		<u>22,332</u>
Balance Due From Fiscal Court at Completion of Audit		<u><u>\$ (145)</u></u>

\* The county clerk's statutory maximum for the period January 1, 2017 through February 28, 2017, was \$16,207, as noted above. The county clerk was paid \$16,062 during this period. The county clerk is due the additional statutory maximum of \$145.

GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT

February 28, 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.

GRAVES COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 February 28, 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 period January 1, 2017 through February 28, 2017.

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.

GRAVES COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 February 28, 2017  
 (Continued)

Note 3. Deposits

The former Graves 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 former Graves County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of February 28, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Escrow Account

The former Graves County Clerk maintained a separate account for unclaimed funds resulting from refunds and overpayments. As of February 28, 2017, the former clerk's escrowed amounts were as follows:

2013	\$91
2014	\$180
2015	\$43
2016	\$853

KRS 393.090 states that after three years, if funds have not been claimed, they are presumed abandoned and are required to be sent to the Kentucky State Treasurer per KRS 393.110. This account was transferred to the current clerk in January 2019.

Note 5. Delinquent Tax Sale Account

The former Graves County Clerk maintained a separate account for delinquent tax sales. The account holds the fees from potential buyers, and refunds fees to the potential buyer if no sale is made. Any sales are transferred to the fee account. The beginning balance of the Delinquent Tax Sale Account was \$3. Funds of \$7 were received, and funds of \$10 were expended, during the period January 1, 2017 through February 28, 2017. The ending balance as of February 28, 2017, was \$0.

Note 6. Contingencies

The Graves County Clerk's office is involved in lawsuits that arose from the normal course of doing business. While the outcome of these lawsuits may not be significant, due to the uncertainty of the litigations, a reasonable estimate of the financial impact on the Graves County Clerk's office cannot be made at this time.

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*

THIS PAGE LEFT BLANK INTENTIONALLY



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

The Honorable Jesse Perry, Graves County Judge/Executive  
The Honorable Barry Kennemore, Former Graves County Clerk  
The Honorable Kim Gills, Graves County Clerk  
Members of the Graves 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 former Graves County Clerk for the period January 1, 2017 through February 28, 2017, and the related notes to the financial statement and have issued our report thereon dated April 5, 2019. The former Graves 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 former Graves 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 former Graves County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Graves 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 2017-001 to be a material weakness.

209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912  
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



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 former Graves 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*.

**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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

April 5, 2019



## SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

GRAVES COUNTY  
BARRY KENNEMORE, FORMER COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2017 Through February 28, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001    The Former Graves County Clerk Did Not Reconcile Accounts Receivable Subsidiary Ledgers To  
The Fee Ledgers

---

This is a repeat finding and was included in the prior year report as finding 2016-001. The former Graves County Clerk allowed customers to charge for services provided by the county clerk's office. These transactions were recorded on the ledger in total and never reconciled to the individual customers' charges. By not reconciling what the customers are allowed to charge to what is collected, it is not possible to determine if all accounts receivable have been collected.

The former clerk relied on the point of sale system to account for customer charges; however, individual charge accounts on the point of sale system were not recorded on the ledgers nor reconciled to the total amount of charges recorded on the county clerk's ledgers. Due to there not being subsidiary ledgers that reconcile to the amount on the settlement, it is not possible to determine if the outstanding balance as of the settlement is accurate.

This could lead to customers receiving services without settling their accounts. Accounts receivable are vulnerable to manipulation and should be accounted for by each individual account and reconciled to the total account balance. Good internal controls dictate that accounts receivable subsidiary ledgers be reconciled to amounts recorded and reported on the ledgers to ensure accuracy.

We recommend the Graves County Clerk's office strengthen controls over accounting for these charges by developing a written policy regarding charges and maintaining subsidiary records for each customer that are reconciled to the clerk's ledgers on a monthly basis.

*Former County Clerk's Response: None.*