

**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, 2024**



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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Ray A. Perry, Secretary, Public Protection Cabinet

Report on the Audit of the Schedules

Opinion

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, 2024, the accompanying Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk – Cash Basis for the year ended December 31, 2024, and the related notes to the schedules.

In our opinion, the accompanying schedules 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, 2024, in accordance with the cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the Kentucky Transportation Cabinet and each county clerk and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

We draw attention to Note 1 of the schedules, which describes the basis of accounting. 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.

The amounts included in the Schedule of Motor Vehicle and Motorboat Taxes and Registration Fee Collected and Paid to the Commonwealth Of Kentucky by Each County Clerk and the accompanying Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk for Estill County are shown separately for the former and current county clerks in order to highlight the amounts paid and due for each county clerk during the period. Our opinion is not modified with respect to this matter.



Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Ray A. Perry, Secretary, Public Protection Cabinet

Emphasis of Matters (Continued)

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 Owsley County only represent the amounts reported by the Commonwealth of Kentucky as of the date of this report but do not represent the total amount due to the Commonwealth. Due to the lack of internal controls and inaccurate recordkeeping, we could not determine the amounts paid and due by the Owsley County Clerk as of and for the year ended December 31, 2024. Owsley County's amounts are not material to the schedule as a whole. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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 for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.
- Obtain an understanding of internal control relevant to the audit 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 Kentucky Transportation Cabinet and each county clerk's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kentucky Transportation Cabinet and each county clerk's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Ray A. Perry, Secretary, Public Protection Cabinet

Other 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 2, 2025, 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.

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

- 2024-001 The Former Estill County Clerk Failed To Implement An Effective Internal Control Environment And Failed To Perform The Duties Of His Office Pertaining To Motor Vehicle Registration Taxes And Fees
- 2024-002 The Owsley County Clerk Did Not Comply With The Uniform System Of Accounts Resulting In An Unaudited Motor Vehicle Registration Audit

Respectfully submitted,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

April 2, 2025

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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 – CASH BASIS

For The Year Ended December 31, 2024

County	Usage Tax	Ad Valorem Tax	License Fees
Adair	\$ 3,876,494	\$ 784,263	\$ 761,991
Allen	2,093,224	1,055,506	615,221
Anderson	2,635,649	1,266,372	673,243
Ballard	974,900	494,679	292,153
Barren	6,742,782	2,057,953	1,307,461
Bath	878,403	511,922	312,052
Bell	2,912,293	736,765	450,481
Boone	20,861,501	7,835,796	3,329,525
Bourbon	6,608,623	1,180,479	751,044
Boyd	6,838,872	2,447,131	1,180,492
Boyle	7,335,431	1,428,729	775,313
Bracken	1,130,019	432,845	246,560
Breathitt	866,148	442,465	261,993
Breckinridge	1,509,885	1,119,712	793,842
Bullitt	8,978,866	4,463,631	2,069,483
Butler	1,219,442	3,321,432	752,375
Caldwell	1,719,315	626,133	433,606
Calloway	5,225,322	1,700,056	1,114,581
Campbell	11,215,967	4,016,253	1,811,117
Carlisle	697,845	352,109	236,742
Carroll	1,886,990	459,272	293,583
Carter	3,825,711	1,407,185	807,397
Casey	691,351	674,775	464,879
Christian	7,958,779	2,173,525	1,478,469
Clark	4,076,961	2,045,050	1,073,061
Clay	889,970	692,120	400,494
Clinton	682,707	447,724	353,845
Crittenden	662,467	403,127	258,623
Cumberland	759,918	332,224	258,665
Daviess	12,343,255	4,513,965	2,666,527
Edmonson	965,941	770,899	402,611
Elliott	327,232	226,242	135,961
Estill (Former)	131,313	90,225	
Estill (Current)	585,967	363,533	231,394
Fayette	44,228,921	21,866,418	6,312,302
Fleming	2,340,822	778,280	440,922
Floyd	6,673,771	2,965,210	1,138,385
Franklin	7,910,001	2,349,476	1,407,716
Fulton	513,401	242,287	162,229
Gallatin	958,201	459,105	231,368
Garrard	1,258,881	1,027,760	502,690
Grant	5,541,458	1,172,419	718,940

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, 2024
(Continued)

