

**REPORT OF THE AUDIT OF
MOTOR VEHICLE AND MOTORBOAT TAXES
AND REGISTRATION FEES COLLECTED AND REMITTED
TO THE COMMONWEALTH OF KENTUCKY
BY EACH COUNTY CLERK**

**For The Year Ended
December 31, 2019**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Kerry B. Harvey, Secretary, Public Protection Cabinet

Independent Auditor's Report

Report on the Schedules

We have audited the accompanying Schedule of Motor Vehicle and Motorboat Taxes and Registration Fees Collected and Paid to the Commonwealth of Kentucky by Each County Clerk - Cash Basis for the year ended December 31, 2019, the accompanying Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk - Cash Basis for the year ended December 31, 2019, and the related notes to the schedules.

Management's Responsibility for the Schedules

Management of the Kentucky Transportation Cabinet and each respective county clerk is responsible for the preparation and fair presentation of the elements included in the schedules in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the schedules in the circumstances. Management of the Kentucky Transportation Cabinet along with each respective county clerk is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedules based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

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

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



Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Kerry B. Harvey, Secretary, Public Protection Cabinet

Opinion

In our opinion, the schedules referred to above present fairly, in all material respects, the cash basis presentation of the motor vehicle and motorboat taxes and registration fees collected and paid, and the registration fees payable to the Commonwealth of Kentucky by each county clerk as of and for the year ended December 31, 2019.

Emphasis of Matter

The amounts included in the *Schedule Of Motor Vehicle And Motorboat Taxes And Registration Fees Collected And Paid To The Commonwealth Of Kentucky By Each County Clerk* for Elliott County only represent the amounts paid to the Commonwealth of Kentucky as of the date of this report but do not represent the total amount due to the Commonwealth. Because of a lack of internal controls and inaccurate recordkeeping, Elliott County did not remit all amounts due to the Commonwealth of Kentucky as of and for the year ended December 31, 2019. Elliott County's amounts are not material to the schedule as a whole. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note 1 of the schedules which describes the basis of accounting. As discussed in Note 1, the schedules are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of the Kentucky Transportation Cabinet, the Kentucky Finance and Administration Cabinet, and each county clerk, and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2020, on our consideration of the Kentucky Transportation Cabinet's and each respective county clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 of the effectiveness of the Kentucky Transportation Cabinet's and each respective county clerk's 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 Kentucky Transportation Cabinet's and each respective county clerk's internal control over financial reporting and compliance.

Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Kerry B. Harvey, Secretary, Public Protection Cabinet

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2019-001 The Kentucky Transportation Cabinet's Division Of Motor Vehicle Licensing Did Not Ensure Procedures Were In Place To Prevent Or Detect Inappropriate Changes Of Data In The Automated Vehicle Information System And The Kentucky Automated Vehicle Information System
- 2019-002 The Kentucky Transportation Cabinet And The Commonwealth Office Of Technology Have Not Recovered The Kentucky Automated Vehicle Information System During Disaster Recovery Testing
- 2019-003 The Elliott County Clerk Owes \$122,392 In Usage Tax To The Department Of Revenue
- 2019-004 The Elliott County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$106,115
- 2019-005 The Elliott County Clerk Did Not Pay License Fees Timely And Owes \$7,331 To The State

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 13, 2020

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SCHEDULE OF MOTOR VEHICLE AND MOTORBOAT TAXES AND
REGISTRATION FEES COLLECTED AND PAID TO THE
COMMONWEALTH OF KENTUCKY BY EACH COUNTY CLERK

