

**REPORT OF THE AUDIT OF THE
LEE COUNTY
CLERK**

**For The Year Ended
December 31, 2020**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Caudill, Jr., Lee County Judge/Executive
The Honorable Kim Noe, Lee County Clerk
Members of the Lee 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 Lee County, Kentucky, for the year ended December 31, 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 Charles Caudill, Jr., Lee County Judge/Executive
The Honorable Kim Noe, Lee County Clerk
Members of the Lee 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 Lee 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 Lee County Clerk, as of December 31, 2020, 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 Lee County Clerk for the year ended December 31, 2020, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

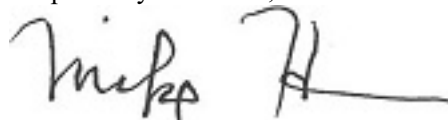
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021, on our consideration of the Lee 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 Lee 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 County Clerk’s Office Does Not Have Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 18, 2021

LEE COUNTY
KIM NOE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2020

Receipts

Federal Grant		\$ 24,334
State Grant - Libraries and Archives		9,801
State Revenue Supplement		68,059
State Fees For Services		1,938
Fiscal Court		4,051
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 184,821	
Usage Tax	217,609	
Tangible Personal Property Tax	463,747	
Auto Liens	1,908	
Other-		
Fish and Game Licenses	6,571	
Marriage Licenses	1,950	
Deed Transfer Tax	11,031	
Delinquent Tax	<u>275,177</u>	1,162,814
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	18,105	
Real Estate Mortgages	9,813	
Chattel Mortgages and Financing Statements	16,404	
Powers of Attorney	804	
Affordable Housing Trust	4,296	
All Other Recordings	4,609	
Document Storage	7,640	
Charges for Other Services-		
Candidate Filing Fees	350	
Copy Work	3,129	
Overpayments	75	
Miscellaneous	<u>2,369</u>	<u>67,594</u>
Total Receipts		1,338,591

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

LEE COUNTY
 KIM NOE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 133,103

Usage Tax 211,080

Tangible Personal Property Tax 168,337

Licenses, Taxes, and Fees-

Fish and Game Licenses 6,411

Delinquent Tax 19,907

Legal Process Tax 5,290

Affordable Housing Trust 4,296 \$ 548,424

Payments to Fiscal Court:

Tangible Personal Property Tax 62,797

Delinquent Tax 59,601

Deed Transfer Tax 9,662 132,060

Payments to Other Districts:

Tangible Personal Property Tax 214,488

Delinquent Tax 109,780 324,268

Payments to Sheriff

25,798

Payments to County Attorney

35,686

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 93,209

Contract Labor 10,276

Employee Benefits-

Other Payroll Disbursements 171

Contracted Services-

Software Maintenance 6,000

Supplies 700

Printing and Binding 1,922

Election Expense 371

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

LEE COUNTY
 KIM NOE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	2,848	
Libraries and Archives Grant		9,801	
Other Charges-			
Conventions and Travel		420	
Dues		1,440	
Miscellaneous		1,854	
Postage		2,852	
Capital Outlay-			
Office Equipment		3,031	
Computer Equipment		29,903	\$ 164,798
		<u>29,903</u>	<u>\$ 164,798</u>
Total Disbursements			<u>\$ 1,231,034</u>
Net Receipts			107,557
Less: Statutory Maximum			<u>84,094</u>
Excess Fees			23,463
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>4,313</u>	<u>7,913</u>
Excess Fees Due County for 2020*			<u>\$ 15,550</u>

* - The county clerk presented a check to the fiscal court for excess fees on April 8, 2021.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 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.

LEE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 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 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%

LEE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 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.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 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 Lee 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 Lee 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, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Grant

The Lee County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives. The fund balance was \$9,801 as of January 1, 2020. Funds in the amount of \$9,801 were expended during 2020, with \$1,457 of this amount being returned to the Kentucky Department for Libraries and Archives as unspent grant funds. Therefore, the ending grant balance was \$0 as of December 31, 2020.

Note 5. Lease Agreements

The Lee County Clerk's office was committed to a lease agreement for computer software. The original agreement required a monthly payment of \$500 for 60 months which was to be completed on May 1, 2018. However, this lease was extended for 24 months to be completed on April 30, 2020. On May 1, 2020, another 24 month extension was granted to be completed on April 30, 2022. The total balance of the agreement was \$9,000 as of December 31, 2020.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2020
(Continued)

Note 6. Federal Grant

The Lee County Clerk's office received a Coronavirus Aid, Relief, and Economic Security - Help America Vote Act Grant in which these federal funds were passed through the Kentucky State Board of Elections in the amount of \$24,334. These funds were used for election related purposes.

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 Charles Caudill, Jr., Lee County Judge/Executive
The Honorable Kim Noe, Lee County Clerk
Members of the Lee 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 Lee County Clerk for the year ended December 31, 2020, and the related notes to the financial statement and have issued our report thereon dated October 18, 2021. The Lee 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 Lee 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 Lee County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee 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 Lee 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

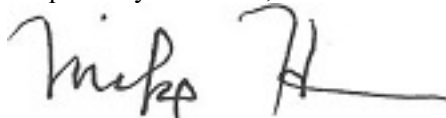
Views of Responsible Official and Planned Corrective Action

The Lee 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 Lee 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,

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

October 18, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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LEE COUNTY
KIM NOE, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

INTERNAL CONTROL - MATERIAL WEAKNESS:

2020-001 The County Clerk's Office Does Not Have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The Lee County Clerk's office does not have adequate segregation of duties. According to the county clerk, due to the entity's diversity of official operations, small size, and budget restrictions, the county clerk has limited options for establishing an adequate segregation of duties. The county clerk employs a part-time bookkeeper that completes all bookkeeping functions such as all posting to the ledgers, preparing the compilation of daily checkouts, preparing the daily deposits, preparing all checks, preparing all reports except the weekly reports for usage and license, reconciling the bank statements, and preparing the financial statements. The county clerk prepares the weekly reports for usage and license. She does agree each report to his ledgers but does not initial the supporting documentation. The county clerk does not have an independent individual review reports, checks, or the disbursements ledger. This could result in misappropriation of assets and inaccurate financial reporting to external agencies. Good internal controls dictate one employee should not have control over all of these duties.

In order to improve controls, we recommend the county clerk implement the following:

- The county clerk should require the deputy clerks to count each other's cash drawers.
- The county clerk should reconcile monthly reports to the ledgers for receipts and disbursements. This can be documented by initialing the ledgers and the monthly reports.
- The county clerk should review the bank reconciliation and agree it to the ledgers. This can be documented by initialing the bank reconciliation.
- The county clerk should review the financial statements and agree them to the ledgers and bank reconciliations. This can be documented by initialing the financial statements.

County Clerk's Response: County Clerk will try to correct but with such a small office some will be impossible to correct.