

**REPORT OF THE AUDIT OF THE
BALLARD COUNTY
CLERK**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Ballard County, Kentucky, for the year ended December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard County Fiscal Court

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Ballard County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Ballard County Clerk, as of December 31, 2019, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Ballard County Clerk for the year ended December 31, 2019, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2020, on our consideration of the Ballard County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ballard County Clerk's internal control over financial reporting and compliance.

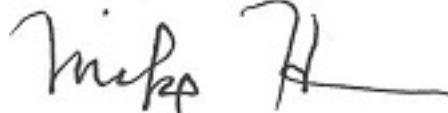
The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard County Fiscal Court

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

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

- 2019-001 The Ballard County Clerk's Office Does Not Have Adequate Segregation Of Duties
- 2019-002 The Ballard County Clerk Has Material Weaknesses Over The Recordkeeping And Reporting Functions
- 2019-003 Weak Internal Controls Resulted In Overpayments Of Motor Vehicle License And Tangible Personal Property Taxes
- 2019-004 Tangible Personal Property Tax Payments Were Not Remitted Timely
- 2019-005 The Ballard County Clerk Improperly Used 2020 Funds To Cover A Shortage Of The 2019 Fee Account

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

August 11, 2020

BALLARD COUNTY
KATIE MERCER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2019

Receipts

State Revenue Supplement		\$ 67,769
State Fees For Services		293
Fiscal Court		19,152
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 361,279	
Usage Tax	877,187	
Tangible Personal Property Tax	997,489	
Notary Fees	1,008	
Lien Releases	5,824	
Disabled Placards	1,338	
Other-		
Fish and Game Licenses	13,861	
Marriage Licenses	1,775	
Occupational Licenses	840	
Deed Transfer Tax	18,007	
Delinquent Tax	110,106	2,388,714
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	7,691	
Real Estate Mortgages	10,467	
Chattel Mortgages and Financing Statements	25,370	
Powers of Attorney	674	
Affordable Housing Trust	7,572	
All Other Recordings	2,364	
Charges for Other Services-		
Copy Work	3,902	
Postage	1,897	59,937
Other:		
Refunds	5,530	
Miscellaneous	4,684	10,214

The accompanying notes are an integral part of this financial statement.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2019
 (Continued)

Receipts (Continued)

Interest Earned		\$ 133
Total Receipts		2,546,212

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 273,453	
Usage Tax	848,888	
Tangible Personal Property Tax	359,726	

Licenses, Taxes, and Fees-

Fish and Game Licenses	13,793	
Delinquent Tax	9,383	
Legal Process Tax	7,671	
Affordable Housing Trust	<u>7,572</u>	\$ 1,520,486

Payments to Fiscal Court:

Tangible Personal Property Tax	147,198	
Delinquent Tax	16,937	
Deed Transfer Tax	17,376	
Occupational Licenses	<u>620</u>	182,131

Payments to Other Districts:

Tangible Personal Property Tax	447,344	
Delinquent Tax	<u>50,196</u>	497,540

Payments to Sheriff 9,262

Payments to County Attorney 13,292

Operating Disbursements:

Personnel Services-

Deputies' Salaries	135,945
Part-Time Salaries	20,801

Contracted Services-

Computer Support	23,632
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Materials and Supplies-

Office Supplies	9,528
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The accompanying notes are an integral part of this financial statement.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2019
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges-		
Conventions and Travel	\$	3,153
Dues		1,800
Postage		44
Bank Charges		341
Refunds		6,705
Election Expense		20,600
Miscellaneous		8,862
		<u>\$ 231,411</u>
Total Disbursements		<u>\$ 2,454,122</u>
Net Receipts		92,090
Less: Statutory Maximum		<u>75,891</u>
Excess Fees		16,199
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2019		12,599
Payments to Fiscal Court - March 2, 2020		<u>4,780</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 7,819</u>

The accompanying notes are an integral part of this financial statement.

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2019 services
- Reimbursements for 2019 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2019

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

The clerk's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

BALLARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 21.48 percent for the first half of the year and 24.06 percent for the second half of the year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

BALLARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

A. Health Insurance Coverage - Tier 1 (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

BALLARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2019
 (Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Ballard County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure the county clerk's deposits may not be returned. The Ballard County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On April 3, 2019, the county clerk's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$35,684

Note 4. Software Service Agreement

The Ballard County Clerk's office has entered into an agreement with a third party for the right to use their software and technical support. The county clerk was in compliance with the terms of the agreement as of December 31, 2019.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Ballard County Clerk for the year ended December 31, 2019, and the related notes to the financial statement and have issued our report thereon dated August 11, 2020. The Ballard County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Ballard County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Ballard County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, 2019-004, and 2019-005 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Ballard County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as items 2019-004 and 2019-005.

Views of Responsible Official and Planned Corrective Action

The Ballard 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 Ballard 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 11, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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BALLARD COUNTY
KATIE MERCER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2019

FINANCIAL STATEMENT FINDINGS:

2019-001 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 and not be detected. 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.

2019-002 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.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Ballard County Clerk Has Material Weaknesses Over The Recordkeeping And Reporting Functions (Continued)

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.

2019-003 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.

2019-004 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.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-004 Tangible Personal Property Tax Payments Were Not Remitted Timely (Continued)

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.

2019-005 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.

BALLARD COUNTY
KATIE MERCER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-005 The Ballard County Clerk Improperly Used 2020 Funds To Cover A Shortage Of The 2019 Fee Account (Continued)

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.