

**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, 2020**



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
SCHEDULE OF MOTOR VEHICLE AND MOTORBOAT TAXES AND REGISTRATION FEES COLLECTED AND PAID TO THE COMMONWEALTH OF KENTUCKY BY EACH COUNTY CLERK	5
SCHEDULE OF VEHICLE REGISTRATION FEES PAYABLE TO THE COMMONWEALTH BY EACH COUNTY CLERK.....	8
NOTE TO SCHEDULES.....	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULES PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	13
SCHEDULE OF FINDINGS AND RESPONSES.....	17

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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, 2020, the accompanying Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk - Cash Basis for the year ended December 31, 2020, 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, 2020.

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, 2020. 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 7, 2021, 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:

- 2020-001 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
- 2020-002 The Kentucky Transportation Cabinet And The Commonwealth Office Of Technology Have Not Recovered The Kentucky Automated Vehicle Information System During Disaster Recovery Testing
- 2020-003 The Elliott County Clerk Owes \$190,546 In Usage Tax To The Department Of Revenue
- 2020-004 The Elliott County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount of \$57,975
- 2020-005 The Elliott County Clerk Did Not Pay License Fees Timely
- 2020-006 The Elliott County Clerk Has Not Paid The \$122,392 In Usage Tax Due To The Department Of Revenue For Calendar Year 2019 As Noted In The Prior Year Audit
- 2020-007 The Elliott County Clerk Has Not Paid Ad Valorem Taxes Due To Taxing Districts In The Amount Of \$106,115 For Calendar Year 2019 As Noted In The Prior Year Audit
- 2020-008 The Elliott County Clerk Has Not Paid License Fees Of \$7,331 Due As Noted In The Prior Year Audit

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 7, 2021

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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, 2020

County	Usage Tax	Ad Valorem Tax	License Fees
Adair	\$ 3,360,434	\$ 545,596	\$ 753,189
Allen	1,572,960	688,259	503,401
Anderson	2,779,923	1,050,668	668,443
Ballard	919,880	370,325	287,676
Barren	5,606,749	1,488,234	1,162,483
Bath	596,176	359,314	274,018
Bell	2,221,762	568,064	429,269
Boone	16,699,375	5,630,524	2,963,948
Bourbon	6,283,113	806,989	691,889
Boyd	5,288,592	1,602,649	974,726
Boyle	5,500,610	988,967	650,204
Bracken	859,307	302,578	215,622
Breathitt	599,526	327,132	231,795
Breckinridge	1,431,410	797,290	693,494
Bullitt	7,203,982	3,039,878	1,826,084
Butler	1,177,498	1,064,556	520,367
Caldwell	1,305,104	461,508	384,346
Calloway	3,757,475	1,269,091	976,366
Campbell	9,275,586	2,861,267	1,615,658
Carlisle	577,510	253,571	207,159
Carroll	1,436,280	313,612	274,801
Carter	3,013,034	1,030,489	743,495
Casey	664,977	485,209	442,095
Christian	6,206,770	1,528,195	1,337,309
Clark	3,299,860	1,484,613	937,469
Clay	951,291	502,197	376,414
Clinton	615,004	309,090	296,341
Crittenden	487,816	301,045	236,169
Cumberland	614,771	218,560	189,975
Daviess	10,563,713	3,285,150	2,449,178
Edmonson	759,149	482,430	318,341
Elliott	57,614	183,648	121,491
Estill	588,208	384,107	323,122
Fayette	33,494,213	16,983,670	5,505,040
Fleming	1,502,346	560,939	386,765
Floyd	4,865,277	2,246,267	1,093,415
Franklin	6,223,566	1,725,681	1,243,572
Fulton	479,563	157,332	156,926
Gallatin	712,653	318,632	215,341
Garrard	1,153,986	707,125	450,685
Grant	5,333,475	819,494	633,372

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, 2020
(Continued)

