

**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
CLERK**

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



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
SCHEDULE OF FINDINGS AND RESPONSES	19

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jared Butler, Breckinridge County Clerk
Members of the Breckinridge 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 Breckinridge 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 Breckinridge 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 Breckinridge County Clerk, for the year ended 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, and the *Audit Program for County Fee Officials*. 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 Breckinridge 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 Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jared Butler, Breckinridge County Clerk
Members of the Breckinridge 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 Breckinridge 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 Breckinridge 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 Breckinridge 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 Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jared Butler, Breckinridge County Clerk
Members of the Breckinridge County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2022, on our consideration of the Breckinridge 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 Breckinridge 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 Breckinridge County Clerk's Fourth Quarter Was Materially Misstated
- 2021-002 The Breckinridge County Clerk Does Not Have Adequate Controls Over Timesheet Preparation And Payroll Processing
- 2021-003 The Breckinridge County Clerk Did Not Make Deposits Daily
- 2021-004 The Breckinridge County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

August 4, 2022

BRECKINRIDGE COUNTY
JARED BUTLER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts

State Fees For Services	\$	10,778
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Fiscal Court		5,588
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	988,140
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Usage Tax		1,905,228
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Tangible Personal Property Tax		2,443,708
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Notary Fees		2,516
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Other-

Fish and Game Licenses		5,527
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Marriage Licenses		4,560
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Beer and Liquor Licenses		25,375
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Deed Transfer Tax		112,854
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Delinquent Tax		179,109
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Delinquent Tax Deposits	76,826	5,743,843
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		60,433
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Real Estate Mortgages		84,908
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Chattel Mortgages and Financing Statements		58,356
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Powers of Attorney		5,137
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Affordable Housing Trust		32,352
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Document Storage Fees		55,310
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All Other Recordings		88,166
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Charges for Other Services-

Candidate Filing Fees		1,750
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Copy Work		1,574
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Miscellaneous	17,134	405,120
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Interest Earned		140
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Total Receipts		6,165,469
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The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY
 JARED BUTLER, 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 \$ 742,391

Usage Tax 1,847,766

Tangible Personal Property Tax 960,233

Licenses, Taxes, and Fees-

Fish and Game Licenses 5,455

Delinquent Tax 13,036

Legal Process Tax 24,167

Affordable Housing Trust 32,352 \$ 3,625,400

Payments to Fiscal Court:

Tangible Personal Property Tax 219,887

Delinquent Tax 15,199

Deed Transfer Tax 107,212

Beer and Liquor Licenses 25,176 367,474

Payments to Other Districts:

Tangible Personal Property Tax 1,166,086

Delinquent Tax 96,697 1,262,783

Payments to Sheriff 14,583

Payments to County Attorney 22,522

Other Regulatory Payments:

Delinquent Tax Deposit Refunds 74,521

Operating Disbursements:

Personnel Services-

Deputies' Salaries 234,829

Employee Benefits-

Employer's Share Social Security 24,154

Employer's Share Retirement 85,904

Contracted Services-

Computer Services 15,958

Materials and Supplies-

Office Supplies 30,668

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

BRECKINRIDGE COUNTY
 JARED BUTLER, 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-		
Conventions and Travel	\$	465
Dues		1,650
Miscellaneous		7,641
Postage		7,196
Bad Debt Expense		494
		<u>\$ 408,959</u>
Total Disbursements		<u>\$ 5,776,242</u>
Net Receipts		389,227
Less: Statutory Maximum		<u>98,352</u>
Excess Fees		290,875
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due Fiscal Court for 2021 at Completion of Audit*		<u><u>\$ 287,275</u></u>

* - The county clerk presented a check to the fiscal court for excess fees in the amount of \$287,261 on March 21, 2022 and an additional check for \$14 on August 4, 2022.

BRECKINRIDGE 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) as of 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).

BRECKINRIDGE 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.

The county clerk's contribution for calendar year 2019 was \$71,028, calendar year 2020 was \$85,326, and calendar year 2021 was \$85,904.

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:

BRECKINRIDGE 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)

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%

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, they 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, they 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.

BRECKINRIDGE 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)

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.

