

**REPORT OF THE AUDIT OF THE  
GREEN 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 John H. Frank, Green County Judge/Executive  
The Honorable Jessica Baker, Green County Clerk  
Members of the Green 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 Green 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 Green 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 Green 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 Green 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 John H. Frank, Green County Judge/Executive  
The Honorable Jessica Baker, Green County Clerk  
Members of the Green 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 Green 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 Green 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 Green 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 John H. Frank, Green County Judge/Executive  
The Honorable Jessica Baker, Green County Clerk  
Members of the Green County Fiscal Court

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2022, on our consideration of the Green 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 Green 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 Green County Clerk Does Not Have Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2021-002 The Green County Clerk Did Not Reconcile The Revolving Payroll Account And Failed To Properly Transfer Gross Salaries And Employer Share Social Security To The Payroll Account
- 2021-003 The Green County Clerk's Usage Tax Account Was Not Reconciled To Zero Monthly
- 2021-004 The Green County Clerk Did Not Transmit Payment To State For Usage Tax, Tangible Personal Property Tax, And License Collections Timely
- 2021-005 The Green County Clerk's Office Does Not Have Proper Controls Over Disbursements
- 2021-006 The Green County Clerk's Office Does Not Have Adequate Controls Over The Receipt Process
- 2021-007 The Green County Clerk Does Not Have Adequate Controls Over Payroll
- 2021-008 The Green County Clerk Did Not Prepare Payroll Tax Reports Accurately Or Timely

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H.", with a stylized flourish at the end.

Mike Harmon  
Auditor of Public Accounts  
Frankfort, KY

August 2, 2022

GREEN COUNTY  
JESSICA BAKER, 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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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	434,049
Usage Tax		575,327
Tangible Personal Property Tax		1,121,035
Notary Fees		3,218
Lien Release Fees		9,486
Miscellaneous Income		667

Other-

Marriage Licenses		3,400
Deed Transfer Tax		45,603
Delinquent Tax		134,623
		2,327,408

Fees Collected for Services:

Recordings-

Bail Bonds		212
Chattel Mortgages and Financing Statements		29,747
Deeds, Easements, and Contracts		23,237
Leases		1,026
Liens and Lis Pendens		2,607
Powers of Attorney		2,167
Releases		22,238
Real Estate Mortgages		35,765
Affordable Housing Trust		14,082
Wills and Estate Settlements		1,716
Storage Fees		25,330
All Other Recordings		6,979

Charges for Other Services-

Candidate Filing Fees		1,690
Copy Work		1,057
Postage		930
Overpayments		1,029
		169,812

Interest Earned		424

Total Receipts		2,564,391
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The accompanying notes are an integral part of this financial statement.



GREEN COUNTY  
 JESSICA BAKER, 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 \$ 319,286

Usage Tax 558,387

Tangible Personal Property Tax 414,212

Licenses, Taxes, and Fees-

Delinquent Tax 11,623

Legal Process Tax 11,373

Affordable Housing Trust 14,082 \$ 1,328,963

Payments to Fiscal Court:

Tangible Personal Property Tax 98,979

Delinquent Tax 10,428

Deed Transfer Tax 43,323 152,730

Payments to Other Districts:

Tangible Personal Property Tax 563,004

Delinquent Tax 72,507 635,511

Payments to Sheriff 10,515

Payments to County Attorney 17,838

Tax Bill Preparation 2,287

Other Regulatory Payments:

Other Refunds 1,369

Operating Disbursements:

Personnel Services-

Deputies' Salaries 107,071

Employee Benefits-

Employer's Share Social Security 15,574

Contracted Services-

Contract Labor 300

Microfilming and Indexing Records 22,539

Employee Training Programs 442

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

GREEN COUNTY  
 JESSICA BAKER, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2021  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Materials and Supplies-		
Office Supplies	\$ 10,925	
Other Charges-		
Dues	1,870	
Postage	2,846	
Telephone and Internet	<u>3,964</u>	<u>\$ 165,531</u>
Total Disbursements		<u>\$ 2,314,744</u>
Net Receipts		249,647
Less: Statutory Maximum		<u>89,610</u>
Excess Fees		160,037
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>3,280</u>	<u>6,880</u>
Balance Due Fiscal Court at Completion of Audit*		<u>\$ 153,157</u>

\* - The county clerk presented a check to the fiscal court for excess fees in the amount of \$150,000 on March 16, 2022.

GREEN 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).

GREEN 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%

GREEN 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, 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.

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.

GREEN 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 Green 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 Green 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.

Note 4. Lease Agreements

The Green 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
Computer Software	\$ 1,320	60 months	June 30, 2026	\$ 71,280
Computer Hardware	1,204	60 months	June 30, 2026	65,016
Totals	<u>\$ 2,524</u>			<u>\$ 136,296</u>

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 John H. Frank, Green County Judge/Executive  
The Honorable Jessica Baker, Green County Clerk  
Members of the Green 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 Green 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 2, 2022. The Green 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 Green 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 Green County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Green 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, 2021-004, 2021-005, 2021-006, 2021-007, and 2021-008 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 Green 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 2021-004, 2021-005, 2021-006, 2021-007, and 2021-008.