County	Usage Tax	Ad Valorem Tax	License Fees
Graves	\$ 5,270,036	\$ 1,347,997	\$ 1,223,238
Grayson	1,672,147	908,932	807,977
Green	457,828	350,341	288,680
Greenup	3,642,058	1,238,962	781,137
Hancock	372,944	311,487	242,884
Hardin	14,550,917	3,443,602	2,439,895
Harlan	1,320,785	698,705	486,520
Harrison	1,286,654	665,471	430,413
Hart	790,818	546,727	476,371
Henderson	4,045,531	1,531,000	1,128,812
Henry	1,030,350	573,942	400,925
Hickman	490,795	200,689	177,680
Hopkins	4,109,893	1,560,947	1,176,254
Jackson	597,686	383,875	294,054
Jefferson	79,406,704	30,026,674	13,780,795
Jessamine	9,567,531	2,018,934	1,343,782
Johnson	3,405,993	847,572	540,492
Kenton	16,535,920	4,995,451	2,715,172
Knott	1,213,364	480,511	302,596
Knox	3,251,755	1,311,379	922,704
Larue	632,828	502,510	400,991
Laurel	8,216,409	1,881,043	1,508,639
Lawrence	1,144,676	470,945	316,965
Lee	211,080	169,178	133,103
Leslie	477,040	333,122	252,037
Letcher	2,088,495	724,051	491,128
Lewis	842,383	346,407	281,351
Lincoln	944,539	766,046	529,681
Livingston	775,149	408,884	355,746
Logan	2,272,150	926,329	866,899
Lyon	711,704	398,464	300,529
McCracken	7,565,897	2,342,288	1,476,926
McCreary	906,091	357,142	370,816
McLean	1,102,256	382,105	391,323
Madison	13,288,307	2,862,156	1,846,225
Magoffin	478,744	382,889	278,193
Marion	1,035,026	642,420	524,269
Marshall	3,891,124	1,492,390	1,037,711
Martin	855,365	378,130	215,386
Mason	1,741,627	535,213	384,618
Meade	3,319,815	1,018,956	719,959

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, 2020
(Continued)

<u>County</u>	<u>Usage Tax</u>	<u>Ad Valorem Tax</u>	<u>License Fees</u>
Menifee	\$ 248,725	\$ 188,956	\$ 155,363
Mercer	1,773,559	839,389	549,296
Metcalf	488,364	292,313	238,536
Monroe	777,079	333,679	336,433
Montgomery	4,380,677	945,236	744,600
Morgan	660,141	370,565	341,549
Muhlenberg	2,882,238	1,046,607	931,754
Nelson	5,082,289	1,806,424	1,319,144
Nicholas	449,786	269,163	165,897
Ohio	1,676,478	728,572	633,335
Oldham	8,712,564	2,883,258	1,397,933
Owen	832,193	427,001	296,787
Owsley	135,489	110,169	98,733
Pendleton	1,228,152	551,640	355,138
Perry	3,836,090	935,301	701,877
Pike	4,732,787	1,720,020	1,037,764
Powell	1,043,967	414,601	295,348
Pulaski	10,301,705	2,235,994	1,818,369
Robertson	182,992	101,789	58,060
Rockcastle	723,059	491,374	391,191
Rowan	3,687,056	797,854	576,088
Russell	2,176,857	629,227	532,751
Scott	5,193,418	2,386,368	1,168,265
Shelby	5,522,051	1,948,275	1,129,792
Simpson	2,847,525	626,694	556,283
Spencer	1,371,088	879,495	466,843
Taylor	3,469,536	822,604	668,286
Todd	1,145,183	384,280	457,540
Trigg	1,518,596	614,993	458,865
Trimble	427,496	311,207	206,464
Union	1,020,413	584,260	557,749
Warren	15,690,419	4,067,163	2,838,741
Washington	640,479	422,486	365,753
Wayne	1,075,643	557,321	507,568
Webster	571,072	518,022	413,834
Whitley	3,495,437	1,258,003	837,877
Wolfe	558,391	224,726	200,278
Woodford	2,554,413	1,100,710	614,179
Totals	<u>\$ 468,674,359</u>	<u>\$ 164,093,550</u>	<u>\$ 100,828,592</u>