For The Year Ended December 31, 2019

County	Usage Tax	Ad Valorem Tax	License Fees
Adair	\$ 2,410,360	\$ 539,905	\$ 766,553
Allen	1,253,946	681,230	498,217
Anderson	2,476,345	939,010	632,826
Ballard	850,013	357,117	277,615
Barren	4,731,815	1,466,531	1,154,527
Bath	530,887	353,057	268,982
Bell	1,891,325	578,539	422,709
Boone	16,467,634	5,491,770	3,028,459
Bourbon	6,370,808	854,039	715,278
Boyd	5,374,138	1,661,786	994,675
Boyle	4,097,043	986,819	635,484
Bracken	799,853	306,046	215,222
Breathitt	493,062	317,684	240,392
Breckinridge	1,346,478	775,951	673,871
Bullitt	6,361,044	3,079,390	1,915,024
Butler	827,983	1,074,818	543,436
Caldwell	1,046,390	459,109	381,515
Calloway	3,942,906	1,156,091	971,367
Campbell	8,915,518	2,865,792	1,633,338
Carlisle	545,588	260,440	208,777
Carroll	1,329,380	332,454	272,718
Carter	3,165,478	1,050,254	769,892
Casey	734,937	488,197	439,219
Christian	6,062,231	1,612,463	1,445,391
Clark	3,827,518	1,455,676	940,379
Clay	908,732	530,095	372,015
Clinton	527,453	322,507	314,349
Crittenden	513,442	296,036	235,224
Cumberland	485,772	231,890	209,455
Daviess	9,805,855	3,274,986	2,463,733
Edmonson	478,570	494,558	316,549
Elliott	94,728	137,639	117,933
Estill	496,356	417,570	336,117
Fayette	38,092,032	16,839,422	6,064,896
Fleming	1,184,369	541,333	392,276
Floyd	5,235,380	2,004,289	1,046,081
Franklin	6,247,414	1,746,395	1,258,903
Fulton	467,429	156,782	160,379
Gallatin	733,731	296,595	207,546
Garrard	738,781	696,307	420,325
Grant	4,672,125	827,226	621,155

SCHEDULE OF MOTOR VEHICLE AND MOTORBOAT TAXES AND
REGISTRATION FEES COLLECTED AND PAID TO THE
COMMONWEALTH OF KENTUCKY BY EACH COUNTY CLERK
For The Year Ended December 31, 2019
(Continued)

County	Usage Tax	Ad Valorem Tax	License Fees
Graves	\$ 5,007,925	\$ 1,488,885	\$ 1,249,675
Grayson	1,677,995	897,637	836,698
Green	413,910	336,081	288,350
Greenup	3,471,426	1,238,621	760,977
Hancock	341,389	317,465	257,877
Hardin	14,666,992	3,472,257	2,535,144
Harlan	1,377,867	830,056	496,351
Harrison	1,140,002	685,840	436,355
Hart	824,696	534,273	487,506
Henderson	4,036,115	1,541,309	1,138,655
Henry	914,055	571,098	400,862
Hickman	421,590	195,464	171,559
Hopkins	4,066,730	1,572,469	1,155,220
Jackson	451,648	365,785	293,972
Jefferson	81,030,532	31,730,275	14,797,183
Jessamine	10,650,433	2,101,846	1,420,100
Johnson	3,468,889	819,823	520,278
Kenton	16,297,091	5,022,216	2,795,353
Knott	987,766	478,265	284,843
Knox	3,827,486	1,361,395	922,830
Larue	551,402	507,093	408,891
Laurel	7,371,952	1,890,888	1,530,245
Lawrence	1,116,894	469,763	315,556
Lee	198,195	176,255	164,917
Leslie	506,196	331,013	239,224
Letcher	2,053,873	764,915	487,546
Lewis	930,496	355,628	295,639
Lincoln	812,687	766,282	531,901
Livingston	697,785	430,428	348,030
Logan	1,898,262	923,141	870,534
Lyon	659,215	389,269	298,617
McCracken	7,976,519	2,470,011	1,523,976
McCreary	527,707	339,628	339,191
McLean	995,840	384,683	394,907
Madison	13,159,805	2,928,922	1,927,697
Magoffin	474,965	371,565	276,469
Marion	875,773	632,977	523,482
Marshall	3,669,752	1,497,205	1,047,635
Martin	665,159	380,480	212,628
Mason	1,605,532	561,902	375,557
Meade	3,176,706	1,022,422	730,087