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

The Green 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 Green 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 2, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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GREEN COUNTY  
JESSICA BAKER, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2021

FINANCIAL STATEMENT FINDINGS:

2021-001    The Green County Clerk Does Not Have Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

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This is a repeat finding and was included in the prior year audit report as finding 2020-001. The county clerk and deputies collecting receipts also close out cash drawers, prepare daily checkout sheets, prepare deposit tickets, prepare daily reports, prepare, and sign checks, and post to the receipts and disbursements ledgers. In addition, the county clerk prepares weekly, monthly, and quarterly reports, and reconciles the bank accounts. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and reconciliations. No documented compensating controls were noted to offset this control deficiency.

According to the county clerk, a lack of segregation of duties existed because a limited number of employees were available to properly segregate job duties.

The lack of adequate segregation of duties provides an environment in which an individual could manipulate financial records and misappropriate or misdirect public funds. The following deficiencies occurred due to the lack of segregation of duties over these areas:

- The county clerk did not properly reconcile the payroll revolving account and failed to properly transfer payroll amounts to the account as reported in finding 2021-002.
- The county clerk did not reconcile the usage tax account to zero monthly as reported in finding 2021-003.
- The county clerk did not transmit payments to the state for usage tax, tangible personal property tax, and license collections timely as reported in finding 2021-004.
- The county clerk did not have adequate internal controls over disbursements as reported in finding 2021-005.
- The county clerk did not have adequate internal controls over the receipts process as reported in finding 2021-006.
- The county clerk did not have adequate internal controls over the payroll process as reported in finding 2021-007.
- The county clerk did not prepare payroll tax reports accurately or timely as reported in finding 2021-008.

Segregation of duties over receipts, disbursements, and reconciliations or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

We recommend the county clerk separate duties over receipts, disbursements, and reconciliations. If these duties cannot be separated due to limited staff or limited budget, 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 review.

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

GREEN COUNTY  
 JESSICA BAKER, COUNTY CLERK  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-002 The Green County Clerk Did Not Reconcile The Revolving Payroll Account And Failed To Properly Transfer Gross Salaries And Employer Share Social Security To The Payroll Account

As of December 31, 2021, the payroll revolving account had a negative cash balance of \$103 after accounting for all receivables and liabilities. The county clerk transferred lump sum amounts to the payroll account instead of transferring the exact amount needed each pay period to cover gross wages and employer share of social security.

This was allowed to occur due to the lack of controls over the payroll account and the amounts transferred each payroll period. By not transferring the exact amount to cover payroll each period, this created an overpayment of \$8,137 to the payroll account. The county clerk tried to correct the error by transferring \$8,240 back to the fee account creating a negative cash balance.

A payroll revolving account is created for the payment of compensation to employees and distribution of all amounts withheld therefrom pursuant to law and amounts authorized by employees to be withheld pursuant to law. The payroll revolving account is a clearing account and should reconcile to a zero balance at the end of each pay period. Therefore, only the exact amount needed to cover the payroll expenditures should be transferred to the revolving account.

We recommend the county clerk properly reconcile the payroll account to a zero balance each month after accounting for all receivables and liabilities. Also, strong internal controls over this account should be implemented to ensure proper amounts are transferred and reported correctly.

*County Clerk's Response: As of August 8, 2022, myself along with another deputy will properly reconcile the payroll account to a zero balance each month. Gross salaries were properly paid, social security was not an issue, as we did not have to recalculate the misfindings because the amount was so little.*

**Auditor's Reply:** The total amount overpaid to the payroll account during the year was \$8,137. This overpayment was not the result of miscalculating employees' gross salaries and social security; but rather the result of miscalculating the total amount of payroll to be paid from the payroll revolving account each pay period.

2021-003 The Green County Clerk's Usage Tax Account Was Not Reconciled To Zero Monthly

The county clerk's office did not document the reconciliation of the usage tax account to a zero balance each month. The June 15, 2021 deposit of fees collected by the county clerk in the amount of \$715 was erroneously deposited to the usage tax account instead of the county clerk's 2021 fee account.

This was allowed to occur due to the lack of controls over the usage tax account. After ACH transfers are made from the fee account, the county clerk does not do a separate bank reconciliation for this account since it is simply an in and out account for usage and license tax payments to the state by ACH.

As a result of not reconciling the account, the county clerk did not discover the erroneous fee deposit to the usage tax account until February 2022 (8 months later); when the auditor conducting the 2021 MVR audit notified her of the error.

GREEN COUNTY  
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 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-003 The Green County Clerk's Usage Tax Account Was Not Reconciled To Zero Monthly (Continued)

Due to the nature of revolving accounts, only the funds necessary to pay the state based on motor vehicle reports are transferred from the fee account electronically. Therefore, the reconciled balance each month of the usage tax revolving account should be \$0 after accounting for all receivables and liabilities. Strong internal controls over this account should be implemented to ensure proper amounts are transferred and reported.