County	Usage Tax	Ad Valorem Tax	License Fees
Graves	\$ 7,910,211	\$ 1,904,456	\$ 1,336,364
Grayson	2,382,218	1,406,815	965,360
Green	560,298	501,088	359,718
Greenup	4,341,815	1,715,880	841,223
Hancock	483,255	427,591	268,310
Hardin	19,870,990	5,023,180	2,842,876
Harlan	1,919,142	900,394	507,988
Harrison	1,803,836	956,998	510,983
Hart	978,641	867,320	544,650
Henderson	5,099,428	2,067,104	1,201,317
Henry	1,341,035	813,995	440,340
Hickman	580,692	276,199	207,498
Hopkins	4,746,741	2,027,550	1,262,353
Jackson	581,525	498,268	310,775
Jefferson	100,570,472	40,307,478	14,875,204
Jessamine	15,949,706	3,114,374	1,681,490
Johnson	3,385,879	1,107,860	531,801
Kenton	21,537,350	7,302,840	3,153,376
Knott	1,152,871	617,179	293,108
Knox	3,077,432	1,923,707	962,368
Larue	836,662	718,000	485,508
Laurel	11,204,099	2,821,395	1,695,870
Lawrence	1,360,432	610,950	321,980
Lee	268,319	246,040	161,954
Leslie	528,199	386,539	225,371
Letcher	2,274,858	908,827	495,498
Lewis	1,175,092	466,342	294,470
Lincoln	1,082,582	1,066,368	613,851
Livingston	1,079,292	541,545	403,621
Logan	3,275,965	1,296,392	996,559
Lyon	943,314	568,929	329,281
McCracken	10,339,110	3,213,166	1,620,171
McCreary	832,451	488,611	373,744
McLean	1,269,374	540,454	423,148
Madison	18,106,265	4,465,393	2,220,353
Magoffin	611,597	494,146	310,174
Marion	1,245,809	912,765	645,581
Marshall	5,040,631	2,032,456	1,130,564
Martin	876,528	532,366	219,110
Mason	2,857,404	738,754	416,045
Meade	3,739,314	1,492,971	844,739

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, 2024
(Continued)

County	Usage Tax	Ad Valorem Tax	License Fees
Menifee	\$ 393,917	\$ 266,694	\$ 198,010
Mercer	1,863,311	1,241,917	676,594
Metcalf	722,612	396,660	299,748
Monroe	1,058,665	500,684	381,608
Montgomery	4,927,180	1,373,687	772,651
Morgan	911,057	547,053	384,422
Muhlenberg	3,406,158	1,286,439	911,673
Nelson	6,719,866	2,572,635	1,563,828
Nicholas	562,194	359,584	175,145
Ohio	1,949,930	968,962	667,239
Oldham	12,576,576	4,252,863	1,640,266
Owen	1,208,479	608,437	343,525
Owsley (Unaudited)	189,371	119,582	86,407
Pendleton	1,500,400	739,296	378,066
Perry	3,814,663	1,241,058	684,102
Pike	4,990,049	3,508,103	1,284,139
Powell	1,147,918	580,638	362,164
Pulaski	15,033,350	3,416,046	2,062,310
Robertson	209,442	147,375	63,233
Rockcastle	850,996	699,816	425,702
Rowan	4,473,348	1,156,794	621,136
Russell	1,340,963	750,474	591,488
Scott	8,467,412	3,376,804	1,417,783
Shelby	7,339,153	2,968,689	1,320,209
Simpson	3,626,954	932,841	611,232
Spencer	1,993,131	1,314,398	558,606
Taylor	4,109,978	1,125,903	746,585
Todd	1,432,145	559,981	480,834
Trigg	2,213,985	818,282	521,376
Trimble	543,920	439,252	232,242
Union	1,542,171	834,230	631,769
Warren	23,987,182	6,058,700	3,234,886
Washington	1,133,741	629,839	425,630
Wayne	1,510,364	779,112	559,292
Webster	743,237	660,446	469,560
Whitley	4,337,100	1,686,342	877,839
Wolfe	621,522	328,718	286,160
Woodford	3,404,124	1,577,604	745,034
Totals	<u>\$ 603,612,397</u>	<u>\$ 230,863,675</u>	<u>\$ 112,926,523</u>

