

**REPORT OF THE AUDIT OF THE  
WARREN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2016**



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

The Honorable Michael O. Buchanon, Warren County Judge/Executive  
The Honorable Lynette Yates, Warren County Clerk  
Members of the Warren County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statements**

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Warren County, Kentucky and the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2016, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements 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 the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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



The Honorable Michael O. Buchanon, Warren County Judge/Executive  
The Honorable Lynette Yates, Warren County Clerk  
Members of the Warren County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statements, the financial statements are prepared by the Warren 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 and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements 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 Opinions on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Warren 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Warren County Clerk and the receipts, disbursements, and fund balances of the Warren County Clerk's operating fund and county fund with the state treasurer 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 18, 2017, on our consideration of the Warren 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 solely 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. This 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 discusses the following report comment:

2016-001 The Warren County Clerk's Office Lacks Adequate Internal Control Over Documenting Social Security Number Changes

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

October 18, 2017

WARREN COUNTY  
LYNETTE YATES, COUNTY CLERK  
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Fees For Services	\$	35,697	
Fiscal Court			25,015
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	3,893,962	
Usage Tax		16,421,742	
Tangible Personal Property Tax		10,199,897	
Notary Fees		19,090	
Lien Release Fees		52,052	
Miscellaneous Income		12,345	
Other-			
Marriage Licenses		34,861	
Occupational Licenses		3,517	
Deed Transfer Tax		656,601	
Delinquent Tax		<u>749,059</u>	32,043,126
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		60,929	
Real Estate Mortgages		247,723	
Chattel Mortgages and Financing Statements		320,107	
Powers of Attorney		10,663	
Affordable Housing Trust		140,202	
All Other Recordings		119,825	
Charges for Other Services-			
Candidate Filing Fees		1,040	
Copywork		19,652	
Postage		<u>28,124</u>	948,265

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
 LYNETTE YATES, COUNTY CLERK  
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Receipts (Continued)

Other:

Refunds/Overpayments	\$ 128,844	
Miscellaneous	<u>571</u>	\$ 129,415

Interest Earned		<u>625</u>
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Total Receipts		33,182,143
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Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 2,698,474	
Usage Tax	15,928,687	
Tangible Personal Property Tax	3,450,846	
Licenses, Taxes, and Fees-		
Delinquent Tax	105,446	
Legal Process Tax	114,979	
Affordable Housing Trust	<u>140,202</u>	22,438,634

Payments to Fiscal Court:

Tangible Personal Property Tax	1,149,044	
Delinquent Tax	117,300	
Deed Transfer Tax	623,771	
Miscellaneous	<u>2,057</u>	1,892,172

Payments to Other Districts:

Tangible Personal Property Tax	5,192,124	
Delinquent Tax	<u>304,369</u>	5,496,493

Payments to Sheriff		61,404
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Payments to County Attorney		99,678
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WARREN COUNTY  
 LYNETTE YATES, COUNTY CLERK  
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Disbursements (Continued)

Other Disbursements:			
Overpayments/Refunds	\$	128,829	
Uncollected NSF Checks		1,034	
Miscellaneous		<u>571</u>	<u>\$ 130,434</u>
Total Disbursements			<u>\$ 30,118,815</u>
Net Receipts			3,063,328
Payments to State Treasurer:			
75% Operating Fund *		2,322,393	
25% County Fund		<u>740,935</u>	<u>3,063,328</u>
Balance Due at Completion of Audit			<u>\$ 0</u>

\* Includes reimbursed expenses in the amount of \$15,184 for the audit period.  
 See Note 1 of Notes to Financial Statements.

WARREN COUNTY  
 LYNETTE YATES, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2016

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2016	\$ 482,532	\$ 0	\$ 482,532
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,322,393		2,322,393
Fees Paid to State - County Funds (25%)		740,935	740,935
Total Funds Available	2,804,925	740,935	3,545,860
<u>Disbursements</u>			
Warren County Fiscal Court		740,935	740,935
Personnel Services-			
Official's Statutory Maximum	103,203		103,203
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	1,984		1,984
Deputies' Salaries	1,010,080		1,010,080
Employee Benefits-			
Employer's Share Social Security	78,595		78,595
Employer's Share Retirement	185,372		185,372
Employer's Share Health Insurance	123,302		123,302
Employer's Share Life Insurance	295		295
Workers' Compensation	3,346		3,346
Unemployment Insurance	3,227		3,227
Contracted Services-			
Computer Equipment	176,268		176,268
Software License Service	1,331		1,331
Copy Machines	7,187		7,187
Miscellaneous Maintenance Agreement	152		152
Tax Bill Preparation	15,160		15,160

