



Auditor of Public Accounts
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Harmon Releases Audit of Ballard County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Ballard County Clerk Katie Mercer. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the Ballard County Clerk in accordance with accounting principles generally accepted in the United States of America. The clerk's financial statement did not follow this format. However, the clerk's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 clerk audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Ballard County Clerk's Office does not have adequate segregation of duties: The Ballard County Clerk's Office does not have adequate segregation of duties over the accounting function of the clerk's office. The duties associated with the authorization of transactions, custody of cash, and recording of transactions are not properly segregated. Daily checkout procedures are performed by one deputy while another deputy prepares the deposits, recounts the cash, takes deposits to the bank, posts transactions to the ledgers, prepares the weekly reports, prepares checks, and reconciles the bank statements. This deputy also works on the front line of the office and receives cash from customers. Despite the fact that the county clerk signs checks, compensating controls are not sufficient to offset the weakness associated with the lack of segregation of duties.

A lack of segregation of duties or strong oversight increases the risk that undetected errors or fraud could occur. According to the county clerk, this condition is the result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to.

A proper segregation of duties over the accounting function or the implementation of compensating controls is essential for providing protection from errors occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Ballard County Clerk separate the duties involved in receiving receipts from customers, preparing deposits, taking deposits to the bank, posting to the receipt and disbursement ledgers, preparing weekly reports, and performing monthly bank reconciliations. If, due to a limited budget, this is not feasible, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: Since I have limited staff, I am unable to segregate duties as I would like. I am instituting compensating controls, I will check and sign off on all deposits, checkouts and reports. I will have a deputy check my reports, also.

The Ballard County Clerk has material weaknesses over the recordkeeping and reporting functions: The Ballard County Clerk has material weaknesses over the recordkeeping and reporting functions of the office. The county clerk's receipts and disbursements ledgers contained numerous errors. Multiple transactions were either excluded from the ledgers or misclassified. The county clerk's fourth quarter financial statement did not agree with the ledgers, the daily checkout sheets, or the cancelled checks. Therefore, material audit adjustments were necessary.

The county clerk became a new official in calendar year 2019 and therefore was not sure how to properly implement internal controls over the recordkeeping and reporting functions of the office.

Due to weak internal controls over the recordkeeping and reporting functions, the aforementioned errors occurred without being detected and corrected thereby causing the fourth quarter financial statement to be materially misstated. Additionally, weak internal controls increase the risk of misappropriation.

Strong internal controls dictate that the ledgers be reconciled to the daily checkout sheets and the weekly and monthly tax reports to ensure all receipts and disbursements are properly accounted for and remitted to the appropriate authorities. Likewise, the ledgers should be reconciled to the bank statements each month. Furthermore, strong internal controls dictate that the ledgers be reconciled to the fourth quarter financial report to ensure that all receipts and disbursements are reported properly.

We recommend that the Ballard County Clerk strengthen internal controls over the recordkeeping and reporting functions of the office. Controls such as comparison of the daily checkout sheets to the ledgers, as well as, comparison of the ledgers to the bank statements should be implemented. We further recommend that the county clerk compare the ledgers to the fourth quarter financial statement to ensure that they are in agreement.

County Clerk's Response: I have implemented a new recordkeeping system. All daily, weekly and monthly reports will be reviewed by a deputy and myself.

Weak internal controls resulted in overpayments of motor vehicle license and tangible personal property taxes: Weak internal controls over disbursements resulted in overpayments to the taxing districts for motor vehicle license and tangible personal property taxes. The Ballard County Clerk overpaid motor vehicle license by \$25,832. Overpayments for tangible personal property taxes totaled \$38,566.

An oversight resulted in the overpayment of motor vehicle license taxes to the districts. Tangible personal property taxes were overpaid because the monthly tangible personal property reports contained processing errors due to a lack of understanding how to properly calculate amounts due the districts.

Strong internal controls dictate that weekly and monthly reports be reviewed for accuracy prior to the distribution of payments to the districts. Additionally, strong internal controls dictate that all check signers compare check amounts to the reports prior to mailing.

We recommend the Ballard County Clerk strengthen internal controls over processing the weekly and monthly reports. Before payments are made to the districts, the county clerk, or a designee, should verify the accuracy of the reports and recalculate the amounts to be disbursed. We further recommend that the county clerk require all check signers to verify check amounts agree with the reports. We also recommend that the county clerk contact the districts to request refunds for all overpayments.

County Clerk's Response: I will have a deputy recalculate the reports. I am requesting a refund for all overpayments made to the various taxing districts.

Tangible personal property tax payments were not remitted timely: Payments to the state for tangible personal property taxes were not remitted timely. The Ballard County Clerk failed to remit payment for the month of February, and collections for the month of March were not remitted until June. The amount that was supposed to be remitted for the month of February totaled \$31,208, and the payment for the month of March totaled \$68,090.

Tangible personal property tax reports were prepared during these months for all the non-state districts, however, the county clerk did not prepare reports for the state, and thus the payments were forgotten. These omissions occurred because of weak internal controls. Because tangible personal property tax payments were not remitted timely, the county clerk is not in compliance with KRS 134.815.

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 one percent (1%) for each thirty (30) day period or fraction thereof, plus interest as the legal rate per annum of such taxes.”

Furthermore, strong internal controls dictate that all monthly reports be reviewed by someone independent of the processing function in order to ensure that reports are properly prepared for all districts. Likewise, strong internal controls dictate that the check signers ensure that checks have been prepared for all districts for which taxes were collected.

We recommend the Ballard County Clerk strengthen internal controls by having someone independent of the processing function review the monthly reports to ensure that reports are properly prepared for all districts. We also recommend that all check signers ensure that checks have been prepared for all districts. We further recommend the county clerk comply with KRS 134.815 by remitting tangible personal property tax payments timely.

County Clerk’s Response: Because of my lack of experience the first part of the year, payments were not made timely. I now have a deputy recalculating the payments and reviewing the checks.

The Ballard County Clerk improperly used 2020 funds to cover a shortage of the 2019 fee account: At the conclusion of the year, the 2019 fee account was short of funds necessary to pay year-end obligations. In order to cover the shortage and pay the obligations, the Ballard County Clerk transferred \$22,360 from her 2020 fee account to her 2019 fee account.

Throughout the year, the county clerk overpaid tangible personal property taxes to the districts. A lack of internal controls caused the overpayments to go undetected and uncorrected, and the shortage of the fee account is a direct result of the overpayments. Furthermore, the county clerk was not aware that that funds collected for calendar year 2020 should not be used to pay 2019 year-end liabilities.

Because the county clerk used \$22,360 of 2020 monies to pay 2019 obligations, the county clerk is not in compliance with KRS 64.152, and the 2019 fee account owes the \$22,360 back to the 2020 fee account.

KRS 64.152(1) states in part, “...the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in his official or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.” Additionally, internal controls dictate that disbursements be reviewed so that any overpayments are detected and corrected in a timely manner to ensure a shortage of funds does not occur.

We recommend the Ballard County Clerk request the taxing districts to refund the overpayments of tangible personal property taxes. Once refunds are obtained, the county clerk should pay the \$22,360 owed to the 2020 fee account and remit any excess fees to the Ballard County Fiscal Court.

County Clerk's Response: I am requesting a refund from the taxing districts for overpayments.

The county clerk's responsibilities include collecting certain taxes, issuing licenses, maintaining county records and providing other services. The clerk's office is funded through statutory fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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