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

For The Year Ended December 31, 2024

<u>County</u>	<u>Amount</u>	<u>County</u>	<u>Amount</u>	<u>County</u>	<u>Amount</u>
Adair	\$	Grant	\$	Meade	\$
Allen		Graves		Menifee	
Anderson		Grayson		Mercer	
Ballard		Green		Metcalfe	
Barren		Greenup		Monroe	
Bath		Hancock		Montgomery	
Bell		Hardin		Morgan	
Boone		Harlan		Muhlenberg	
Bourbon		Harrison		Nelson	
Boyd		Hart		Nicholas	
Boyle		Henderson		Ohio	
Bracken		Henry		Oldham	
Breathitt		Hickman		Owen	
Breckinridge		Hopkins		Owsley	
Bullitt		Jackson		Pendleton	
Butler		Jefferson		Perry	
Caldwell		Jessamine	23,657	Pike	
Calloway	2,083	Johnson		Powell	
Campbell		Kenton		Pulaski	
Carlisle		Knott		Robertson	
Carroll		Knox		Rockcastle	
Carter		Larue		Rowan	
Casey		Laurel		Russell	138,802
Christian		Lawrence		Scott	
Clark		Lee		Shelby	
Clay		Leslie		Simpson	
Clinton		Letcher		Spencer	
Crittenden		Lewis		Taylor	
Cumberland		Lincoln	1,984	Todd	
Daviess		Livingston		Trigg	9,269
Edmonson		Logan		Trimble	
Elliott	17,443	Lyon		Union	
Estill (Former)	151,453	McCracken		Warren	
Estill (Current)	33,466	McCreary		Washington	
Fayette		McLean		Wayne	
Fleming		Madison		Webster	
Floyd		Magoffin	32,787	Whitley	
Franklin		Marion		Wolfe	
Fulton		Marshall		Woodford	
Gallatin		Martin			
Garrard		Mason			

NOTE TO SCHEDULES

December 31, 2024

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% of usage tax, 96% 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). Receipts of the county clerks for boat taxes and license fees and disabled placard fees are processed through the state's Kentucky Automated Information System (KAVIS). AVIS and KAVIS produce 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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ALLISON BALL
AUDITOR OF PUBLIC ACCOUNTS

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

Jim Gray, Secretary, Kentucky Transportation Cabinet
Holly M. Johnson, Secretary, Finance and Administration Cabinet
Ray A. Perry, Secretary, Public Protection Cabinet

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, 2024, and the Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk – Cash Basis for the year ended December 31, 2024, and the related note to the schedules and have issued our report thereon dated April 2, 2025.

Report on 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 (internal control) as a basis for designing 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2024-001 and 2024-002 that we consider to be significant deficiencies.



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)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the schedules are free from 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 amounts in the schedules. 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

Government Auditing Standards requires the auditor to perform limited procedures on the Kentucky Transportation Cabinet's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Kentucky Transportation Cabinet'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 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,



Allison Ball
Auditor of Public Accounts
Frankfort, Ky

April 2, 2025

SCHEDULE OF FINDINGS AND RESPONSES

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SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2024

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2024-001 The Former Estill County Clerk Failed To Implement An Effective Internal Control Environment And Failed To Perform The Duties Of His Office Pertaining To Motor Vehicle Registration Taxes And Fees

The former county clerk failed to implement an effective internal control environment and failed to perform the duties of his office pertaining to motor vehicle registration taxes and fees, including maintaining adequate oversight and review of daily office functions during the period January 1, 2024 through March 31, 2024, resulting in the following issues:

- The former county clerk did not submit a final quarter financial statement to the Department for Local Government as required.
- The former county clerk did not maintain a receipts ledger to record motor vehicle registration taxes and fees collected.
- The former county clerk did not maintain a complete disbursements ledger.
- Usage taxes were not paid to the state timely and amounts are still due.
- License fees were not paid to the state and no weekly reports were filed for the entire period of January 1, 2024 to March 31, 2024.
- Tangible/ad valorem taxes were not remitted timely and amounts are owed to all taxing districts.

The former county clerk failed to implement adequate controls, policies, or procedures to correct known weaknesses in internal control. Proper oversight and review procedures were not implemented despite previous communication to do so. Further, the former county clerk did not devote sufficient time to financial reporting to ensure all financial activity was compiled and reported timely. Additionally, the former county clerk failed to implement procedures to ensure taxes were paid to taxing districts timely. There is an increased risk of fraud due to management's ability to override the entire control system without detection.