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 Breckinridge County Clerk maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The Breckinridge County Clerk does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of December 31, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

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

Note 4. Lease Agreement

The Breckinridge County Clerk's office was committed to the following lease agreements as of December 31, 2021:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2021
Software Management - Hardware	\$ 350	60 Months	12/26/2025	\$ 16,450
Software Management - License	968	60 Months	12/26/2025	45,496
Totals	<u>1,318</u>			<u>61,946</u>

Note 5. Fiduciary Account - Escrow Account

The Breckinridge County Clerk deposited outstanding checks into a custodial bank account. When statutorily required the county clerk will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property. The county clerk's escrowed amounts were as follows:

2015	\$153
2016	\$351
2017	\$187
2018	\$24
2019	\$287
2020	\$217
2021	\$226

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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*

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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 Maurice Lucas, Breckinridge County Judge/Executive
The Honorable Jared Butler, Breckinridge County Clerk
Members of the Breckinridge 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 Breckinridge County Clerk for the year ended December 31, 2021, and the related notes to the financial statement and have issued our report thereon dated August 4, 2022. The Breckinridge 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 Breckinridge 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 Breckinridge County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breckinridge 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.

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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breckinridge 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, 2021-002 and 2021-003.

Views of Responsible Official and Planned Corrective Action

The Breckinridge 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 Breckinridge 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", followed by a horizontal line.

Mike Harmon
Auditor of Public Accounts
Frankfort, KY

August 4, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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BRECKINRIDGE COUNTY
JARED BUTLER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001 The Breckinridge County Clerk's Fourth Quarter Was Materially Misstated

The Breckinridge County Clerk's fourth quarter financial report was materially misstated. Receipts and disbursements were understated by \$2,943 and \$206,307, respectively. The bookkeeper failed to include receipts and disbursements occurring after December 31, 2021, that were for calendar year 2021. The fourth quarter financial report was incorrect and did not provide an accurate and complete financial presentation for the Breckinridge County Clerk's office for calendar year 2021.

According to the bookkeeper, the reason for these understatements was because the fourth quarter financial report was submitted to Department for Local Government without including the accounts receivables and liabilities for calendar year 2021. 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 all financial activity for the calendar year be included on the fourth quarter financial report. Also, good internal controls dictate the fourth quarter financial report be accurate and complete.

We recommend the county clerk ensure that the quarterly report is complete and accurate before submitting to the Department for Local Government.

County Clerk's Response: A separate column was added to the Dec ledger for EOY receipts and expenses instead of separating them.

2021-002 The Breckinridge County Clerk Does Not Have Adequate Controls Over Timesheet Preparation And Payroll Processing

During testing of time sheets of the county clerk's eight employees we noted the following errors:

- Seven of eight timesheets tested did not support hours worked and paid when compared to payroll summary report prepared by the county payroll officer.
- Six of eight timesheets tested documented time that was worked over and above the regularly scheduled hours, but the employee was not paid for the hours nor was the additional time included on the summary report prepared by the county payroll officer.
- Two employees leave time used and leave balances that was documented on their timesheets did not agree to the leave balance reports maintained by the county clerk.
- Three employees did not put actual hours worked on their timesheets, but rather used checkmarks to indicate that they have worked eight hours.
- All employees were paid for a one-hour lunch contrary to the county's administrative code.
- Some employees are paid as a salaried employee regardless of hours worked, although none have been classified as "exempt or non-exempt" in accordance with the county's administrative code.

According to the county clerk the typical office work week is 8:00 AM to 4:00 PM, Monday through Friday, and 8:00 AM to 12:00 PM on Saturday. Deputies are required to work five days a week for seven hours a day with a one hour paid lunch each day with the exception of Saturdays. On Saturdays a deputy will work four hours and be paid for eight of them. In addition to this if a deputy works on a Saturday their day off will be the Friday before to ensure they do not exceed working five days a week. Because the Saturday shift is only four hours worked, but eight hours paid, the timesheets will not match the payroll summary reports given by the county payroll officer. The county clerk also added that the employees use check marks to indicate a typical eight-hour workday on their timesheets. The county clerk said the leave balance reports not agreeing was an oversight.

BRECKINRIDGE COUNTY
 JARED BUTLER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2021
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Breckinridge County Clerk Does Not Have Adequate Controls Over Timesheet Preparation And Payroll Processing (Continued)

By not having adequate controls over timesheets the county clerk is not in compliance with KRS 337.320. Also, the policy and procedures manual the county clerk follows contradicts the Breckinridge County Fiscal Court's policy and procedures manual. In addition, by not properly filling out the timesheet and including hours worked the employee may or may not be eligible for state retirement.