SCHEDULE OF MOTOR VEHICLE AND MOTORBOAT TAXES AND
REGISTRATION FEES COLLECTED AND PAID TO THE
COMMONWEALTH OF KENTUCKY BY EACH COUNTY CLERK
For The Year Ended December 31, 2019
(Continued)

<u>County</u>	<u>Usage Tax</u>	<u>Ad Valorem Tax</u>	<u>License Fees</u>
Menifee	\$ 225,734	\$ 190,100	\$ 168,144
Mercer	1,448,679	857,770	552,544
Metcalfe	432,134	294,078	241,323
Monroe	686,673	343,084	339,781
Montgomery	3,983,949	944,758	724,051
Morgan	660,094	399,659	343,035
Muhlenberg	2,752,153	1,050,650	968,084
Nelson	5,441,310	1,802,866	1,379,990
Nicholas	399,756	255,574	151,001
Ohio	1,506,115	730,009	641,727
Oldham	8,141,470	2,862,178	1,378,541
Owen	719,054	428,373	287,736
Owsley	111,870	106,481	109,974
Pendleton	1,319,972	529,046	350,535
Perry	3,344,662	991,121	721,277
Pike	4,839,454	1,910,861	1,142,908
Powell	911,481	438,436	342,206
Pulaski	11,415,429	2,305,083	1,891,527
Robertson	136,470	93,762	54,229
Rockcastle	650,853	488,330	394,571
Rowan	3,301,356	818,192	603,096
Russell	1,255,585	642,363	538,423
Scott	4,835,529	2,423,126	1,177,207
Shelby	5,541,208	1,952,752	1,134,197
Simpson	2,455,521	619,898	539,783
Spencer	1,395,981	874,687	490,565
Taylor	3,030,794	830,382	651,340
Todd	977,110	364,853	455,066
Trigg	1,533,671	595,240	462,368
Trimble	400,776	311,390	200,392
Union	849,033	582,947	529,122
Warren	17,716,899	4,078,581	2,926,478
Washington	480,413	426,422	349,680
Wayne	966,321	554,616	502,588
Webster	506,802	529,456	393,921
Whitley	2,641,435	1,249,511	804,880
Wolfe	559,198	224,152	226,829
Woodford	2,493,155	1,136,398	638,442
Totals	<u>\$ 461,602,200</u>	<u>\$ 166,350,513</u>	<u>\$ 103,482,880</u>

SCHEDULE OF VEHICLE REGISTRATION FEES
PAYABLE TO THE COMMONWEALTH BY EACH COUNTY CLERK

For The Year Ended December 31, 2019

<u>County</u>	<u>Amount</u>	<u>County</u>	<u>Amount</u>	<u>County</u>	<u>Amount</u>
Adair	\$	Grant	\$	Mason	\$ 101
Allen		Graves		Meade	
Anderson		Grayson		Menifee	
Ballard		Green	54	Mercer	
Barren		Greenup		Metcalfe	
Bath		Hancock		Monroe	
Bell		Hardin	101	Montgomery	
Boone		Harlan		Morgan	
Bourbon		Harrison		Muhlenberg	
Boyd	25,576	Hart		Nelson	
Boyle		Henderson		Nicholas	
Bracken		Henry		Ohio	54
Breathitt		Hickman		Oldham	54
Breckinridge		Hopkins		Owen	
Bullitt		Jackson		Owsley	
Butler		Jefferson		Pendleton	
Caldwell		Jessamine	54	Perry	
Calloway		Johnson		Pike	
Campbell		Kenton		Powell	
Carlisle	3,404	Knott		Pulaski	54
Carroll		Knox		Robertson	
Carter		Larue		Rockcastle	
Casey		Laurel		Rowan	
Christian		Lawrence		Russell	
Clark		Lee		Scott	
Clay		Leslie		Shelby	
Clinton		Letcher		Simpson	
Crittenden		Lewis		Spencer	
Cumberland		Lincoln		Taylor	54
Daviess	101	Livingston		Todd	
Edmonson		Logan		Trigg	
Elliott	173,624	Lyon		Trimble	54
Estill		McCracken		Union	
Fayette	101	McCreary		Warren	
Fleming		McLean		Washington	
Floyd		Madison		Wayne	
Franklin		Magoffin		Webster	
Fulton		Marion		Whitley	
Gallatin		Marshall		Wolfe	
Garrard		Martin		Woodford	

