

**REPORT OF THE AUDIT OF THE  
CAMPBELL COUNTY  
CLERK**

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



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

**Independent Auditor's Report**

The Honorable Steve Pendery, Campbell County Judge/Executive  
The Honorable Jim Luersen, Campbell County Clerk  
Members of the Campbell County Fiscal Court

**Report on the Audit of the Financial Statements**

**Opinions**

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Campbell County, Kentucky and the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2021, and the related notes to the financial statements.

*Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying financial statements present fairly, in all material respects, the receipts and disbursements of the Campbell County Clerk and the receipts, disbursements, and fund balances of the Campbell County Clerk's operating fund and county fund with the state treasurer 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 Opinions on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Campbell 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, 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 Campbell 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 Steve Pendery, Campbell County Judge/Executive  
The Honorable Jim Luersen, Campbell County Clerk  
Members of the Campbell 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 statements, the financial statements are prepared by the Campbell 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 statements 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 Statements**

Management is responsible for the preparation and fair presentation of these financial statements 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 the financial statements that are 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 Campbell 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 Campbell 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 Steve Pendery, Campbell County Judge/Executive  
The Honorable Jim Luersen, Campbell County Clerk  
Members of the Campbell County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2022, on our consideration of the Campbell 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Campbell 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 Campbell County Clerk Is Not Properly Handling Delinquent Tax Sale Deposits
- 2021-002 The Campbell County Clerk Has Inadequate Internal Controls Over Receipts
- 2021-003 The Campbell County Clerk Has Inadequate Internal Controls Over Payroll

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

October 4, 2022

CAMPBELL COUNTY  
JIM LUERSEN, COUNTY CLERK  
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2021

Receipts

State Fees For Services		
Preparation of Tax Bills	\$ 6,103	
Registration of Voters	<u>53,717</u>	\$ 59,820
Fiscal Court		143,954
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	2,448,681	
Handicap Placard	4,930	
Usage Tax	11,300,802	
Tangible Personal Property Tax	11,523,939	
Notary Fees	32,376	
Lien Release Fees	38,566	
Miscellaneous Income	7,278	
Other-		
Marriage Licenses	22,320	
Deed Transfer Tax	681,312	
Delinquent Tax	700,598	
Delinquent Tax Deposits	<u>496</u>	26,761,298
Fees Collected for Services:		
Recordings-		
Deeds, Easements and Contracts	148,163	
Real Estate Mortgages	704,476	
Chattel Mortgages and Financing Statements	182,939	
Powers of Attorney	8,849	
Releases	25,854	
All Other Recordings	85,128	
Affordable Housing Trust	139,662	
Storage Fees	238,970	
Charges for Other Services-		
Candidate Filing Fees	1,600	
Copywork	30,257	
Postage	<u>30,354</u>	1,596,252
Other:		
Refunds/Overpayments	317,384	
Miscellaneous Reimbursements	25,605	
Center for Tech & Civic Life Grant	<u>39,820</u>	382,809
Total Receipts		28,944,133

The accompanying notes are an integral part of the financial statements.



CAMPBELL COUNTY  
 JIM LUERSEN, COUNTY CLERK  
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS  
 For The Year Ended December 31, 2021  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,695,916	
Handicap Placards	3,904	
Usage Tax	10,961,132	
Tangible Personal Property Tax	3,364,887	
Licenses, Taxes, and Fees-		
Delinquent Tax	69,991	
Legal Process Tax	81,460	
Affordable Housing Trust	<u>139,662</u>	\$ 16,316,952

Payments to Fiscal Court:

Tangible Personal Property Tax	893,930	
Delinquent Tax	111,315	
Deed Transfer Tax	<u>647,246</u>	1,652,491

Payments to Other Districts:

Tangible Personal Property Tax	6,910,864	
Delinquent Tax	<u>317,773</u>	7,228,637

Payments to Sheriff 55,775

Payments to County Attorney 95,628

Other Regulatory Payments:

Delinquent Tax Deposit Refunds	496	
Other Refunds	<u>316,475</u>	316,971

Other Disbursements:

Purchase of Voting Machines	39,800	
Return of Unexpended Grant Funds	<u>25</u>	<u>39,825</u>

Total Disbursements \$ 25,706,279

Net Receipts 3,237,854

Payments to State Treasurer:

75% Operating Fund *	2,556,860	
25% County Fund	<u>675,949</u>	<u>3,232,809</u>

Balance Due at Completion of Audit \$ 5,045

\* Includes reimbursed expenses in the amount of \$529,011 for the audit period.  
 See Note 1 of Notes to Financial Statements.