The former county clerk has several noncompliance issues and undetected errors. The former county clerk failed to ensure all financial activity was accurately compiled, properly reported, and timely remitted to taxing districts. The following amounts are owed to the state:

	Amount Due To State
Usage Tax	\$ 14,167
Tangible Personal Property Tax	48,134
License and Transfer Fees	<u>89,152</u>
 Total Due State	 <u><u>\$ 151,453</u></u>

The following amounts are owed to other taxing districts for tangible/ad valorem taxes:

County	\$ 9,867
Library	3,495
Health	7,518
Extension	3,666
Ambulance	9,399
School	51,495
City of Irvine	3,597
City of Ravenna	<u>1,176</u>
 Total Due Other Districts	 <u><u>\$ 90,213</u></u>

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2024
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2024-001 The Former Estill County Clerk Failed To Implement An Effective Internal Control Environment And Failed To Perform The Duties Of His Office Pertaining To Motor Vehicle Registration Taxes And Fees (Continued)

It is the statutory duty of the county clerk to collect and distribute motor vehicle taxes. There are numerous statutes that outline the duties and responsibilities of the county clerk.

Overall requirements for accounting and reporting are outlined in KRS 46.010(2), which requires, “each county treasurer, and each county officer who receives or disburses state funds, to keep an accurate account of receipts and disbursements, showing a daily balance of receipts and disbursements.” KRS 46.010(3) requires, “all county officers handling state funds, other than taxes, to make an annual report to the Department for Local Government showing receipts and disbursements, and to make other financial statements as the Department for Local Government requires.”

Usage tax payments are outlined in KRS 131.155, which states, “the clerk shall 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 times prescribed by the department.”

Further, KRS 138.464 outlines penalties associated with failure to remit usage taxes timely and failure to file weekly reports, “(3) Failure 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. (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.”

Likewise, KRS 186.230 outlines requirements and penalties for remittance of license fees by stating, “The county clerk shall see that KRS 186.005 to KRS 186.260 in his county are enforced. In so doing he shall: (5) Report and remit each Monday to the Transportation Cabinet all moneys issued during the previous week, together with a duplicate of all receipts issued by him during the same period. Unless the county clerk forwards duplicates of all receipts issued by him during the reporting period with his report and remits the amount shown due by the report within seven days after the report and remittance are due, he shall pay a penalty of one percent per month or fraction thereof on the amount of money shown to be due on the report.”

Remittance for tangible/ad valorem taxes are outlined in KRS 134.815 which states, “(1) 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 him for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository. The county clerk shall be required to deposit state collections in a manner consistent with procedures established by the department for a prompt payment to the state of other state tax moneys collected by the clerk.”

A strong internal control environment is essential in ensuring amounts received and distributed for motor vehicle registrations are completely and accurately accounted for and are distributed timely. Additionally, good internal controls dictate that strong review and oversight procedures should be in place to reduce the risk of misstatement, uncorrected errors, and unnecessary penalties.

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2024
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2024-001 The Former Estill County Clerk Failed To Implement An Effective Internal Control Environment And Failed To Perform The Duties Of His Office Pertaining To Motor Vehicle Registration Taxes And Fees (Continued)

We recommend the former county clerk take immediate action by settling his accounts and paying the amounts due to the proper agencies. Further, we recommend the county clerk's office implement policies and procedures to ensure all financial activity is complete, accurate, properly recorded, and classified. Procedures should also be implemented to ensure compliance with applicable statutes, regulations, and policies

Former Estill County Clerk's Response: No response.

Kentucky Transportation Cabinet's Response: We have no knowledge of the former County Clerk internal accounting processes or lack thereof. We did, however, sent repeated messages about the missing and delayed payments from well before the period covered by this action, and continuing throughout this period. To the best of my knowledge, I believe the totals marked as due for license and transfer fees is accurate. I will note that although these fees are lumped together under the heading of due the state, they go to three separate accounts and whatever funds can be recouped should be paid out separately. The information regarding the duties of the clerk to remit state fees to MVL on a weekly basis from 186.230 is accurate, and we agree that the former County Clerk did not fulfill his duties in any manner. Nonetheless, we will not pursue the collection of the one percent penalty per month, or fraction thereof as set forth in KRS 186.230.