NOTE TO SCHEDULES

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. County Clerk's Fiduciary Duties

Each county clerk acts as a fiduciary agent on behalf of the Commonwealth of Kentucky to collect usage tax, ad valorem tax, and license fees. Each clerk remits 97 percent of usage tax, 96 percent of ad valorem tax, and the applicable state fees collected for license fees collected as required by statute. The remaining amounts collected are maintained by the county clerks as commissions and fees to be used for expenditures related to the operations of the county clerks' offices.

B. Accounting for Vehicle Taxes and License Fees

Receipts of the county clerks for vehicle taxes and license fees are processed through the state's Automated Vehicle Information System (AVIS). AVIS produces daily, weekly, and monthly reports which are used in posting and reconciling to the county clerks' ledgers. Usage tax is remitted daily to a state depository bank account. License and transfer fees are remitted weekly to the Kentucky Transportation Cabinet. State ad valorem taxes are remitted monthly to the Finance and Administration Cabinet Department of Revenue.

C. Basis of Accounting

The schedules have been prepared on a cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting differs from GAAP primarily because revenues and expenditures of the collections of vehicle taxes and license fees are generally recognized when cash is received or disbursed rather than when incurred. The Schedule of Vehicle Registration Fees Payable is a result of additional usage tax, ad valorem tax, license fees due and inventory exceptions which result in billable items as of the calendar year ended.

The amounts presented in these schedules are included in the county clerks' financial statements, which are audited annually in accordance with KRS 43.070 and 64.810.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Kerry B. Harvey, Secretary, Public Protection Cabinet

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Schedules
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 Schedule of Motor Vehicle and Motorboat Taxes and Registration Fees Collected and Paid to the Commonwealth of Kentucky by Each County Clerk - Cash Basis for the year ended December 31, 2019, and the Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk - Cash Basis for the year ended December 31, 2019, and the related note to the schedules and have issued our report thereon dated April 13, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the schedules, we considered the Kentucky Transportation Cabinet's and each respective county clerk's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedules, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Transportation Cabinet's and each respective county clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kentucky Transportation Cabinet's and each respective 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 schedules 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Schedules
Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control over Financial Reporting (Continued)

We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, 2019-004, and 2019-005 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, and regulations and other matters, noncompliance with which could have a direct and material effect on the determination of schedule 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 Kentucky Transportation Cabinet's and the Elliot 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 Kentucky Transportation Cabinet's and the Elliot 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 Kentucky Transportation Cabinet's and each respective county clerk'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

April 13, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2019-001 The Kentucky Transportation Cabinet's Division Of Motor Vehicle Licensing Did Not Ensure Procedures Were In Place To Prevent Or Detect Inappropriate Changes Of Data In The Automated Vehicle Information System And The Kentucky Automated Vehicle Information System

The Kentucky Transportation Cabinet's (KYTC) Division of Motor Vehicle Licensing (MVL) did not ensure adequate measures were in place to prevent an individual from altering a social security number (SSN) in the Automated Vehicle Information System (AVIS) and Kentucky AVIS (KAVIS) in order to avoid paying delinquent tax obligations. In addition, MVL does not conduct or oversee a periodic review of SSN changes in AVIS or KAVIS for appropriateness. This issue was originally identified in calendar year (CY) 2013. Since no action has been taken by the agency to remediate this weakness, this finding has been upgraded to a significant deficiency.

Employees in county clerk offices are allowed to change the SSN associated with a vehicle for valid reasons, including divorces and changing from joint ownership to sole ownership. KYTC stated all county clerks are aware that an individual cannot sell, transfer, or renew a vehicle that has delinquent taxes and that changing a SSN to avoid paying property taxes is illegal. There was an instance of inappropriate changes to SSNs in Jessamine County during CY 2019.

