

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
CLERK**

**For The Year Ended
December 31, 2022**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Steve Pendery, Campbell County Judge/Executive
The Honorable Jim Luersen, Campbell County Clerk
Members of the Campbell County Fiscal Court

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Campbell County, Kentucky and the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2022, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the receipts and disbursements of the Campbell County Clerk and the receipts, disbursements, and fund balances of the Campbell County Clerk's operating fund and county fund with the state treasurer for the year ended December 31, 2022, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 Opinions on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Campbell County Clerk, as of December 31, 2022, or changes in financial position or cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Campbell County Clerk and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Steve Pendery, Campbell County Judge/Executive
The Honorable Jim Luersen, Campbell County Clerk
Members of the Campbell County Fiscal Court

Basis for Opinion (Continued)

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Campbell 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 and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements 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 and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statement

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Campbell County Clerk's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Campbell County Clerk's ability to continue as a going concern for a reasonable period of time.

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

The Honorable Steve Pendery, Campbell County Judge/Executive
The Honorable Jim Luersen, Campbell County Clerk
Members of the Campbell County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2023, on our consideration of the Campbell 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 solely 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 effectiveness of 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 Campbell County Clerk's internal control over financial reporting and compliance.

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

- 2022-001 The Campbell County Clerk Is Not Properly Handling Delinquent Tax Sale Deposits
- 2022-002 The Campbell County Clerk Has Inadequate Internal Controls Over Receipts
- 2022-003 The Campbell County Clerk Has Inadequate Internal Controls Over Payroll

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
Frankfort, KY

October 4, 2023

CAMPBELL COUNTY
JIM LUERSEN, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2022

Receipts

State Fees For Services:

Tax Bill Preparation	\$ 6,106	
Registration of Voters	38,825	\$ 44,931

Fiscal Court		182,509
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	2,416,207	
Usage Tax	10,810,604	
Tangible Personal Property Tax	13,753,834	
Handicap Placards	4,620	
Lien Release Fees	35,260	
Miscellaneous Income	12,702	
Notary Fees	28,998	

Other-

Marriage Licenses	27,280	
Deed Transfer Tax	826,924	
Delinquent Tax	710,801	28,627,230

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	137,848	
Real Estate Mortgages	463,408	
Chattel Mortgages and Financing Statements	166,067	
Fixture Filings	9,735	
Leases	2,184	
Liens	29,202	
Powers of Attorney	8,914	
Affordable Housing Trust	101,670	
Releases	24,635	
Miscellaneous Recordings	35,689	
Wills & Estate Settlements	7,223	
Storage Fees	177,670	

Charges for Other Services-

Candidate Filing Fees	5,970	
Copy Work	24,003	
Postage	27,487	
Refunds/Overpayments	417,083	1,638,788

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
 JIM LUERSEN, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

Receipts (Continued)

Other:

Insufficient Funds Checks	\$ 2,552	
Miscellaneous	23,067	\$ 25,619
		<hr/>
Total Receipts		30,519,077

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 1,691,941	
Usage Tax	10,482,743	
Tangible Personal Property Tax	3,998,270	
Handicap Placards	3,713	
Licenses, Taxes, and Fees-		
Delinquent Tax	66,309	
Legal Process Tax	71,770	
Affordable Housing Trust	101,670	16,416,416
	<hr/>	

Payments to Fiscal Court:

Tangible Personal Property Tax	1,074,974	
Delinquent Tax	104,002	
Deed Transfer Tax	785,577	
Storage Fees	73,210	2,037,763
	<hr/>	

Payments to Other Districts:

Tangible Personal Property Tax	8,264,115	
Delinquent Tax	323,022	8,587,137
	<hr/>	

Payments to Sheriff 55,113

Other Regulatory Payments:

 Other Refunds 428,002

Payments to County Attorney 103,502

Other Disbursements:

 Miscellaneous

 15,133

Total Disbursements \$ 27,643,066

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
 JIM LUERSEN, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

Net Receipts		\$ 2,876,011
Payments to State Treasurer:		
75% Operating Fund *	\$ 2,244,960	
25% County Fund	<u>620,148</u>	<u>2,865,108</u>
Balance Due at Completion of Audit **		<u>\$ 10,903</u>

* Includes reimbursed expenses in the amount of \$188,466 for the audit period.
 See Note 1 of Notes to Financial Statements.