Auditor's Reply: While we appreciate KYTC's desire to avoid imposing a penalty here, KRS 186.230 does not afford KYTC that kind of discretion in this situation. KRS 186.230(5) provides that a penalty "shall" be imposed here. KYTC only has a particular form of discretion under KRS 186.230(5)—to grant a county clerk a reasonable extension of time to file a late report. But the extension can only last 10 days and must be requested within certain time parameters. It is not possible to satisfy the conditions for KYTC to exercise its discretion here. That being said, under the progeny of *Funk v. Milliken*, 317 S.W.2d 499 (Ky. 1958), and *Fannin v. Davis*, 385 S.W.2d 321 (Ky. 1964), *abrogated on other grounds by Scalise v. Sewell-Scheuermann*, 566 S.W.3d 539 (Ky. 2018), liability for the penalty should flow to the former county clerk and not the current county clerk or the county itself.

2024-002 The Owsley County Clerk Did Not Comply With The Uniform System Of Accounts Resulting In An Unaudited Motor Vehicle Registration Audit

The Owsley County Clerk did not adequately maintain detailed receipt and disbursement ledgers as required by the Department for Local Governments (DLG) Uniform System of Accounts. In addition, the Fourth Quarter Financial Report was materially inaccurate and did not have all required sections completed properly, including the section reconciling the bank account activity with the financial records of the county clerk's office.

Due to material errors that were identified and the potential for unidentified material errors, we cannot overcome the fraud risks with additional audit procedures; therefore, we are unable to provide reliability of the county clerk's amounts to complete the motor vehicle registration audit. Unaudited amounts for the Owsley County Clerk's Office will be presented in the "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."

The county clerk is new and stated she was unaware of how to adequately maintain financial records in accordance with DLG's requirements. As a result of the noncompliance with DLG's requirements, the fourth quarter financial statement was materially inaccurate. When financial statements do not agree with the actual transaction amounts received and disbursed and are not reconciled to actual bank activity, the risk of material misstatement due to errors or fraud increases substantially.

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2024
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2024-002 The Owsley County Clerk Did Not Comply With The Uniform System Of Accounts Resulting In
An Unaudited Motor Vehicle Registration Audit (Continued)

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting. Per the manual on page 64, DLG requires "[m]onthly bank reconciliation" and "[b]ooks of original entry for receipts and expenditures and/or utilization of daily cash check-out sheets[.]" Fee officials use 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.

We recommend the Owsley County Clerk accurately prepare the Fourth Quarter Financial Report in the future, which is supported by an adequately maintained receipts ledger, disbursements ledger, and bank reconciliations that comply with DLG's Uniform System of Accounts, to ensure it accurately reflects the financial activity of the county clerk's office.

Owsley County Clerk's Response: Due to coming into the County Clerk's Office in the second quarter of the year 2024, we have diligently learned many new things, one including bookkeeping. We are trying to find ways to best keep our records and maintain them up to the Department of Local Government requirements by using Quick books and Excel. This is all new to my staff and myself and we will continue to do our best and find the best way to bring everything up to par. My main goal as the Clerk is to have good audits while serving our great citizens in Owsley County to the best of my staff and mines ability. We will continue learning and reaching out to the wonderful Clerk's in surrounding counties to make sure we are keeping and reporting the correct information in designated places. I will begin implementing the corrective action plan immediately.

Kentucky Transportation Cabinet's Response: Based on the findings, "Owsley County Clerk did not adequately maintain detailed receipt and disbursement ledgers as required by the Department for Local Governments (DLG) Uniform System of Accounts." We agree with Owsley County Clerk's response. Please note that Commissioner Cole and I visited with the new County Clerk and offered our assistance. Likewise, one of my staff, Anderson Clerk, Bath County Clerks, and two Clerk Deputies from surrounding counties visited the new Clerk also and helped set up the office essentially from the bottom. They trained the new Clerk on how to count the money and other forms of payments, reconcile that against the individual clerk's KAVIS POS reconciliation report, and then aggregate it for a bank deposit. They also showed her the basics of daily financial reports – daily checkout sheet, balancing against the receipts, and aggregating for the daily usage to the Department of Revenue, and weekly remittance to MVL. I believe it took two weeks for Owsley County to remit their weekly fees, but once they caught up, I believe they have remained in compliance since then.