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY  
JIM LUERSEN, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2021

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2021	\$ 425,212	\$	\$ 425,212
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,556,860		2,556,860
Fees Paid to State - County Funds (25%)		675,949	675,949
Total Funds Available	<u>2,982,072</u>	<u>675,949</u>	<u>3,658,021</u>
<u>Disbursements</u>			
Campbell County Fiscal Court		675,949	675,949
Personnel Services-			
Official's Statutory Maximum	124,580		124,580
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	4,373		4,373
Deputies' Salaries	880,304		880,304
Overtime Gross	54,702		54,702
Employee Benefits-			
Employer's Share Social Security	83,376		83,376
Employer's Share Retirement	270,624		270,624
Employer's Share Health Insurance	366,569		366,569
Employer's Share Dental Insurance	19,891		19,891
Employer's Share Life Insurance	1,275		1,275
Workers' Compensation	920		920
Unemployment Insurance	439		439
Contracted Services-			
Office Equipment Maintenance	45,602		45,602
Software Service	35,760		35,760
Document Shredding	1,132		1,132

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY  
JIM LUERSEN, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS  
For The Year Ended December 31, 2021  
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements</u> (Continued)			
Other Charges-			
Office Supplies	\$ 33,002	\$	\$ 33,002
Clerk Bonds	21,251		21,251
Postage	19,796		19,796
Conventions	7,397		7,397
Dues	4,120		4,120
Travel	2,367		2,367
Capital Outlay			
Office Equipment	11,499		11,499
Alexandria Remodel	9,242		9,242
Total Disbursements	2,001,821	675,949	2,677,770
Fund Balance - December 31, 2021	\$ 980,251	\$ 0	\$ 980,251

The accompanying notes are an integral part of the financial statements.

CAMPBELL COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

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, from the county clerk as determined by the audit. KRS 64.830 requires an outgoing clerk to make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his or her term of office.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the county clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, fee official office revenues could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have 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:

- 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
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2021

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).

CAMPBELL COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 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 \$209,462, calendar year 2020 was \$240,675, and calendar year 2021 was \$270,624.

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 Kentucky Retirement System 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 clerk'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:

CAMPBELL COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 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)

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, 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 Kentucky Retirement Systems 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.

CAMPBELL COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 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, CERS 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.

KRS Annual Financial Report and Proportionate Share Audit Report

Kentucky Retirement Systems 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 Systems 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 Campbell 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 Campbell 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.

CAMPBELL COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2021  
 (Continued)

Note 4. Grant

The Campbell County Clerk received a COVID-19 Response grant from the Center for Tech and Civic Life in 2020 in the amount of \$42,282. At the beginning of 2021, \$39,825 of these funds remained. Funds totaling \$39,800 were expended during the year. The unexpended grant balance of \$25, was returned pursuant to the grant agreement on October 25, 2021.

Note 5. Imprest Cash Account

The Finance & Administration – County Fee Systems Branch authorized the Campbell County Clerk to administer an Imprest Cash Fund in the amount of \$7,500. This fund is to be used for expenses, such as postage and other necessary expenses \$1,000 or less that need to be paid in less than a 10 day turn around, except travel and payroll expenses.

Note 6. Fiduciary Accounts

A. Escrow Account

The Campbell 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	\$2,010
2016	\$2,471
2017	\$2,790
2018	\$2,083
2019	\$1,534
2020	\$3,688

B. Bond Account

The Campbell County Clerk deposited funds for mechanic's bonds into a custodial bank account. The beginning balance was \$14,093 on January 1, 2021. Total receipts were \$15,470 with no disbursements, leaving the account with a balance of \$29,563 on December 31, 2021.

C. Delinquent Tax Account

The Campbell County Clerk deposited partial payments for delinquent tax bills on properties of parties in bankruptcy into a custodial bank account. The beginning balance was \$57,592 on January 1, 2021. Total receipts were \$591 with no disbursements, leaving the account with a balance of \$58,183 on December 31, 2021.