** - A check was presented to the fiscal court for the balance due on July 14, 2023.

CAMPBELL COUNTY
 JIM LUERSEN, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2022

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - January 1, 2022	\$ 980,251	\$	\$ 980,251
 <u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,244,960		2,244,960
Fees Paid to State - County Funds (25%)		620,148	620,148
	<u> </u>	<u> </u>	<u> </u>
Total Funds Available	3,225,211	620,148	3,845,359
 <u>Disbursements</u>			
Campbell County Fiscal Court		620,148	620,148
Personnel Services-			
Official's Statutory Maximum	133,346		133,346
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	4,679		4,679
Deputies' Salaries	941,562		941,562
Overtime Gross	57,038		57,038
Employee Benefits-			
Employer's Share Social Security	87,346		87,346
Employer's Share Retirement	305,457		305,457
Employer's Share Health Insurance	386,140		386,140
Employer's Share Life Insurance	1,306		1,306
Employer's Share Dental Insurance	18,732		18,732
Workers' Compensation	920		920
Contracted Services-			
Software Services	38,760		38,760
Printing and Binding	1,321		1,321
Supplies and Materials-			
Office Supplies	43,899		43,899

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY
 JIM LUERSEN, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 2,899	\$	\$ 2,899
Bonds	25,949		25,949
Miscellaneous	1,402		1,402
Postage	17,824		17,824
Election	24,885		24,885
Hardware Maintenance	10,820		10,820
Capital Outlay-			
Office Remodel	209,547		209,547
Computer Equipment	236,000		236,000
Debt Service-			
Software and Maintenance	41,192		41,192
Total Disbursements	<u>2,594,624</u>	<u>620,148</u>	<u>3,214,772</u>
Fund Balance - December 31, 2022 ***	<u>\$ 630,587</u>	<u>\$ 0</u>	<u>\$ 630,587</u>

*** A check was presented to the fiscal court for the fund balance due on April 4, 2023.

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

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 due from the county clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the county clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, fee official office revenues could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have 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:

- Interest receivable
- Collection on accounts due from others for 2022 services
- Reimbursements for 2022 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2022

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).

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022
(Continued)

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 Kentucky Public Pensions Authority (KPPA). 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.

The county clerk's contribution for calendar year 2020 was \$240,675, calendar year 2021 was \$270,624, and calendar year 2022 was \$305,457.

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 CERS 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 CERS 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 26.95 percent for the first six months and 26.79 percent for the last six months.

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:

CAMPBELL COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022
 (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)

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%

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, they 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 78.5536.

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

Once members reach a minimum vesting period of 15 years, they 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 78.5536. 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 Kentucky Retirement Systems 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.

CAMPBELL COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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, CERS 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.

Kentucky Retirement Systems Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement Systems 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.

Kentucky Retirement Systems 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 Campbell County Clerk maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

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 Campbell County Clerk does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CAMPBELL COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022
 (Continued)

Note 4. Lease Agreements

The Campbell County Clerk's office was committed to the following lease agreements as of December 31, 2022:

<u>Item Purchased</u>	<u>Quarterly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2022</u>
Software	\$ 8,940	36 months	6/30/2025	\$ 89,400
Postage Meter	variable	60 months	6/1/2027	<u>7,328</u>
Total				<u>\$ 96,728</u>

Note 5. Other Accounts

A. Escrow Account

The Campbell County Clerk deposited outstanding checks into a custodial bank account. When statutorily required, the county clerk will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The county clerk's escrowed amounts were as followed:

2015	\$2,010
2016	\$2,471
2017	\$2,790
2018	\$2,083
2019	\$1,534
2020	\$3,495

B. Bond Account

The Campbell County Clerk deposited funds for mechanic's bonds into a custodial bank account. The beginning balance was \$29,563 on January 1, 2022. Total receipts were \$50,184 with no disbursements, leaving the account with a balance of \$79,747 on December 31, 2022.

