

**REPORT OF THE AUDIT OF THE  
BALLARD COUNTY  
CLERK**

**For The Year Ended  
December 31, 2021**



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

**Independent Auditor's Report**

The Honorable Todd Cooper, Ballard County Judge/Executive  
The Honorable Katie Mercer, Ballard County Clerk  
Members of the Ballard County Fiscal Court

**Report on the Audit of the Financial Statement**

**Opinions**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Ballard County, Kentucky, for the year ended December 31, 2021, and the related notes to the financial statement.

*Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Ballard County Clerk for the year ended December 31, 2021, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statement does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Ballard County Clerk, as of December 31, 2021, or changes in financial position or cash flows thereof for the year then ended.

**Basis for Opinion**

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



The Honorable Todd Cooper, Ballard County Judge/Executive  
The Honorable Katie Mercer, Ballard County Clerk  
Members of the Ballard County Fiscal Court

### **Basis for Opinion (Continued)**

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

As described in Note 1 of the financial statement, the financial statement is prepared by the Ballard County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial 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 and pervasive.

### **Responsibilities of Management 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 Responsibilities for the Audit of the Financial Statement**

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

In performing an audit in accordance with GAAS, we:

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

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

The Honorable Todd Cooper, Ballard County Judge/Executive  
The Honorable Katie Mercer, Ballard County Clerk  
Members of the Ballard County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2022, on our consideration of the Ballard County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ballard 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:

- 2021-001 The Ballard County Clerk Failed To Properly Account For And Accurately Report The Fees And Taxes Of Her Office
- 2021-002 The Ballard County Clerk Failed To Properly Settle With The Fiscal Court For Calendar Years 2019, 2020 and 2021
- 2021-003 The Ballard County Clerk's Office Does Not Have Segregation Of Duties
- 2021-004 The Ballard County Clerk Did Not Account For Fees And Taxes In The Proper Fee Year
- 2021-005 The Ballard County Clerk Exceeded Budget For Operating Disbursements By \$16,265

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

September 14, 2022

BALLARD COUNTY  
KATIE MERCER, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts

State Revenue Supplement	\$	66,747
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State Fees For Services		3,346
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Fiscal Court		1,946
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 389,361	
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Usage Tax	1,138,974	
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Tangible Personal Property Tax	1,142,781	
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Notary Fees	1,260	
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Other-

Fish and Game Licenses	9,294	
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Occupational Licenses	1,020	
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Deed Transfer Tax	29,461	
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Delinquent Tax	100,244	
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Delinquent Tax Deposits	2,737	2,815,132
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	20,738	
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Real Estate Mortgages	34,122	
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Chattel Mortgages and Financing Statements	25,396	
--	--------	--

Powers of Attorney	2,084	
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Affordable Housing Trust	9,900	
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All Other Recordings	23,491	
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Charges for Other Services-

Candidate Filing Fees	1,000	
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Copy Work	4,500	
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Postage	3,048	
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Document Storage Fees	17,390	141,669
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Other:

Lien Fees	6,872	
-----------	-------	--

Miscellaneous	8,688	
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Overpayments	3,191	18,751
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Interest Earned		183
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Total Receipts		3,047,774
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The accompanying notes are an integral part of this financial statement.



BALLARD COUNTY  
 KATIE MERCER, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2021  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 297,763

Usage Tax 1,104,067

Tangible Personal Property Tax 433,375

Licenses, Taxes, and Fees-

Fish and Game Licenses 8,963

Delinquent Tax 8,103

Legal Process Tax 10,825

Affordable Housing Trust 9,900 \$ 1,872,996

Payments to Fiscal Court:

Tangible Personal Property Tax 165,636

Delinquent Tax 15,279

Deed Transfer Tax 27,988

Occupational Licenses 860 209,763

Payments to Other Districts:

Tangible Personal Property Tax 506,904

Delinquent Tax 45,698 552,602

Payments to Sheriff

8,667

Payments to County Attorney

13,727

Tax Bill Preparation

2,076

Other Regulatory Payments:

Delinquent Tax Deposit Refunds 2,737

Other Refunds 9,262 11,999

Operating Disbursements:

Personnel Services-

Deputies' Salaries 145,653

Part-Time Salaries 19,614

Contracted Services-

Advertising 1,859

Software Maintenance 43,161

Materials and Supplies-

Office Supplies 5,188

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

BALLARD COUNTY  
 KATIE MERCER, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2021  
 (Continued)