KRS 337.320(1) states, in part, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee[.]" The county payroll office requires that the completed timesheets are to be signed by the employee. The timesheets are to be verified and signed by the supervisor and submitted to the county payroll officer. Failure by employee to submit time sheets by deadline will result in paycheck not being issued until the following pay periods.

The Breckinridge County Fiscal Court Policy and Procedures Manual defines a workweek as "[f]ull-time employees are scheduled according to each individual office or departments needs and lunch breaks are exclusive. Essential employees are scheduled to be on duty and lunch breaks are inclusive." The overtime policy for the fiscal court states, "[i]n order to determine whether an employee will receive overtime pay for hours worked in excess of forty (40) hours per week, each class shall be declared "exempt" or "non-exempt" in accordance with provisions of existing labor laws. Exempt employees shall not be compensated in cash for overtime worked. Non-exempt employees shall receive overtime pay at the rate of one and one-half (1.5) times the hourly wages for actual hours worked in excess of (40) hours in any work week. Non-exempt employees who are required to work all seven (7) days in a workweek shall receive overtime pay at the rate of one and one-half times the hourly wage for all hours." Additionally, good internal controls dictate that timesheets be complete accurately.

We recommend the county clerk ensure timesheets document actual hours worked, are signed by the employee, and verified by a supervisor. We also recommend the county clerk update his personnel policy in order to remain compliant with the fiscal court's policy and that internal controls be evaluated and implemented in order to ensure timesheets are prepared accurately and support payroll charges.

County Clerk's Response: Clerk has created a spreadsheet that will show hours worked by Part-Time employees. Deputies have been notified to complete timesheets before submitting to clerk.

2021-003 The Breckinridge County Clerk Did Not Make Deposits Daily

During calendar year 2021, deposits for the Breckinridge County Clerk's office were not deposited on a daily basis. Deposits were tested for the period of April 5, 2021 through April 9, 2021. Receipts were batched daily, but deposits were only taken to the bank three times for the period tested. The receipts for April 5 and April 6 in the amounts of \$45,196 and \$22,124, respectively, were not taken to the bank until April 9. Receipts for April 7 in the amount of \$28,515 were not taken to the bank until April 14.

According to the bookkeeper, it has been more difficult in recent years to make deposits daily since the bank next door closed. Therefore, they usually only take the deposit to the bank every few days. By not making deposits on a daily basis, the opportunity for misappropriation or theft of receipts is increased. Additionally, the county clerk is not in compliance with DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*.

BRECKINRIDGE COUNTY
JARED BUTLER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Breckinridge County Clerk Did Not Make Deposits Daily (Continued)

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 performing daily check-out procedures and daily deposits intact into a federally insured banking institution. Also, good internal controls dictate that receipts be batched and deposited daily.

We recommend the Breckinridge County Clerk comply with the *County Budget Preparation and State Local Finance Officer Policy Manual* and ensure deposits are being made daily.

County Clerk's Response: Having the downtown bank branch closed makes this difficult to achieve with short staffing. We all will strive to complete this task.

2021-004 The Breckinridge County Clerk's Office Lacks Adequate Segregation Of Duties

The Breckinridge County Clerk's office lacks adequate segregation of duties. The bookkeeper performs numerous duties dealing with receipts and disbursements. The bookkeeper is responsible for preparing checks, posting to the receipts and disbursements ledgers, preparing monthly bank reconciliations, and preparing and reconciling the quarterly reports. Deputies prepare MVR reports, collect receipts, and prepare deposits. Although documented compensating controls were noted to offset these control deficiencies, the auditor determined, during the performance of the audit, that these compensating controls were not functioning as intended, and failed to detect several deficiencies.

The county clerk indicated this condition is a result of a limited budget, which restricts the number of employees the county clerk can hire for accounting functions. The lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, writing checks, recording receipts and disbursements, reconciling bank statements, and preparing and reconciling quarterly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the clerk separate the duties over the receipt, disbursement, and reconciliation functions listed above. If this is not possible, due to limited number of staff, then strong oversight over those areas should occur and involve the clerk or an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of this review.

County Clerk's Response: With such a small staff this is extremely difficult. Deputies will be crossed trained in an attempt to complete this task.