D. Courthouse Commission Account

The Campbell County Clerk deposited tax receipts for a district that has been dissolved into a custodial bank account. The beginning balance was \$11,306 on January 1, 2021. There were no receipts or disbursements leaving the account with a balance of \$11,306 on December 31, 2021.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS 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  
Statements Performed In Accordance With *Government Auditing Standards*

**Independent Auditor's Report**

The Honorable Steve Pendery, Campbell County Judge/Executive  
The Honorable Jim Luersen, Campbell County Clerk  
Members of the Campbell 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 and Disbursements - Regulatory Basis of the County Clerk of Campbell County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2022. The Campbell County Clerk's financial statements are 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 statements, we considered the Campbell 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Campbell County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Campbell 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and another other 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 statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-003 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements 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 2021-002 to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Campbell County Clerk's financial statements are 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2021-001.

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

The Campbell 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 Campbell County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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

October 4, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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CAMPBELL COUNTY  
JIM LUERSEN, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

STATE LAWS AND REGULATIONS:

2021-001    The Campbell County Clerk Is Not Properly Handling Delinquent Tax Sale Deposits

The county clerk is not collecting deposits by third party purchasers of delinquent tax certificates. The county clerk allows third party delinquent tax purchasers to provide a blank check in lieu of a check worth 25% of the sum value of delinquent tax bills they desire to purchase. When the county clerk receives these blank checks, he locks them in a safe until the date of the tax sale. Once the third party purchases delinquent taxes on the date of the sale, the county clerk completes the blank check for the total amount owed. The county clerk was not aware that a deposit check needed to be deposited and cleared in a bank account to follow deposit requirements.

The county clerk is not in compliance with statutes and regulations related to the collection of advanced deposits from third party purchasers of delinquent tax bills. KRS 134.128 gives the Department of Revenue the authority to “promulgate administrative regulations to establish a process for the purchase and sale of certificates of delinquency to third parties.” 103 KAR 5:180 Section 3(2) states in part, “[a] third party purchaser's registration shall include...[t]he deposit required by the county clerk pursuant to Section 4 of this administrative regulation.” 103 KAR 5:180 Section 4(4) states in part that “[t]he county clerk shall: (a) Accept payment of the deposit in a method of payment that complied with KRS 134.126(1)(b).” KRS 134.126(1)(b) states in part that “[t]he county clerk may limit the acceptable methods of payment to those that ensure that the payment cannot be reversed or nullified due to insufficient funds.”

We recommend the county clerk require third party delinquent tax purchasers to provide a check worth 25% of the sum value of delinquent tax bills they desire to purchase as stated in Section 4 of 103 KAR 5:180. Further, we recommend the county clerk deposit all delinquent tax sale deposits in the bank when received to ensure compliance with relevant statutes and regulations.

*County Clerk's Response: This office created the deposit method used to handle the delinquent tax sale. It was ascertained that companies purchasing tax bills would have more flexibility to buy more tax bills if we could fill in the amount of the purchase after the tax sale by suppling our office with a blank check. Starting with the 2023 tax sale tax sale we will require deposits 25% of every bill wishing to be purchased to be deposited before the sale. This might hinder the amount of bills sold which will have a negative impact on our schools, libraries, health department and firehouses, but until the legislature changes the law those entities will just have to suffer.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2021-002    The Campbell County Clerk Has Inadequate Internal Controls Over Receipts

The Campbell County Clerk has inadequate internal controls over receipts in that:

- employees are sharing cash drawers,
- cash shortages are not being accounted for,
- daily checkout sheets are not documenting the subtotal amounts of receipt payment types, and
- receipt accounts are not properly classified on the fourth quarter report.

Employees in the recording section of the county clerk's office are using shared cash drawers. All section staff, including the section supervisor, are accepting receipts at shared terminals and using shared cash drawers. These drawers are spot counted throughout the day as time and business flow allows. At the end of each business day, the drawers are counted by an assistant and reconciled by the section supervisor.

CAMPBELL COUNTY  
 JIM LUERSEN, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2021  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2021-002 The Campbell County Clerk Has Inadequate Internal Controls Over Receipts (Continued)

A test of daily check-out sheets found the motor vehicle section had a cash shortage that was manually noted on the daily receipts ledger printout, but not recorded in the accounting software for the general ledger or point of sales system (POS). Also, this shortage was not recorded in the personnel file of the staff member assigned to the cash drawer that was short. A test of the daily check-out sheets found the recording section daily check-out reports did not include subtotals for payment types (i.e., cash, check, credit card, and accounts receivable) received to trace to deposit slips. A confirmation of payments received by an outside agency found that the receipts ledger accounts were not being properly classified on the fourth quarter report. Further investigation revealed the coding in the receipts ledger accounting software is not programed to classify accounts consistent with the training provided to the bookkeeping staff.