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

For The Year Ended December 31, 2020

<u>County</u>	<u>Amount</u>	<u>County</u>	<u>Amount</u>	<u>County</u>	<u>Amount</u>
Adair	\$ 14,584	Grant	\$	Mason	\$
Allen	219	Graves		Meade	
Anderson		Grayson		Menifee	
Ballard		Green		Mercer	
Barren		Greenup		Metcalfe	
Bath		Hancock		Monroe	11,518
Bell		Hardin		Montgomery	
Boone		Harlan		Morgan	
Bourbon		Harrison		Muhlenberg	
Boyd		Hart		Nelson	
Boyle		Henderson		Nicholas	
Bracken		Henry		Ohio	
Breathitt		Hickman		Oldham	
Breckinridge		Hopkins		Owen	
Bullitt		Jackson		Owsley	
Butler		Jefferson		Pendleton	
Caldwell		Jessamine		Perry	
Calloway		Johnson		Pike	
Campbell		Kenton		Powell	
Carlisle	1,740	Knott		Pulaski	
Carroll		Knox		Robertson	
Carter		Larue	9,490	Rockcastle	
Casey		Laurel		Rowan	
Christian		Lawrence		Russell	
Clark		Lee		Scott	
Clay	4,295	Leslie		Shelby	
Clinton	431	Letcher		Simpson	2,703
Crittenden		Lewis		Spencer	
Cumberland		Lincoln		Taylor	
Daviess		Livingston		Todd	
Edmonson		Logan		Trigg	
Elliott	190,546	Lyon		Trimble	
Estill	30,223	McCracken		Union	
Fayette		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, 2020

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). 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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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, 2020, and the Schedule of Vehicle Registration Fees Payable to the Commonwealth by Each County Clerk - Cash Basis for the year ended December 31, 2020, and the related note to the schedules and have issued our report thereon dated April 7, 2021.

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 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, and 2020-008 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 7, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2020-001 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.

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. The legality associated with the changing of SSNs in AVIS and KAVIS was discussed with county clerks on November, 2020. This was the first meeting the KAVIS Team was able to hold with the Kentucky County Clerks Association in CY 2020 due to COVID-19.

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. Furthermore, in response to the CY 2019 finding, KYTC acknowledged they were developing a process to periodically review system activities associated with SSN changes. However, this process was not finalized or implemented during fieldwork.

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."

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-001 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)

We recommend MVL:

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

Kentucky Transportation Cabinet's Response: *Since the 2019 audit no real changes or advancements have been made to AVIS regarding the changing of SSNs. As you are aware, the majority of 2020 was spent in a pandemic. During this time, MVL concentrated on getting the division equipped to telecommute so our business process would not be interrupted and not cause any problems for citizens of Kentucky. MVL has managed to continue with its monthly conference calls with the Kentucky County Clerks Association (KCCA), as well as offer monthly training opportunities with the KCCA and other periodic meetings. MVL continues to stress during any and all interactions with KCCA the consequences both legally and appropriately for changing SSNs on vehicle records in AVIS.*

In 2021, MVL hopes to begin scheduling a series of necessary meetings with DOR and COT to discuss, create and implement a process to monitor SSN changes made within AVIS. 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.

2020-002 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 2020 audit revealed the Kentucky Transportation Cabinet's (KYTC) Kentucky Automated Vehicle Information System (KAVIS) did not undergo disaster recovery (DR) 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 DR 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).

KAVIS was tested from a DR standpoint in February 2019; however, it was not successfully recovered at that time. Recovery testing was planned for November 16-20, 2020, but was postponed due to COVID-19. As such, KAVIS and other critical systems used throughout the Commonwealth were not tested to ensure recovery during a disaster or unanticipated system interruption or downtime.

SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-002 The Kentucky Transportation Cabinet And The Commonwealth Office Of Technology Have Not Recovered The Kentucky Automated Vehicle Information System During Disaster Recovery Testing (Continued)

While KAVIS participated in DR testing in the spring of 2019, successful results were not achieved at that time. In addition, COT did not include lessons learned; therefore, improvements and changes needed to the DR plan and DR services could not fully be applied by KYTC. Due to the number of KAVIS and KYTC resources needed, in addition to the number of hours that were required during previous KAVIS DR testing exercises, KYTC did not agree to test KAVIS in the July 2020 testing effort.

KYTC worked with COT to perform testing of the Automated License and Taxation System (ALTS) and the Motor Carrier distributed systems in July 2020. At that time, testing associated with Motor Carriers was unsuccessful and ALTS could only partially be tested. This was due to these servers not being billed for DR services. COT scheduled DR testing of distributed systems only (not dependent on the mainframe) for November 2020. However, due to COVID 19, this testing was cancelled and will be scheduled at a later date.

The goal of a disaster recovery plan is to improve preparedness for extended system outages at minimal cost using available resources. 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 KYTC, could cause the loss of critical customer 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.”

(2) KRS 42.726 states, in part, “[t]he 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.

SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-002 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: Based on COT Service Now, COT's definition of DR Level 3 - Cold is Backups. Backups are performed daily for KYTC servers and databases. COT DR testing was unsuccessful for KAVIS in prior years in the simulated environment where the system would failover to the alternate data center. Due to COVID, COT cancelled DR testing exercise in Nov 2020 and has not been rescheduled. COT has advised that there have been some improvements to their DR services and testing; although, the simulated DR testing environment is very limited. IBM only offers DR testing once/year for mainframe applications, such as AVIS. KYTC plans to work with COT to determine which system/s will be tested when DR testing is rescheduled by COT to confirm improvements have been made. KYTC will continue working with the COT DR services leads for testing and training needs.

2020-003 The Elliott County Clerk Owes \$190,546 In Usage Tax To The Department Of Revenue

The Elliott County Clerk did not properly account for usage tax collections. For calendar year 2020, the county clerk owes usage tax to the Department of Revenue (DOR) in the amount of \$190,546. The county clerk did not properly deposit usage tax collections daily and transfer amounts to the state depository as required. The clerk transferred usage tax funds to the usage tax account for weeks 1 through 15 on September 29, 2020, and remitted lump sum payments for each week. The remaining weeks were not transferred and remitted to DOR. Also, weekly usage tax reports were not properly maintained. The county clerk completed reports for weeks 16 through 53 while auditor was on site.

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 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.

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), "[f]ailure 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 \$190,546 in usage tax owed to DOR from the usage tax account. 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 DOR timely. The county clerk should also perform monthly bank reconciliations of the usage tax account.

Elliott County Clerk's Response: We are restructuring internal duties/responsibilities with all 2020 usage tax to be paid on or before 04/01/2021 our office will be utilizing accounting software within the next few weeks.

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-004 The Elliott County Clerk Owes Ad Valorem Taxes To Taxing Districts In The Amount Of \$57,975

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, August, and September, except for the county and state districts. In February, March, and December the county clerk did not remit the proper amount owed to the state. The following chart shows amounts due to districts.

	<u>State</u>	<u>Health</u>	<u>Extension</u>	<u>Ambulance</u>	<u>School</u>	<u>Total</u>
February	\$ 2,934	\$	\$	\$	\$	\$ 2,934
March	(4,140)					(4,140)
July			1,075	2,687	15,181	18,943
August		2,310	1,156	2,891	16,332	22,689
September		1,661	833	2,083	11,766	16,343
December	1,206					1,206
Total Due To Districts	<u>\$ 0</u>	<u>\$ 3,971</u>	<u>\$ 3,064</u>	<u>\$ 7,661</u>	<u>\$ 43,279</u>	<u>\$ 57,975</u>

Also, monthly ad valorem tax reports were not paid timely. Every month that had payments was paid late, with some months up to three months late.

