

**REPORT OF THE AUDIT OF THE
FORMER CLAY COUNTY
CLERK**

**For The Period January 1, 2020
Through September 30, 2020**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John W. Johnson, Clay County Judge/Executive
The Honorable Michael Baker, Former Clay County Clerk
The Honorable Beverly G. Craft, Clay County Clerk
Members of the Clay 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 former County Clerk of Clay County, Kentucky, for the period January 1, 2020 through September 30, 2020, 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 John W. Johnson, Clay County Judge/Executive
The Honorable Michael Baker, Former Clay County Clerk
The Honorable Beverly G. Craft, Clay County Clerk
Members of the Clay 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 former Clay 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 former Clay County Clerk, for the period January 1, 2020 through September 30, 2020, or changes in financial position or cash flows thereof for the period 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 former Clay County Clerk for the period January 1, 2020 through September 30, 2020, 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 July 6, 2021, on our consideration of the former Clay 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 former Clay 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 comment:

2020-001 The Former Clay County Clerk’s Office Did Not Have Adequate Segregation Of Duties Which Contributed To The Third Quarter Financial Statement Being Materially Overstated

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

July 6, 2021

CLAY COUNTY
 MICHAEL BAKER, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2020 Through September 30, 2020

Receipts

Federal Grant	\$	7,173
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State Fees For Services		73
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Fiscal Court		23,928
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	418,487
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Usage Tax		838,015
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Tangible Personal Property Tax		895,506
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Notary Fees		1,549
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Disable Placard		3,250
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Other-

Fish and Game Licenses		1,461
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Marriage Licenses		2,960
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Occupational Licenses		266
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Deed Transfer Tax		11,056
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Delinquent Tax		238,711	2,411,261
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Fees Collected for Services:

Recordings-

Deeds, Easements and Contracts		13,838
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Document Storage Fee		13,870
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Real Estate Mortgages		12,598
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Chattel Mortgages and Financing Statements		40,120
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Powers of Attorney		1,284
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Affordable Housing Trust		7,884
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All Other Recordings		24,448
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Charges for Other Services-

Candidate Filing Fees		390
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Copywork, Postage, Fax, Phone		6,692
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Notary Charge Non Vehicle		176	121,300
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The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 MICHAEL BAKER, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2020 Through September 30, 2020
 (Continued)

Receipts (Continued)

Other:		
Miscellaneous		\$ 9,199
Interest Earned		<u>86</u>
Total Receipts		2,573,020

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 273,169	
Usage Tax	809,177	
Tangible Personal Property Tax	372,620	
Disabled Placard/KAVIS	27,913	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	1,400	
Delinquent Tax	19,672	
Legal Process Tax	10,697	
Affordable Housing Trust	<u>7,884</u>	\$ 1,522,532

Payments to Fiscal Court:

Tangible Personal Property Tax	67,380	
Delinquent Tax	18,050	
Deed Transfer Tax	10,503	
Occupational Licenses	<u>253</u>	96,186

Payments to Other Districts:

Tangible Personal Property Tax	417,253	
Delinquent Tax	<u>125,585</u>	542,838

Payments to Sheriff 20,306

Payments to County Attorney 32,048

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

CLAY COUNTY
MICHAEL BAKER, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 1, 2020 Through September 30, 2020
(Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	103,528	
Part-Time Salaries		5,106	
Overtime		2,326	
Employee Benefits-			
Employer's Share Social Security		14,592	
Contracted Services		19,706	
Materials and Supplies-			
Office Supplies		15,163	
Other Charges-			
Conventions and Travel		136	
Dues		1,082	
Miscellaneous		12,183	
Postage		14,659	
CARES Grant		7,173	
Capital Outlay-			
Office Equipment		3,282	\$ 198,936
		<u> </u>	
Debt Service:			
Lease Purchases			<u>9,980</u>
Total Disbursements			<u>\$ 2,422,826</u>
Net Receipts			150,194
Less: Statutory Maximum			<u>72,773</u>
Excess Fees			77,421
Less: Expense Allowance		2,700	
Training Incentive Benefit		<u>4,313</u>	<u>7,013</u>
Excess Fees Due County for 2020			70,408
Payment to Fiscal Court - September 30, 2020			<u>70,408</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

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

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

September 30, 2020

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 2020 services
- Reimbursements for 2020 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2020

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.

CLAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 September 30, 2020
 (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 24.06 percent for the period January 1, 2020 through September 30, 2020.

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%

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
September 30, 2020
(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.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
September 30, 2020
(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 former Clay 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 former Clay County Clerk did not have a deposit policy for custodial credit risk, but rather followed the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of September 30, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Federal Grant

The former Clay County Clerk's office received a federal grant for staffing and related election expenses grant through the Kentucky State Board of Elections in the amount of \$7,680. Funds totaling \$7,173 were expended during the period. The unexpended grant balance was \$507 as of September 30, 2020. These funds were transferred to the incoming county clerk.