When access to a cash drawer is not restricted to an individual, no one individual can be held accountable for the proper accounting of funds in that drawer. This lack of direct accountability is also inconsistent with the county clerk's funds accountability in his policies and procedures manual. Not recording cash shortages and overages in the general ledger is a failure to record accurate financial information and prevents management from monitoring the effectiveness of internal controls. In addition, by not recording the occurrence of a cash drawer overage or shortage in the file of the employee assigned to the drawer, the county clerk is not enforcing his own personnel policies. Not providing subtotals for payment types make it impossible to compare to deposit slips for compliance with cash management requirements. Inaccurate account classifications on financial statements diminish their usefulness for stakeholders.

Strong internal controls dictate oversight and procedures to ensure accountability for public funds. This includes restricting access to cash drawers to single individuals. The Campbell County Clerk's Policies & Procedures Manual, Funds Accountability section states in part, "[e]mployees are expected to be accountable for the balancing of their funds at the close of business each day. Any variance between what should have been collected or distributed for a transaction...that causes an overage or accumulated amount in the cash drawer is a violation of this policy." This section further states, "[d]epartment managers are required to keep records of all funds accountability violation in their department." 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*, page 64 requires daily deposits to be made intact. This requires cash and checks received per the POS or daily check-out sheet to agree to the deposit slip. Strong internal controls dictate accurate financial statements to ensure their usefulness for stakeholders.

We recommend the Campbell County Clerk strengthen internal controls over receipts by:

- assigning each cash drawer to an individual staff member,
- recording any cash drawer overages or shortages in the receipts ledger and the personnel file of the individual assigned to the drawer,
- including in daily check-out reports subtotals for the payment types received, and
- working with the general ledger accounting software vendor to update account coding and train bookkeeping staff accordingly.

*County Clerk's Response: We will limit cash drawers to single individuals. We will document overages and shortages in a receipt's ledger and personnel file. We will work with our software vendor to update account coding and incorporate those into our reports. We will do deposits to reflect cash and checks as set forth in the POS.*



CAMPBELL COUNTY  
JIM LUERSEN, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2021-003    The Campbell County Clerk Has Inadequate Internal Controls Over Payroll

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The Campbell County Clerk has inadequate internal controls over payroll in that payroll amounts were not included on the fourth quarter report and the payroll budget was overspent. The county clerk's bookkeeping staff has not been entering the payroll distributions made through the state's KHRIS system in their general ledger software. These omitted distributions totaled \$1,790,323, a material amount. The county clerk has been monitoring the payroll distributions made through KHRIS in a separate spreadsheet that does not include miscellaneous employee insurance not paid out by the KHRIS system, resulting in ineffective monitoring of payroll related disbursements. The county clerk's fourth quarter report is incomplete and the county clerk overspent the payroll budget by \$14,001.

Strong internal controls dictate accurate financial statements to ensure their usefulness for stakeholders. 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* provides a template for county clerk's financial statements beginning on page 36. This form includes disbursements for official expenses including personal services and employee benefits. KRS 64.345(5) states in part "[i]n ...counties with a population of seventy thousand (70,000) or more, the number of deputies and assistants allowed to each officer and the compensation allowed to each deputy and assistant shall be fixed at reasonable amounts upon motion of each officer by the fiscal court by an order entered upon the fiscal court order book no later than January 15 of each year."

We recommend the Campbell County Clerk strengthen internal controls over payroll by entering all disbursements, including payroll amounts made by the state on their behalf, on the ledger and quarterly reports. We also recommend the county clerk monitor all payroll expenses to ensure the budget is not overspent and request budget amendments from the fiscal court when needed.

*County Clerk's Response: We will work with our software vendor to get better internal control over our payroll. This should enable us to include payroll amounts made by the state on our behalf and be incorporated into our ledger and quarterly reports. This will also enable us to include payroll amounts on our Fourth Quarter budget which should enable us to better monitor our payroll so as not to exceed our budget. Deputies and assistant's compensation will be recorded with the Clerk's budget.*