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 states, “[t]he 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.” KRS 134.815(2) states, “[a]ny 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 thirty (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 taxing districts.

Elliott County Clerk’s Response: *Restructuring with all Ad Valorem tax payments current by 05/01/2021.*

2020-005 The Elliott County Clerk Did Not Pay License Fees Timely

The county clerk did not properly remit weekly license fees to the Kentucky Transportation Cabinet (KYTC). Payments were not made at all for over six months. Payments were made over four months late. Also, weekly license tax reports were not properly maintained. The county clerk was missing reports for weeks 16 through 53 and completed when auditor was on site.

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.

SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-005 The Elliott County Clerk Did Not Pay License Fees Timely (Continued)

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.

Elliott County Clerk’s Response: *We are restructuring internal duties/responsibilities for all employees relieving the county clerk from daily front line duties.*

2020-006 The Elliott County Clerk Has Not Paid The \$122,392 In Usage Tax Due To The Department Of Revenue For Calendar Year 2019 As Noted In The Prior Year Audit

The Elliott County Clerk did not properly account for usage tax collections. As noted in the prior year audit in finding 2019-003, 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 13 months late or not made at all. Also, weekly usage tax reports were not properly maintained. The county clerk was missing weeks 1 through 11 and 29 through 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 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), “[f]ailure 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.”

SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-006 The Elliott County Clerk Has Not Paid The \$122,392 In Usage Tax Due To The Department Of Revenue For Calendar Year 2019 As Noted In The Prior Year Audit (Continued)

We recommend the county clerk remit the \$122,392 in usage tax owed to DOR from the usage tax account for calendar year 2019. 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 county clerk should also perform monthly bank reconciliations of the usage tax account.

Elliott County Clerk's Response: *We will bring current all past amounts due Usage tax. We are restructuring duties and responsibilities among deputy clerks.*

2020-007 The Elliott County Clerk Has Not Paid Ad Valorem Taxes Due To Taxing Districts In The Amount Of \$106,115 For Calendar Year 2019 As Noted In The Prior Year Audit

The county clerk did not properly pay ad valorem taxes due to the taxing districts as noted in the prior year audit in finding 2019-004. 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 shows amounts due to districts.

	State	County	Health	Extension	Ambulance	School	Total
July	\$ 18,398	\$	\$ 2,437	\$ 1,234	\$ 3,086	\$ 17,432	\$ 42,587
August	138	60	83	43	31	173	528
September	15,183		2,138	1,070	2,676	15,117	36,184
October	10	5	1	1	2	13	32
November	11	5	2	1	3	14	36
December	10,160	3,314	1,353	676	1,691	9,554	26,748
Total Due To Districts	<u>\$ 43,900</u>	<u>\$ 3,384</u>	<u>\$ 6,014</u>	<u>\$ 3,025</u>	<u>\$ 7,489</u>	<u>\$ 42,303</u>	<u>\$ 106,115</u>

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(1) states, “[t]he 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.” KRS 134.815(2) states, “[a]ny 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 for calendar year 2019.

SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2020
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2020-007 The Elliott County Clerk Has Not Paid Ad Valorem Taxes Due To Taxing Districts In The Amount Of \$106,115 For Calendar Year 2019 As Noted In The Prior Year Audit (Continued)

Elliott County Clerk's Response: We will bring current all Ad Valorem tax due to districts, and will be utilizing accounting/reporting software we hope to have installed in the next few working days.

2020-008 The Elliott County Clerk Has Not Paid License Fees Of \$7,331 Due As Noted In The Prior Year Audit

The county clerk did not properly remit weekly license fees to the Kentucky Transportation Cabinet (KYTC) as noted in the prior year audit in finding 2019-005. 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. The county clerk then 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 through 11 and 29 through 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. We also recommend the county clerk remit the \$7,331 due KYTC for calendar year 2019.

Elliott County Clerk's Response: We will bring current all license fees for 2019. Restructuring duties and responsibilities among deputies.