There are no controls in AVIS at the point of data entry to restrict changes to SSNs. If a county clerk believes fraud has occurred, they may request the Department of Revenue (DOR) review transaction activity. DOR then requests a transaction activity report from the Commonwealth Office of Technology (COT) and reviews it for unusual activity. Any potentially inappropriate activity is provided to the Auditor of Public Accounts (APA) for further review. This process only occurs on request and there is no periodic review for unreported unusual activity. MVL is not involved in this review.

There are more stringent controls in place in KAVIS, which is gradually replacing AVIS and is partially implemented. Vehicle registrations have not transitioned to KAVIS yet, but KYTC is developing necessary controls to prepare for this transition. When the taxpayer provides a driver's license number, SSN, or Individual Taxpayer Identification Number (ITIN), KAVIS validates the individual's information via KYTC's driver's license database. When individuals are verified this way, they are known as 'DL Verified' and their information becomes unalterable by clerks. However, if a passport, visa, or green card number is entered instead, no verification occurs and clerks are able to alter the customer information. Any alterations are logged, including who made the change and the date and time. As with changes in AVIS, there is no periodic review of these KAVIS changes for appropriateness.

KYTC, DOR, COT, and the county clerk offices all have roles in the vehicle registration process. However, as owner of the data in AVIS and KAVIS, KYTC's MVL did not ensure this data was correct and protected from unauthorized changes. Failure to ensure controls are in place at the point of data entry to prevent altering SSNs, and a lack of a periodic review process for changes that do occur, could result in violations of KRS 186.021(1).

KRS 186.021(1) states, "a county clerk shall not issue a replacement plate, decal, or registration certificate as provided in KRS 186.180, or a registration for renewal to any person who on January 1 of any year owned a motor vehicle on which state, county, city, urban-county government, school, or special taxing district ad valorem taxes are delinquent."

We recommend MVL:

- We recommend MVL communicate with County Clerks explaining the appropriate reasons for making changes to Social Security Numbers.
- Develop a process to periodically review SSN changes in AVIS until KAVIS is fully implemented. A process to periodically review changes to non-verified customers in KAVIS should also be developed and implemented as soon as any vehicle registrations begin processing in KAVIS.

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-001 The Kentucky Transportation Cabinet's Division Of Motor Vehicle Licensing Did Not Ensure Procedures Were In Place To Prevent Or Detect Inappropriate Changes Of Data In The Automated Vehicle Information System And The Kentucky Automated Vehicle Information System
(Continued)

- Appropriately restrict the users' ability to change SSNs when KAVIS modules related to vehicle registrations are implemented.

Kentucky Transportation Cabinet's Response: *Since 2013, the Division of Motor Vehicle Licensing has undergone several leadership transitions. It seems that this issue and recommended resolution has gotten lost in the shuffle. However, under the current division leadership, this issue will be addressed and corrected timely and efficiently. MVL will begin the process of implementing all three recommendations promptly.*

- *MVL has created a monthly conference call with the KY County Clerks Association (KCCA), as well as monthly training opportunities with the KCCA and other periodic meetings. During these interactions, MVL will routinely stress the importance and legality of the defined reasons and process for legally and appropriately changing SSNs, and the consequences for doing so illegally/inappropriately. MVL will also alert the KCCA to the intended action outlined in bullet two below, as well as report periodically to the KCCA of the outcome of our periodic reviews and the action taken to correct violations. This will substantially increase accountability and will provide a mechanism for both correcting and justifying instances where a SSN is changed.*
- *MVL will be scheduling a series of necessary meetings with DOR and COT to discuss, and begin the process of creating and implementing, a process like what has been recommended. Upon development, MVL will schedule periodic reviews with DOR regarding any suspect activity and will also follow up with any counties with reported activity to determine the validity of the SSN changes. MVL and DOR will work together to develop the process and outcome until KAVIS is able to provide this functionality.*
- *This is already underway in the programming phases of KAVIS.*

