

**REPORT OF THE AUDIT OF THE  
MAGOFFIN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2017**



**MIKE HARMON  
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT ..... 1

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS ..... 3

NOTES TO FINANCIAL STATEMENT ..... 6

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* ..... 11

SCHEDULE OF FINDINGS AND RESPONSES ..... 15

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Mathew Wireman, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin 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 Magoffin County, Kentucky, for the year ended December 31, 2017, 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 Mathew Wireman, Magoffin County Judge/Executive  
 The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
 Members of the Magoffin 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 Magoffin 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 each fund of the Magoffin County Clerk, as of December 31, 2017, 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 Magoffin County Clerk for the year ended December 31, 2017, 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 March 27, 2019, on our consideration of the Magoffin 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 Magoffin 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 comments:

- 2017-001 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2017-002 The Fourth Quarter Financial Report Was Not Complete and Accurate

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

March 27, 2019

MAGOFFIN COUNTY  
 RENEE ARNETT SHEPHERD, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Revenue Supplement		\$ 66,599
State Fees For Services		3,743
Fiscal Court		48,800
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 392,177	
Usage Tax	425,519	
Tangible Personal Property Tax	1,027,215	
Other-		
Fish and Game Licenses	8,305	
Marriage Licenses	4,118	
Beer and Liquor Licenses	2,550	
Deed Transfer Tax	11,649	
Delinquent Tax	458,311	2,329,844
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	3,861	
Real Estate Mortgages	1,694	
Chattel Mortgages and Financing Statements	30,438	
Powers of Attorney	561	
Affordable Housing Trust	7,758	
All Other Recordings	20,500	
Charges for Other Services-		
Candidate Filing Fees	3,400	
Copywork	3,011	
Postage	893	72,116
Other:		
Miscellaneous		4,039
Interest Earned		53
Total Receipts		2,525,194

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

MAGOFFIN COUNTY  
 RENEE ARNETT SHEPHERD, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	274,617	
Usage Tax		412,419	
Tangible Personal Property Tax		362,330	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		7,948	
Delinquent Tax		37,732	
Legal Process Tax		9,179	
Affordable Housing Trust		7,758	\$ 1,111,983

Payments to Fiscal Court:

Tangible Personal Property Tax		113,704	
Delinquent Tax		114,948	
Deed Transfer Tax		11,064	
Beer and Liquor Licenses		2,423	242,139

Payments to Other Districts:

Tangible Personal Property Tax		509,577	
Delinquent Tax		156,206	665,783

Payments to Sheriff

39,379

Payments to County Attorney

60,171

Operating Disbursements and Capital Outlay:

Personnel Services-

  Deputies' Salaries 111,865

Employee Benefits-

  Employer's Share Social Security 28,943

  Employer's Share Retirement 29,542

  Employer's Paid Health Insurance 40,685

Contracted Services-

  Fish and Game 16,673

Materials and Supplies-

  Office Supplies 5,401

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



MAGOFFIN COUNTY  
 RENEE ARNETT SHEPHERD, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	2,041	
Dues		900	
Postage		3,363	
Refunds		21,845	
Miscellaneous		<u>6,879</u>	\$ 268,137
Capital Outlay-			
Office Equipment		3,607	
Copier		<u>179</u>	<u>3,786</u>
Total Disbursements			<u>\$ 2,391,378</u>
Net Receipts			133,816
Less: Statutory Maximum			<u>85,085</u>
Excess Fees			48,731
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>4,052</u>	<u>7,652</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 41,079</u></u>

\* - The county clerk presented a check to the fiscal court for excess fees in the amount \$40,500 on March 29, 2018.

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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 county official and employees have 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.

MAGOFFIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (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. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

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 members contribute five percent of their annual creditable compensation and 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 Board 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 nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county clerk's contribution for calendar year 2015 was \$38,207, calendar year 2016 was \$37,440, and calendar year 2017 was \$29,542.

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.

Health Insurance Coverage

CERS also 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:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
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, 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.

MAGOFFIN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (Continued)

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

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.

Note 3. Deposits

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The Magoffin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Escrow Account

The Magoffin County Clerk deposits the remaining outstanding checks on the year-end bank reconciliation into an interest-bearing escrow account. The county clerk's escrowed amounts for each year are listed below.

2013	\$710
2014	\$123

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

Note 5. Grant

The Magoffin County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$26,507 and \$5 of interest earned. The unexpended grant balance was \$26,512 as of December 31, 2017.

Note 6. Contingency

The clerk's office was involved in a lawsuit that arose from the normal course of doing business. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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 Mathew Wireman, Magoffin County Judge/Executive  
The Honorable Renee Arnett Shepherd, Magoffin County Clerk  
Members of the Magoffin 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 Magoffin County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated March 27, 2019. The Magoffin 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 Magoffin County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Clerk's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 to be material weaknesses.

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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 Magoffin County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 Magoffin County Clerk's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Magoffin County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

March 27, 2019



## SCHEDULE OF FINDINGS AND RESPONSES

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MAGOFFIN COUNTY  
RENEE ARNETT SHEPHERD, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2017-001 The County Clerk's Office Lacks Adequate Segregation of Duties

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This is a repeat finding and was reported in the prior year audit report as finding 2016-001. The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the office. The county clerk is responsible for receiving cash, preparing daily deposits, preparing and signing checks, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of duties increases the risk of undetected errors.

This condition is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to.

A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

*County Clerk's Response: Not enough employees, limited budget.*

2017-002 The Fourth Quarter Financial Report Was Not Complete and Accurate

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This is a repeat finding and was reported in the prior year audit report as finding 2016-002. The county clerk's fourth quarter financial statements did not agree to the county clerk's receipts and disbursements ledger or the reconciled bank balance. In addition, the reconciliation of all accounts on the fourth quarterly financial report did not reconcile. The book balance shows a reconciled balance of \$133,039. The bank balance shows a reconciled balance of \$48,069 for a difference of \$84,970.

The county clerk did not post all receipts and disbursements to the ledger, which resulted in inaccurate financial reporting. The county clerk posted net payroll checks to the disbursements ledger and did not correctly post retirement and social security matching to the ledger.

Inaccurate financial records provide misleading information to the users of the information. Auditors compared the fourth quarter report to the disbursements ledger and discovered that disbursements per the fourth quarter report differed from the disbursements ledger by \$54,691.

MAGOFFIN COUNTY  
RENEE ARNETT SHEPHERD, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2017

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2017-002 The Fourth Quarterly Financial Report Was Not Complete and Accurate (Continued)

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The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* prescribes a uniform system of accounts pursuant to KRS 68.210, and it requires the county clerk to prepare a quarterly report which includes all receipts and disbursements the county clerk collected and paid during the calendar year.

In order to present the most accurate information possible to regulatory agencies, fiscal court, and the public, we recommend the county clerk implement procedures for ensuring the accuracy of financial information. Ledgers should be posted accurately and the fourth quarter report should agree to ledgers and the bank balance. Receipts and disbursements ledgers should be reconciled to the bank receipts and disbursements on a monthly basis. This would reduce reporting errors.

*County Clerk's Response: Corrections were noted and applied for future budgeting.*