



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Ballard County Clerk's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2021 financial statement of Ballard County Clerk Katie Mercer. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the Ballard County Clerk in accordance with accounting principles generally accepted in the United States of America. The clerk's financial statement did not follow this format. However, the clerk's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 clerk audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

**The Ballard County Clerk failed to properly account for and accurately report the fees and taxes of her office:** This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The Ballard County Clerk did not maintain accurate and complete ledgers. Some items were posted twice while other items were not posted at all. The county clerk does not reconcile the ledgers to the bank activity. And finally, the fourth quarter financial report did not agree with the ledgers nor was it reconciled to the bank. The receipts were overstated by \$79,447 and disbursements were overstated by \$99,488.

The county clerk failed to implement control procedures to ensure amounts being recorded and reported were accurate and complete. A lack of familiarity with the accounting software also

attributed to some of the accounting errors. The county clerk's quarterly financial report was materially misstated and required significant adjustments to accurately report fee receipts and disbursements for the calendar year.

Strong internal controls dictate that the ledgers be reconciled to the daily checkout sheets and the weekly and monthly tax reports to ensure all receipts and disbursements are properly accounted for and remitted to the appropriate authorities. Likewise, the ledgers should be reconciled to the bank statements each month. Furthermore, strong internal controls dictate that the ledgers be reconciled to the fourth quarter financial report to ensure that all receipts and disbursements are reported properly.

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 accurate financial reporting. Fee officials use 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.

We recommend the Ballard County Clerk implement daily, weekly, and monthly procedures to ensure amounts recorded are accurate and reconcile to bank activity.

*County Clerk's Response: The official did not provide a response.*

**The Ballard County Clerk failed to properly settle with the fiscal court for calendar years 2019, 2020 and 2021:** The Ballard County Clerk has not properly settled fee years 2019, 2020, and 2021 with the fiscal court. The table below summarizes the total amounts due to the county clerk, the unpaid obligations (liabilities), as well as the total amount due to the Ballard County Fiscal Court:

	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2021</u>	<u>TOTALS</u>
Bank Balances	\$ 0	\$ 0	\$ 3,103	\$ 3,103
<u>Receivables:</u>				
CY 2019	7,250			7,250
CY 2020		15,451		15,451
CY 2021			20,460	20,460
Total Assets	7,250	15,451	23,563	46,264
<u>Liabilities:</u>				
CY 2019	9,148			9,148
CY 2020		3,442		3,442
CY 2021			15,420	15,420
Total Liabilities	9,148	3,442	15,420	28,010
Due from Clerk for Deficit	764			764
Balance Due Fiscal Court				
As of December 31, 2021	<u>\$ (1,134)</u>	<u>\$ 12,009</u>	<u>\$ 8,143</u>	<u>\$ 19,018</u>

The amounts that make up the receivables and liabilities of the individual fee accounts are listed in the following tables:

2019 Fee Account

Cash in Bank	\$ 0
Receivables	
State - Tangible Tax	6,021
County - Tangible Tax	<u>1,229</u>
Total Assets	7,250
Liabilities	
To Fee Year 2020 - 2020 Taxes & Fees	5,120
To Calendar Year 2022	<u>4,028</u>
Total Liabilities	9,148
Due From Clerk for Deficit	<u>764</u>
Excess Fees - December 31, 2021	<u>\$ (1,134)</u>

2020 Fee Account

Cash in Bank	\$ 0
Receivables	
State - Delinquent Tax	802
Other Districts - Delinquent Tax	
County Attorney	1,304
Sheriff	886
Ambulance	460
Soil Conservation	105
From Fee Year 2021 - Motor Vehicle Tax	6,774
From Fee Year 2019 - 2020 Fees & Taxes	<u>5,120</u>
Total Assets	15,451
Liabilities	
To Fee Year 2021 - PY Settlement Error	3,441
To Escrow - Outstanding Check	<u>1</u>
Total Liabilities	<u>3,442</u>
Excess Fees - December 31, 2021	<u>\$ 12,009</u>

2021 Fee Account

Cash in Bank	\$ 3,103
Receivables	
State - Tangible Property Tax	6,847
From 2022 Fee Account -	
Payroll Reimbursement	9,971
Motor Vehicle Tax	201
From Fee Year 2020 - PY Settlement Error	<u>3,441</u>
Total Assets	23,563
Liabilities	
County - Tangible Tax	540
Health - Tangible Tax	6
Extension - Tangible Tax	103
School - Tangible Tax	1,232
Wickliffe - Tangible Tax	23
LaCenter - Tangible Tax	427
Barlow - Tangible Tax	125
Kevil - Tangible Tax	8
To Fee Year 2020 - Motor Vehicle Tax	6,774
To Fee Year 2022 - Web Renewals	<u>6,182</u>
Total Liabilities	<u>15,420</u>
Excess Fees - December 31, 2021	<u>\$ 8,143</u>

The county clerk did not have qualified accounting staff who were trained on the uniform system of accounts set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* and failed to oversee the daily activities of her office. The county clerk's staff failed to reconcile all accounts properly and remit excess fees after the prior year audits were complete. Additionally, the county clerk did not have proper internal controls in place to ensure that the annual settlements were presented to the fiscal court and proper amount of excess fees were paid timely. Due to the lack of management oversight, the amounts due per the 2019 and 2020 audits were not collected, liabilities were not properly paid, and excess fees were not paid to the fiscal court. This denied the fiscal court funds totaling \$19,018 that could have been used to provide service to the citizens of the county. Failure to settle accounts timely increases the risk that misappropriation could occur and deprives the fiscal court of much needed resources for a significant period. Also, as a result of the issues noted, the county clerk owes \$764 from personal funds to cover the deficit in her calendar year 2019 fee account.