2019-002 The Kentucky Transportation Cabinet And The Commonwealth Office Of Technology Have Not Recovered The Kentucky Automated Vehicle Information System During Disaster Recovery Testing

The calendar year 2019 audit revealed the Kentucky Transportation Cabinet's (KYTC) Kentucky Automated Vehicle Information System (KAVIS) has never been recovered during disaster recovery testing. KYTC's infrastructure is consolidated with the Commonwealth Office of Technology (COT). As such, responsibilities associated with disaster recovery are separated. KYTC is responsible for identifying critical systems to be included in disaster recovery testing and working with COT to remediate any issues that arise. COT is responsible for backing up, testing, and recovering KAVIS data in the event of a disaster. COT performs regular backups and has developed a formal disaster recovery plan (DRP). Recovery testing was attempted in February and October 2019. While KAVIS was scheduled to participate, the system could not be recovered during either test. KYTC is waiting for the next testing exercise offered by COT to attempt recovery again.

The goal of a disaster recovery plan is to improve preparedness for extended system outages at minimal cost using available resources. Disaster Recovery should be documented, approved, properly distributed, tested on a consistent basis, and updated as needed. Further, key staff assigned to perform these procedures should be trained on a periodic basis.

SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-002 The Kentucky Transportation Cabinet And The Commonwealth Office Of Technology Have Not Recovered The Kentucky Automated Vehicle Information System During Disaster Recovery Testing (Continued)

KYTC stated that KAVIS recovery was unsuccessful during the February 2019 disaster recovery testing and could not be tested during the October 2019 disaster recovery test. Failure to implement a complete disaster recovery plan increases the possibility of loss due to excessive recovery time, costs, and disruption of processing capabilities in the case of a disaster or extended system outage. Disasters can cause short or long-term disruptions in services and, specific to KRS, could cause the loss of critical employee and member data.

CIO-113: Contingency Planning Policy, which became effective July 16, 2019, “requires that IT systems and services acquisition adhere to, at a minimum, the moderate-level control standards outlined in the NIST 800-53 Revision 4 Contingency Planning (CP) control family, in accordance with CIO-091 Enterprise Information Security Program.”

According to KRS 42.726:

(1) *The roles and duties of the Commonwealth Office Technology shall include but not be limited to:*

...

- (c) *Developing strategies and policies to support and promote the effective application of information technology within state government as a means of saving money, increasing employee productivity, and improving state services to the public, including electronic public access to information of the Commonwealth;*
- (d) *Developing, implementing, and managing strategic information technology directions, standards, and enterprise architecture, including implementing necessary management processes to assure full compliance with those directions, standards, and architecture. This specifically includes but is not limited to directions, standards, and architecture related to the privacy and confidentiality of data collected and stored by state agencies;*

We recommend KYTC continue working with COT to ensure disaster recovery testing of KAVIS is conducted as soon as possible. All staff involved in the DRP processes should receive training to ensure they are aware of their assigned responsibilities.

Kentucky Transportation Cabinet’s Response: *KAVIS participated in DR testing in the Spring of 2019. COT manages, monitors and maintains KYTC user computing, Enterprise services, servers, databases and network; therefore, KAVIS DR is dependent on COT support teams for disaster recovery and conducting testing with the agencies. COT is responsible for backing up, testing, and recovering KAVIS data in the event of a disaster. COT performs regular backups and has developed a formal disaster recovery plan (DRP). COT did not conduct lessons learned or provide follow-up from the testing effort necessary for updates to KAVIS DRP and the corrections/improvements to be applied during the next DR test.*

The KAVIS team requested testing failing over the KAVIS system from the CDC to the ADC to further prepare for a potential disaster event using automated methods; however, COT advised automated methods were not available. COT further advised the KAVIS team that recovery must be done manually by COT support teams and an automated test is not feasible due to the COT supported network infrastructure.