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
 LYNETTE YATES, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Disbursements (Continued)</u>			
Supplies and Materials-			
Office Supplies	\$ 32,601	\$	\$ 32,601
Other Charges-			
Travel Reimbursement	2,382		2,382
Dues and Conventions	6,770		6,770
Office Equipment Maintenance	2,490		2,490
Office Furnishings	1,250		1,250
Books and Maps	512		512
Postage	20,000		20,000
Miscellaneous Office Expense	5,152		5,152
Telephone	18,690		18,690
Miscellaneous Election Expense	18		18
Capital Outlay-			
Office Equipment	3,799		3,799
	<u>1,806,766</u>	<u>740,935</u>	<u>2,547,701</u>
Total Disbursements			
	<u>\$ 998,159</u>	<u>\$ 0</u>	<u>\$ 998,159</u>
Fund Balance - December 31, 2016			

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

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 due from the county clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a county clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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:

- 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
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2016

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).

WARREN COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2016  
 (Continued)

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.

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 account. 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.

The county clerk's contribution for calendar year 2014 was \$195,798, calendar year 2015 was \$177,562, and calendar year 2016 was \$185,372.

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.

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%

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016  
(Continued)

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

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.

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedule of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Pages/GASB/.aspx>. 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 Warren County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The county clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Copiers

The Warren County Clerk's office committed to a lease agreement for a copier on September 6, 2013. The original agreement required a monthly payment of \$164 for 60 months. The required monthly payment amount increased to \$171 in October 2014; \$179 in October 2015, and \$187 in October 2016. The total balance of the lease was \$3,936 as of December 31, 2016.

The Warren County Clerk's office committed to another lease agreement on December 13, 2013, for two copiers. The agreement requires a monthly payment of \$365 for 60 months. The required monthly payment amount increased to \$373 in January 2015 and \$383 in January 2016. The total balance of the lease was \$9,465 as of December 31, 2016.

WARREN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016  
(Continued)

Note 5. Postage Meter

The Warren County Clerk's office committed a lease agreement for a postage meter on March 25, 2014. The agreement requires a monthly payment of \$317 for 60 months. The total balance of the lease was \$9,181 as of December 31, 2016.

Note 6. Health Reimbursement Account

The Warren County Clerk's office established a health reimbursement account on January 1, 2013, to provide employees an additional health benefit. The county clerk's office contracted with a third party administrator to administer the plan and renews the contract annually. The plan provides a debit card to each eligible employee providing \$3,600 less administrative and annual fees each year to pay for qualified medical expenses. Eligible employees received \$3,495 after fees for calendar year 2016. If an employee is no longer employed by the county clerk's office or decides to no longer participate in the health reimbursement account, the funds revert back to the county clerk's office. The balance of the plan as of December 31, 2016, was \$14,584. The unused amounts roll forward to each employee's account until they no longer participate in the plan.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

The Honorable Michael O. Buchanon, Warren County Judge/Executive  
The Honorable Lynette Yates, Warren County Clerk  
Members of the Warren 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 and Disbursements - Regulatory Basis of the County Clerk of Warren County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated October 18, 2017. The Warren 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 Warren 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 Warren County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Warren 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 statements 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.



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 Warren 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 2016-001.

**Views of Responsible Official and Planned Corrective Action**

The Warren 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 Warren 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

October 18, 2017

SCHEDULE OF FINDINGS AND RESPONSES

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WARREN COUNTY  
LYNETTE YATES, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDING:

2016-001 The Warren County Clerk's Office Lacks Adequate Internal Control Over Documenting Social Security Number Changes

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The Warren County Clerk's office changed social security numbers in the AVIS system in order to renew motor vehicle registrations that had delinquent taxes. The following items were noted:

- A deputy clerk changed the social security number on a vehicle in her name. By doing so she avoided paying delinquent ad valorem taxes of \$107.
- Another deputy clerk changed the third digit of a social security number in an instance to an incorrect social security number. Delinquent ad valorem taxes of \$334 were avoided. Records indicate this deputy repeatedly changed social security numbers of registrants by transposing certain digits in their social security numbers.
- Based on a report obtained from the Department of Revenue, there could be other instances of deputy clerks changing social security numbers to avoid payment of delinquent ad valorem taxes.

Employees are able to change information in AVIS without management's approval or knowledge. The county clerk does not have a policy in place for changing social security numbers.

If the customer's social security number had been entered correctly, the AVIS system would have required the taxpayer to pay all delinquent ad valorem taxes on any other vehicle he or she owned before renewing their registration. By changing social security numbers, the county clerk's office is not collecting delinquent taxes due.

KRS 186.021(1) states, "a county clerk shall not issue a replacement plate, decal, or registration certificate. . .or a registration for renewal to any person who on January 1 of any year owned a vehicle on which state, county, city, urban-government, school, or special taxing district ad valorem taxes are delinquent."