Good internal controls dictate a documented review of the financial activity, which includes the settlement of fee accounts each year. KRS 68.210 authorizes the state local finance officer to implement a system of uniform accounts that set the minimum requirements for the handling of public funds for government officials. Books of original entry for receipts and disbursements along with monthly bank reconciliations are included in these requirements. Receipts and disbursements ledgers should be prepared from source documents and should be updated daily. Receipts should be posted from daily checkout sheets, while disbursements should be posted from the actual checks and debit memos, if applicable. Monthly bank reconciliations should also be prepared and should

include all receivables and liabilities for that month. Each month, the bank statement should be reconciled to the receipts and disbursements ledgers.

KRS 64.152(1) states, “[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.” KRS 64.152(2) states, “[a]t the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office, including income from investments, which exceeds the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants. The settlement for excess fees shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810, and the provisions of this section shall not be construed to amend KRS 64.820.”

Additionally, KRS 64.820(1) states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.” KRS 64.820(2) states, “[i]n the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.”

We recommend the county clerk establish procedures to ensure an annual settlement is presented to the fiscal court as prescribed in KRS 64.152 and excess fees are paid at that time. We also recommend the county clerk collect all receivables, pay all liabilities, personally pay fund deficits, and remit excess fees due to the fiscal court for the 2019, 2020, and 2021 calendar years.

*County Clerk's Response: No annual settlements given due to clerk not knowing.*

**The Ballard County Clerk's Office does not have segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The Ballard County Clerk's Office does not have adequate segregation of duties over the accounting function of the county clerk's office. The duties associated with the authorization of transactions, custody of cash, and recording of transactions are not properly segregated. Even though daily checkout procedures are performed by the deputy clerks on a rotating basis, the bookkeeper is still responsible for posting transactions to the ledgers, preparing the weekly reports, preparing checks, and reconciling the bank statements. The bookkeeper also works on the front line of the office and receives cash from customers. The county clerk reportedly reviews all the work performed by the deputies, however, there was no documentation of her review on the records.

According to the county clerk, this condition is the result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to. A lack of segregation of duties or strong oversight increases the risk that errors or fraud could occur and not be detected.

A proper segregation of duties over the accounting function or the implementation of compensating controls is essential for providing protection from errors occurring and not being

detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Ballard County Clerk separate the duties involved in receiving receipts from customers, posting to the receipts and disbursements ledgers, preparing weekly reports, and performing monthly bank reconciliations. If, due to a limited budget, this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the procedure.

*County Clerk's Response: Everyone in our office has to handle customers and their money.*

**The Ballard County Clerk did not account for fees and taxes in the proper fee year:** The county clerk deposited \$230,049 of fees and taxes, collected for the calendar year 2022, in the 2021 fee account. The county clerk transferred or reimbursed \$223,867 to the 2022 fee account. However, the 2021 fee account still owes \$6,182 to the 2022 fee account for January and June web renewals in the amounts of \$2,366 and \$3,816, respectively. Additionally, the 2021 fee account also owes \$6,774 to the 2020 fee account.

The county clerk failed to notify state agencies the proper fee account information for automatic deposits and Automated Clearing House (ACH) payments for motor vehicle taxes. Also, the county clerk failed to implement control procedures to ensure fee receipts and disbursements are accounted for in the proper fee year. This could affect excess fees due the fiscal court. Good internal controls dictate that procedures be in place to ensure receipts and disbursements are properly accounted for in the proper period.

We recommend the county clerk implement control procedures to ensure that fee receipts and disbursements are accounted for in the proper fee account.

*County Clerk's Response: The official did not provide a response.*

**The Ballard County Clerk exceeded budget for operating disbursements by \$16,260:** The Ballard County Clerk's operating disbursements exceeded the approved budget by \$16,260. The Ballard County Fiscal Court approved the county clerk's budget for operating disbursements at \$202,000; however, the county clerk expended \$218,265 on operating disbursements during the calendar year. No budget amendments were presented to the fiscal court for approval.

The county clerk failed to monitor the budget throughout the year. The county clerk expended more to operate the clerk's office than was approved by fiscal court.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15 of each year. Good internal controls include procedures to ensure disbursements are within approved budget or budget amendments are requested as needed.

We recommend the Ballard County Clerk monitor the budget throughout the year by implementing procedures to ensure disbursements are within budgeted limitation. If any disbursements exceed

budget, county clerk should request budget amendments, as necessary, from the fiscal court, before year end.

*County Clerk's Response: No significant, unusual transactions were identified because of our audit. We did not identify or obtain any information that indicated material fraud may have occurred or be suspected. Nothing came to our attention that caused us to believe other information is a material misstatement of facts. Every budget is an estimate, no two years are alike. Did manage to pay \$63,007.58 excess fees in March 2022.*

Auditor's Reply: The county clerk should monitor the budget throughout the year and request budget amendments as necessary.

The county clerk's responsibilities include collecting certain taxes, issuing licenses, maintaining county records and providing other services. The clerk's office is funded through statutory fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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