COT is conducting a DR test of the mainframe applications and data, and the scope of the testing includes distributed systems reliant on those applications and data beginning 4/20. COT has undergone a change in DR services leadership and has advised improvements to the network infrastructure have been deployed over the past year. KYTC has provided COT DR leadership concerns from the prior years’ testing. KYTC is currently

SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-002 The Kentucky Transportation Cabinet And The Commonwealth Office Of Technology Have Not Recovered The Kentucky Automated Vehicle Information System During Disaster Recovery Testing (Continued)

Kentucky Transportation Cabinet's Response: (Continued) working with COT to ensure KAVIS has a Disaster Recovery Test/Failover Test; however, due to the previous issues and logistics of testing and executing a DRP, KYTC is participating in testing DR for ALTS and AVIS Mainframe applications of which distributed Motor Carrier systems are dependent. COT DR leadership advised there will be pre-testing meetings, COT teams configuring the parallel isolated environments and perform lessons learned with the agencies. KYTC will monitor DR testing progress and evaluate the results from testing. Those lessons learned will be utilized for KAVIS DRP and DRP testing as soon as feasible based on COT's DR schedule.

COT is responsible for providing DR and other technical training to their support teams. KAVIS systems and data are backed up daily and available for recovery for contingency and continuity. The KAVIS team members are skilled developers and system support. The DR testing exercise and the DRP reviews and updates provide the necessary training to prepare for a potential disaster event.

2019-003 The Elliott County Clerk Owes \$122,392 In Usage Tax To The Department Of Revenue

The Elliott County Clerk did not properly account for usage tax collections. For calendar year 2019, the county clerk owes usage tax to the Department of Revenue (DOR) in the amount of \$122,392. As of March 31, 2020, the usage tax account had a balance of \$133,737. After remitting the required amount due, there is an unknown balance of \$11,345 in the account. The county clerk did not properly deposit usage tax collections daily and transfer amounts to the state depository as required. Deposits to the usage tax account were random, grouped together, or not made at all. Usage tax was not transferred to DOR timely. Payments were up to thirteen months late or not made at all. Also, weekly usage tax reports were not properly maintained. The county clerk was missing weeks 1-11 and 29-31.

The county clerk did not have procedures in place to ensure the correct amount of usage tax was remitted from the fee account to the usage tax account daily and properly transferred to the state timely. In addition, the county clerk was not reconciling her usage tax account monthly. As a result of not properly remitting usage tax from the fee account to the usage tax account, the county clerk runs the risk of overpaying excess fees to the county and not having the funds to remit to DOR. The clerk also runs the risk of incurring penalties that are prohibited from being paid from the fee account. In addition, by not properly reconciling the usage tax account it was overdrawn three times during the year resulting in \$59 in overdraft fees.

KRS 131.155(2)(c) requires the county clerk to deposit motor vehicle usage tax and sales and use tax collections in the clerk's local depository account not later than the next business day following receipt. The clerk shall cause the funds to be electronically transferred from the clerk's local depository account to the State Treasury in the manner and at the time prescribed by the department. According to KRS 138,464(4), "Failure to deposit or, if required, transfer collections as required above shall subject the clerk to a penalty of two and one-half percent (2.5%) of the amount not deposited or, if required, not transferred for each day until the collections are deposited or transferred as required above. The penalty for failure to deposit or transfer money collected shall not be less than fifty dollars (\$50) nor more than five hundred dollars (\$500) per day.

We recommend the county clerk remit the \$122,392 in usage tax owed to DOR from the usage tax account. After remitting the amount due, the county clerk should investigate the remaining balance in the usage tax account and determine the disposition of the funds. In the future, the county clerk should ensure the correct amount of usage tax is deposited from the fee account to the usage tax account daily and transferred to the DOR timely. The easiest way to do this would be to perform monthly bank reconciliations of the usage tax account.