KRS 186A.145 states, "[a] county clerk shall not process an application for Kentucky title and registration from or to any Kentucky resident who has a delinquent motor vehicle ad valorem property tax account. This provision shall not apply to transactions involving licensed Kentucky motor vehicle dealers."

Furthermore, KRS 186A.280 states, "[n]o county clerk or other person shall knowingly enter any information or record into a telecommunications terminal or other device connected to the automated vehicle registration and titling system, knowing that the information or record entered into such device is false, fraudulent, illegitimate, or contains erroneous information that:

- (1) [c]reates, or enables the system to create, a certificate of title and registration, certificate of registration, or certificate of title, that is illegitimate or that contains information that is false, fraudulent or erroneous; or
- (2) [r]esults in the system storing information or a record that is false, fraudulent or contains erroneous information; or
- (3) [f]raudulently, illegitimately, or maliciously alters information or records stored within the system."

We recommend the Warren County Clerk's office implement written policy and procedures to ensure social security numbers are entered correctly in AVIS and ensure renewal of a vehicle registration isn't completed until all delinquent taxes associated with it are paid as required by KRS 186.021. In addition, the county clerk's office should established written policy and procedures to ensure all requirements of KRS 186.021 are met when

WARREN COUNTY  
LYNETTE YATES, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2016  
(Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2016-001 The Warren County Clerk's Office Lacks Adequate Internal Control Over Documenting Social Security Number Changes (Continued)

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entries are made in AVIS, which includes entering information accurately. The county clerk should establish a written policy that prohibits deputies from processing their own or family member's vehicles. If there is a legitimate reason for changing social security numbers, then documentation supporting the change should be maintained. The county clerk should review the list from Department of Revenue to determine if additional corrections need to be made in AVIS to correct social security number changes made. This matter will be referred to the Kentucky Transportation Cabinet.

*County Clerk's Response: It is a standard operating procedure in the Clerk's office to allow deputy clerks to make corrections in AVIS (Automated Vehicle Information System), including corrections to social security numbers. Errors can be made anywhere throughout the process of getting a vehicle in the customer's name. Paperwork from dealerships or forms completed by individuals could contain incorrect information. Customers sometimes give inaccurate information or there is just a lack of communication between the parties involved. Human error on the part of all Clerks or deputy clerks in Kentucky would also warrant the correction of information already entered into the statewide system, including social security numbers.*

*Every Clerk and deputy clerk throughout the Commonwealth has the ability to enter information into and make corrections in AVIS. The information other counties enter can effect a current or future Warren County resident. If an incorrect social security number were to be entered by another county and that number were to belong to a Warren County vehicle owner, a correction would have to be made to the other county's record. If a customer were to move into Warren County from another county in Kentucky, the record created in the other county would already be in the statewide system. If there had been an error made in the other county then a correction would have to be made. Most errors are discovered when a customer is trying to renew a vehicle. If there are delinquent taxes associated with our customer's social security number, the system will stop that renewal. At this point the deputy clerk would verify who really owes the tax, and if necessary make the appropriate corrections in the system.*

*Social security numbers also may need to be changed in divorce cases so the correct person is responsible for payment of the taxes.*

*The corrections made to social security numbers in the system does not do away with or delete any taxes owed. That can only be done through the Property Valuation Administrator. The taxes are still in the system to be collected. Our only goal is to get the correct social security number on the record.*

*In response to specific audit comments:*

*1. My employee did change the social security number on her record to her ex-husband's social security number because the vehicle in question was awarded to her ex-husband in the divorce. The tax was not avoided but rather associated with his social security number to be paid by him. At the time this was done I had no policy concerning making changes to your own record. However, I did enact a policy stating that no employee is allowed to process work for themselves or their families. This policy was in place before this audit began.*

*2. The deputy clerk who changed the social security number in question is no longer employed by the Clerk's Office. In reviewing the records it is unclear as to why it was changed. Once discovered, the record was immediately corrected to reflect the correct social security number. Actions have been taken to ensure that all changes made from this point on will be documented and therefore able to be fully explained. Policy has been*



WARREN COUNTY  
LYNETTE YATES, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2016  
(Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2016-001 The Warren County Clerk's Office Lacks Adequate Internal Control Over Documenting Social Security Number Changes (Continued)

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*County Clerk's Response: (Continued)*

*implemented to require all social security number changes to have supervisory approval and documentation for those changes will remain on file.*

*3. I have started going through the list provided to me by the Department of Revenue. Determining why social security numbers were changed in the system "after the fact" can be a time consuming process. Changes made to social security numbers are not made to avoid the tax being paid. They are made to put the tax in the correct person's name.*

*The County Clerk's Office has now implemented a policy concerning the changing of social security numbers. Changes are to be approved either by the Clerk or the supervisor of the Motor Vehicle Department. There will be a record kept including documentation of the change made and the reason for the change. I will emphasize to my employees the importance of entering information into the system accurately, however we are all human and errors do occur.*