Disbursements (Continued)

Operating Disbursements (Continued):

Other Charges-		
Postage	\$ 1,740	
Miscellaneous	471	
Lien Fees - Other Counties	<u>454</u>	<u>\$ 218,140</u>
Total Disbursements		<u>\$ 2,889,970</u>
Net Receipts		157,804
Less: Statutory Maximum		<u>83,053</u>
Excess Fees		74,751
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County at Completion of Audit*		<u>\$ 71,151</u>

\* The county clerk presented a check for \$63,008 to the fiscal court as excess fees on March 23, 2022. However, an additional \$8,143 is still due as excess fees for calendar year 2021.

BALLARD COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2021

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 pay to the governing body of the county any fees, commissions, and other income of his or her office, including income from investments, which exceed the sum of his or her maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants by March 15 of each year. KRS 64.830 requires an outgoing clerk to make a final settlement with the fiscal court by March 15 immediately following the expiration of his or her term of office.

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 2021 services
- Reimbursements for 2021 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2021

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).

BALLARD COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2021  
(Continued)

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

The clerk's office has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Kentucky Public Pensions Authority (KPPA). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the CERS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the CERS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 24.06 percent for the first six months and 26.95 percent for the last six months.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

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%

BALLARD COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2021  
(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 78.5536.

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 78.5536. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of 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.

BALLARD COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2021  
 (Continued)

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

Kentucky Retirement System Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement System issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Kentucky Retirement System 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 Ballard County Clerk maintained deposits of public funds with federally insured banking institutions as required by 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.

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 Ballard County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of DLG *County Budget Preparation and State local Finance Officer Policy Manual*. On March 31, 2021, the county clerk's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$54,954

Note 4. Service Agreement

In July 2019, the Ballard County Clerk entered into a service agreement with a third party for the right to use their software and technical support for a period of 48 months at a rate of \$11,300 per year.

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**

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**

The Honorable Todd Cooper, Ballard County Judge/Executive  
The Honorable Katie Mercer, Ballard County Clerk  
Members of the Ballard County Fiscal Court

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 Ballard County Clerk for the year ended December 31, 2021, and the related notes to the financial statement and have issued our report thereon dated September 14, 2022. The Ballard 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 Ballard 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 Ballard County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 did identify certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial 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 2021-001, 2021-002, 2021-003, and 2021-004 to be material weaknesses.



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)

**Internal Control over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-005 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Ballard 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002.

**Views of Responsible Official and Planned Corrective Action**

The Ballard 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 Ballard 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

September 14, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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BALLARD COUNTY  
KATIE MERCER, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001    The Ballard County Clerk Failed To Properly Account For And Accurately Report The Fees And Taxes Of Her Office

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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 contributed 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.*

2021-002    The Ballard County Clerk Failed To Properly Settle With The Fiscal Court For Calendar Years 2019, 2020 and 2021

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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:

BALLARD COUNTY  
 KATIE MERCER, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Ballard County Clerk Failed To Properly Settle With The Fiscal Court For Calendar Years 2019, 2020 and 2021 (Continued)

	<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
<u>Receivables</u>	
State - Tangible Tax	6,021
County - Tangible Tax	<u>1,229</u>
Total Assets	7,250
<u>Liabilities</u>	
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>

BALLARD COUNTY  
 KATIE MERCER, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Ballard County Clerk Failed To Properly Settle With The Fiscal Court For Calendar Years 2019, 2020 and 2021 (Continued)

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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>

BALLARD COUNTY  
 KATIE MERCER, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Ballard County Clerk Failed To Properly Settle With The Fiscal Court For Calendar Years 2019, 2020 and 2021 (Continued)

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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 the 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 services 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.*



BALLARD COUNTY  
KATIE MERCER, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Ballard County Clerk's Office Does Not Have Segregation Of Duties

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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.*

2021-004 The Ballard County Clerk Did Not Account For Fees And Taxes In The Proper Fee Year

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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 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.*

BALLARD COUNTY  
KATIE MERCER, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-005    The Ballard County Clerk Exceeded Budget For Operating Disbursements By \$16,265

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The Ballard County Clerk's operating disbursements exceeded the approved budget by \$16,265. 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 limitations. If any disbursements exceed budget, county clerk should request budget amendments, as necessary, from the fiscal court, before year's 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.