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-003 The Elliott County Clerk Owes \$122,392 In Usage Tax To The Department Of Revenue
(Continued)

Elliott County Clerk's Response: *Restructuring duties and responsibilities among staff. Assigning a "usage deputy" to handle usage payments/ach-pay. Will correct and complete any usage discrepancies on or before 6-1-2020 have inquired about electronic transfer (for usage acct.) from Frankfort dept but don't have an answer yet. Will follow recommendations from auditor.*

2019-004 The Elliott County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$106,115

The county clerk did not properly pay ad valorem taxes due to the taxing districts. Payments for motor vehicle ad valorem taxes were not made for the months of July and September, except for the county district and no payments were made for December. In addition, payments were not made for boat ad valorem taxes starting in July with the exception of the county district for July and September. The following chart depicts amounts due to districts.

	State	County	Health	Extension	Ambulance	School	Total
July	18,398.17		2,436.66	1,234.13	3,086.04	17,431.66	42,586.66
August	137.60	59.95	82.86	42.57	30.59	172.78	526.35
September	15,183.26		2,137.70	1,070.14	2,676.05	15,117.06	36,184.21
October	10.39	4.52	1.36	0.91	2.31	13.04	32.53
November	11.31	4.93	2.00	1.03	2.53	14.20	36.00
December	10,160.38	3,314.20	1,352.73	676.41	1,691.33	9,553.94	26,748.98
Total Due To Districts	\$ 43,901.11	\$ 3,383.60	\$ 6,013.31	\$ 3,025.19	\$ 7,488.85	\$ 42,302.68	\$ 106,114.73

Also, monthly ad valorem tax reports were not properly maintained. The county clerk was missing the months of January, June, and December.

The county clerk did not have procedures in place to ensure ad valorem taxes were remitted timely. As a result, districts were not paid timely and unable to use funds due to them. In addition, the clerk increases the risk of incurring penalties that are prohibited from being paid from the fee account.

KRS 134.815 says, the county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by her for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository. Any county clerk who fails to pay over any taxes collected by him on motor vehicles as required by subsection (1) of this section shall be required to pay a penalty of 1% for each 30 day period or fraction thereof, plus interest at the legal rate per annum of such taxes.

We recommend the county clerk prepare all monthly reports and pay the taxing districts in accordance with state law. We also recommend the county clerk remit the amounts due above to the state and districts.

Elliott County Clerk's Response: *Will implement a more organized approach to reports/payments - with another deputy to review. Will follow recommendations of audit.*

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2019-005 The Elliott County Clerk Did Not Pay License Fees Timely And Owes \$7,331 To The State

The county clerk did not properly remit weekly license fees to the Kentucky Transportation Cabinet (KYTC). According to weekly report #31 \$10,474 was due to the state treasurer; however, the county clerk remitted \$2,844, leaving a balance of \$7,630 due to the state. However, the county clerk overpaid week 32 by \$299. After reducing the amount due by the overpayment, the county clerk owes \$7,331 to KYTC.

In addition to the payment errors, payments were not remitted timely. Payments were not made at all for five months and only one payment was remitted for three months. Payments were made over four months late. Also, weekly license tax reports were not properly maintained. The county clerk was missing weeks 1-11 and 29-31. The county clerk did not have procedures in place to ensure weekly license fees were remitted timely. As a result, the state was not paid timely for license fees collected by the county clerk. The clerk also runs the risk of incurring penalties that are prohibited from being paid from the fee account.

KRS 138.464(1) states, “[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period.” KRS 138.464(3) states, “[f]ailure to forward duplicates of all receipts issued during the reporting period or failure to file the weekly report of moneys collected within seven (7) working days after the report is due shall subject the clerk to a penalty of two and one-half percent (2.5%) of the amount of moneys collected during the reporting period for each month or fraction thereof until the documents are filed.”

We recommend the county clerk ensure that payments to the state for license fees are paid timely in the future. We also recommend the county clerk remit the \$7,630 due KYTC for calendar year 2019.

Elliott County Clerk’s Response: *New organizing methods will be in place and assigning a deputy to license reports and corrections. Will correct any outstanding payments/discrepancies. Will follow recommendations from the audit.*