CLAY COUNTY
 NOTES TO FINANCIAL STATEMENT
 September 30, 2020
 (Continued)

Note 5. Lease Agreements

The Clay County Clerk's office was committed to the following lease agreements as of September 30, 2020:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance September 30, 2020</u>
Software Maintenance Agreement	\$ 725	48 months	2/28/2023	\$ 17,394
Hardware Lease Agreement	460	60 months	11/23/2024	22,540
Hardware Lease Agreement	375	60 months	8/15/2023	12,750
Mailing System Lease	65	60 months	10/31/2021	778
Copy Machine Lease	209	60 months	7/1/2023	6,897
Totals	<u>\$ 1,834</u>			<u>\$ 60,359</u>

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 John W. Johnson, Clay County Judge/Executive
The Honorable Michael Baker, Former Clay County Clerk
The Honorable Beverly G. Craft, Clay County Clerk
Members of the Clay 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 former Clay County Clerk for the period January 1, 2020 through September 30, 2020, and the related notes to the financial statement and have issued our report thereon dated July 6, 2021. The former Clay 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 former Clay 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the former Clay County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Clay 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2020-001 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
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clay 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 financial statement. 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 2020-001.

Views of Responsible Official and Planned Corrective Action

The former Clay County Clerk's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The former Clay County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

July 6, 2021



SCHEDULE OF FINDINGS AND RESPONSES

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CLAY COUNTY
MICHAEL BAKER, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2020 Through September 30, 2020

FINANCIAL STATEMENT FINDING:

2020-001 The Former Clay County Clerk's Office Did Not Have Adequate Segregation Of Duties Which Contributed To The Third Quarter Financial Statement Being Materially Overstated

The former Clay County Clerk's office did not have adequate segregation of duties over receipts and disbursements. Deputy clerks who received payment from customers also prepared daily checkout sheets. The bookkeeper received payment from customers, posted to receipts and disbursements to the ledgers, performed bank reconciliations, prepared deposits, and prepared and signed disbursements. The former county clerk was responsible for the review of daily checkouts, the review of bank reconciliations, the review of deposits, and the review of disbursements.

Furthermore, controls over daily deposits were not operating effectively. During the month of September 2020, the former clerk's office erroneously made fee deposits into the office's payroll account totaling \$220,100 which went undetected until the clerk submitted his final quarterly. Additionally, since the deposits were made in the wrong account and the funds had to be reimbursed to the fee account, this caused the final settlement to be materially misstated. Furthermore, the quarterly was filed late with the Department for Local Government (DLG).

According to the former county clerk, a limited number of staff prevented a proper segregation of duties and compensating controls over daily deposits were not designed effectively. A proper review of daily deposits would indicate that the deposits were made into the correct account. Deposit slip books were kept in a bank deposit bag and the deposit made on September 9, 2020 for the fee account used the final deposit slip in the book. Upon preparation of the September 10, 2020 daily deposit, the deputy preparing the deposit used a deposit slip book for the payroll account that was kept in the same deposit bank bag. The review of daily deposits did not identify this error and receipts were erroneously deposited into the payroll account until a new fee account was created upon the retirement of the former county clerk.

To mitigate the effect of this weakness, the former county clerk implemented the use of compensating controls. These controls included the former clerk's review of deposits and daily checkouts, dual signatures on checks, the former clerk's review of bank reconciliations. However, compensating controls were not designed effectively in regards to daily deposits. Deposits were made into the wrong account which could increase the risk of misallocation of funds and could have resulted in a negative financial position of the former clerk's fee account. In addition, the former clerk was not in compliance with applicable laws and statutes pertaining to reporting requirements.

Adequate segregation of duties dictate that duties involving the collection and reporting of receipts, the preparation and recording of disbursements, and bank reconciliations should be separated or strong oversight should be performed by an employee not performing any of those functions. The former county clerk could have implement effective oversight when duties cannot be segregated.

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* requires officials to certify that the quarterly report is accurate to the best of their knowledge when they sign the quarterly report and to submit quarterly reports to the Department for Local Government by the 30th day following the close of each quarter.

The former county clerk should have segregated duties over receipts, disbursements, and reconciliations or if segregation of duties was not feasible due to lack of staff, the former county clerk should have implement effective compensating controls. In addition, the former county clerk should have complied with filing requirements established by DLG.

CLAY COUNTY
MICHAEL BAKER, FORMER COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2020 Through September 30, 2020
(Continued)

FINANCIAL STATEMENT FINDING: (Continued)

2020-001 The Former Clay County Clerk's Office Did Not Have Adequate Segregation Of Duties Which Contributed To The Third Quarter Financial Statement Being Materially Overstated (Continued)

Former County Clerk's Response: Although the daily deposits were deposited into the payroll account in error, once the error was found using our compensating controls, the funds were moved to the proper account. The money was 100% accounted for. Upon discovery of the error, additional controls were put into place to prevent an error of this type from happening again.