C. Delinquent Tax Account

The Campbell County Clerk deposited partial payments for delinquent tax bills on properties of parties in bankruptcy into a custodial bank account. The beginning balance was \$58,183 on January 1, 2022. Total receipts were \$1,475 and disbursements were \$1,766, leaving the account with a balance of \$57,892 on December 31, 2022.

D. Courthouse Commission Account

The Campbell County Clerk deposited tax receipts for a district that has been dissolved into a custodial bank account. The beginning balance was \$11,306 on January 1, 2022. There were no receipts or disbursements leaving the account with a balance of \$11,306 on December 31, 2022.

CAMPBELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022
(Continued)

Note 6. Imprest Cash Account

The Finance & Administration – County Fee Systems Branch authorized the Campbell County Clerk to administer an Imprest Cash Fund in the amount of \$7,500. This fund is to be used for expenses, such as postage and other necessary expenses \$1,000 or less that need to be paid in less than a 10 day turn around, except travel and payroll expenses.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

The Honorable Steve Pendery, Campbell County Judge/Executive
The Honorable Jim Luersen, Campbell County Clerk
Members of the Campbell County Fiscal Court

We have audited, 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 Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Campbell County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2023. The Campbell County Clerk's financial statements are 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.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-003 to be a material weakness.



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

Report on Internal Control over Financial Reporting (Continued)

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Clerk's financial statements are free from 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 financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2022-001.

Views of Responsible Officials and Planned Corrective Action

Government Auditing Standards requires the auditor to perform limited procedures on the Campbell County Clerk's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Campbell County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, according we express no opinion on the responses.

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
Frankfort, KY

October 4, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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CAMPBELL COUNTY
JIM LUERSEN, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2022

STATE LAWS AND REGULATIONS:

2022-001 The Campbell County Clerk Is Not Properly Handling Delinquent Tax Sale Deposits

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The county clerk is not collecting deposits by third party purchasers of delinquent tax certificates. The county clerk allows third party delinquent tax purchasers to provide a blank check in lieu of a check worth 25% of the sum value of delinquent tax bills they desire to purchase. When the county clerk receives these blank checks, he locks them in a safe until the date of the tax sale. Once the third party purchases delinquent taxes on the date of the sale, the county clerk completes the blank check for the total amount owed. The county clerk was not aware that a deposit check needed to be deposited and cleared in a bank account to follow deposit requirements.

The county clerk is not in compliance with statutes and regulations related to the collection of advanced deposits from third party purchasers of delinquent tax bills. KRS 134.128 gives the Department of Revenue the authority to “promulgate administrative regulations to establish a process for the purchase and sale of certificates of delinquency to third parties.” 103 KAR 5:180 Section 3(2) states in part, “[a] third party purchaser's registration shall include...[t]he deposit required by the county clerk pursuant to Section 4 of this administrative regulation.” 103 KAR 5:180 Section 4(4) states in part that “[t]he county clerk shall: (a) Accept payment of the deposit in a method of payment that complied with KRS 134.126(1)(b).” KRS 134.126(1)(b) states in part that “[t]he county clerk may limit the acceptable methods of payment to those that ensure that the payment cannot be reversed or nullified due to insufficient funds.”

We recommend the county clerk require third party delinquent tax purchasers to provide a check worth 25% of the sum value of delinquent tax bills they desire to purchase as stated in Section 4 of 103 KAR 5:180. Further, we recommend the county clerk deposit all delinquent tax sale deposits in the bank when received to ensure compliance with relevant statutes and regulations.

County Clerk's Response: This was brought to our attention during the exit interview for the 2021 audit in October, 2022. We changed the tax sale deposit process for the 2023 tax sale on August 9, 2023 to conform to the Auditor's recommendations.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2022-002 The Campbell County Clerk Has Inadequate Internal Controls Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2021-002. The Campbell County Clerk has inadequate internal controls over receipts in that:

- employees are sharing cash drawers,
- cash shortages are not being accounted for, and
- receipt accounts are not properly classified on the fourth quarter report.

Employees in the recording section of the county clerk's office are using shared cash drawers. All section staff, including the section supervisor, are accepting receipts at shared terminals, and using shared cash drawers. These drawers are spot counted throughout the day as time and business flow allows. At the end of each business day, the drawers are counted by an assistant and reconciled by the section supervisor.

CAMPBELL COUNTY
JIM LUERSEN, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2022
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2022-002 The Campbell County Clerk Has Inadequate Internal Controls Over Receipts (Continued)

A test of daily check-out sheets found the motor vehicle section had a cash shortage that was manually noted on the daily receipts ledger printout. Also, this shortage was not recorded in the personnel file of the staff member assigned to the cash drawer that was short. The recording section daily check-out reports did not include subtotals for payment types (i.e. cash, check, credit card, and accounts receivable) received to trace to deposit slips. Inaccurate account classifications on financial statements diminish their usefulness for stakeholders.

When access to a cash drawer is not restricted to an individual, no one individual can be held accountable for the proper accounting of funds in that drawer. This lack of direct accountability is also inconsistent with the county clerk's funds accountability in his policies and procedures manual. Not recording cash shortages and overages in the general ledger is a failure to record accurate financial information and prevents management from monitoring the effectiveness of internal controls. In addition, by not recording the occurrence of a cash drawer overage or shortage, the county clerk is not enforcing his own policy. Not providing subtotals for payment types make it difficult to compare to deposit slips.

Strong internal controls dictate oversight and procedures to ensure accountability for public funds. This includes restricting access to cash drawers to single individuals. The Campbell County Clerk's Policies & Procedures Manual, Funds Accountability section states in part, "[e]mployees are expected to be accountable for the balancing of their funds at the close of business each day. Any variance between what should have been collected or distributed for a transaction...that causes an overage or accumulated amount in the cash drawer is a violation of this policy." This section further states, "[d]epartment managers are required to keep records of all funds accountability violation in their department." KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual*, page 64 requires daily deposits to be made intact. This requires cash and checks received per the Point Of Sale or daily check-out sheet to agree to the deposit slip. Strong internal controls dictate accurate financial statements to ensure their usefulness for stakeholders.

We recommend the Campbell County Clerk strengthen internal controls over receipts by:

- assigning each cash drawer to an individual staff member,
- recording any cash drawer overages or shortages in the receipts ledger and the personnel file of the individual assigned to the drawer, and
- including in daily check-out reports subtotals for the payment types received.

County Clerk's Response: This was brought to our attention during the exit interview for the 2021 audit in October, 2022. We changed to individual cash drawers in our real estate office and had our software vendor update coding to incorporate the changes to conform to the Auditor's recommendations.

CAMPBELL COUNTY
JIM LUERSEN, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2022
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2022-003 The Campbell County Clerk Has Inadequate Internal Controls Over Payroll

This is a repeat finding and was included in the prior year audit report as finding 2021-003. The Campbell County Clerk has inadequate internal controls over payroll in that payroll amounts were not included on the fourth quarter report. The county clerk's bookkeeping staff has not been entering the payroll distributions made through the state's KHRIS system in their general ledger software. These omitted distributions totaled \$1,920,188, a material amount. The county clerk has been monitoring the payroll distributions made through KHRIS in a separate spreadsheet that does not include miscellaneous employee insurance not paid out by the KHRIS system, resulting in effective monitoring of payroll related disbursements. The county clerk's fourth quarter report is incomplete.

Strong internal controls dictate accurate financial statements to ensure their usefulness for stakeholders. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* provides a template for county clerk's financial statements beginning on page 36. This form includes disbursements for official expenses including personal services and employee benefits.

We recommend the Campbell County Clerk strengthen internal controls over payroll by entering all disbursements, including payroll amounts made by the state on their behalf, on the ledger and quarterly reports.

County Clerk's Response: This was brought to our attention during the exit interview for the 2021 audit in October, 2022. We worked with our software vendor to incorporate the changes to conform to the Auditor's recommendations.