We recommend the county clerk reconcile the usage tax account monthly to zero to ensure electronic transfers and payments are being accounted for properly between accounts.

*County Clerk's Response: The usage tax account does not have to be reconciled monthly because if any reports are wrong, I will find the mistake weekly. As we do these reports every week. The \$715.00 that the auditors are referring to was an amount that they ask to be moved. As of today, August 8, 2022, the usage bank statement will be reconciled monthly.*

Auditor's Reply: The usage tax account should be reconciled monthly so that any errors may be found and corrected timely. Auditors discovered the county clerk had deposited \$715 in fee collections to the usage tax account eight months after the original deposit was made and informed the county clerk these monies needed to be transferred to the correct account.

2021-004 The Green County Clerk Did Not Transmit Payment To State For Usage Tax, Tangible Personal Property Tax, And License Collections Timely

The Green County Clerk did not call in or transmit usage tax collections, tangible personal property tax, or license collections to the state timely. For the four weeks tested, usage tax collections were transferred to the local usage tax account late four of 23 days and the call-ins to transmit payment to the state were late four of 23 days. In addition, call-ins to transmit payment to the state for tangible personal property tax collections were late for seven of 12 months. Also, call-ins to transmit payment to the state for license collections were late for one of the four weeks tested. Payments were late as follows:

Usage Tax Collections

Week	Date	Days Paid Late	Days Paid Late	Amount Paid Late
		To Usage Tax Account	To State	
11	3/11/2021	3	3	\$ 5,185
11	3/13/2021	2	2	268
28	7/9/2021	2	2	2,202
47	11/17/2021	1	1	2,305
				<u>\$ 9,960</u>

GREEN COUNTY  
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 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-004 The Green County Clerk Did Not Transmit Payment To State For Usage Tax, Tangible Personal Property Tax, And License Collections Timely (Continued)

Tangible Personal Property Tax

<u>Month</u>	<u>Date Due</u>	<u>Call-In Date</u>	<u>Days Paid Late To State</u>	<u>Amount Paid Late</u>
March 2021	4/10/2021	4/13/2021	3	\$ 85,772
May 2021	6/10/2021	8/31/2021	82	24,412
June 2021	7/10/2021	8/31/2021	52	29,679
July 2021	8/10/2021	8/31/2021	21	27,936
August 2021	9/10/2021	9/15/2021	5	29,061
October 2021	11/10/2021	11/18/2021	8	24,238
December 2021	1/10/2022	1/18/2022	8	22,286
				<u>\$ 243,384</u>

License Collections

<u>Week</u>	<u>Dates</u>	<u>Days Paid Late To State</u>	<u>Amount Paid Late</u>
28	7/5/2021-7/11/2021	2	\$ 2,429

The county clerk stated she was busy and sometimes didn't get her reports done on time. She also stated she had trouble with the call-ins for the state tangible personal property tax being accepted by the state's system. The state changed the process for submitting tangible personal property tax and the county clerk didn't realize the process had changed.

As a result, the county clerk did not pay the state usage tax, tangible personal property tax, and license collections timely. Failure to pay the state usage tax, tangible personal property tax, and license timely can result in penalties and interest being assessed by the state.

Proper internal controls over usage tax and license collections requires amounts due be called in to the state daily for usage tax and weekly for license. All reports, call-ins, and payments should be reviewed by a responsible individual to ensure accuracy. The review should be documented with initials of reviewer and date reviewed.

KRS 138.464(1) states, "[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period."

KRS 131.155(2)(c) states, in part, "the clerk shall deposit motor vehicle usage tax and sales and use tax collections in the clerk's local depository account not later than the next business day following receipt. The clerk shall cause the funds to be electronically transferred from the clerk's local depository account to the State Treasury in the manner and at the time prescribed by the department[.]"



GREEN COUNTY  
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 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-004 The Green County Clerk Did Not Transmit Payment To State For Usage Tax, Tangible Personal Property Tax, And License Collections Timely (Continued)

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Additionally, KRS 134.815(1) states, “[t]he county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding months, less the collection fee of the county clerk, which shall be deducted before payment to the depository.” Furthermore, KRS 186.230(5) states the clerk shall “[r]eport and remit each Monday to the Transportation Cabinet all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period.”

We recommend either the county clerk or a deputy reconcile the amounts reported for usage tax and license on the weekly reports and tangible personal property tax on the monthly report to the call-ins and the payments to the state to ensure payments are made timely.

*County Clerk's Response:* As for the usage tax, we do weekly reports and catch any misfindings in a week if the payment was called in later. There has never been any penalty or late fee tacked on, so this does not cost the taxpayers any extra money.

*Auditor's Reply:* The county clerk should comply with the applicable statutes and make the payments when required. While penalties and interest were not levied on these late payments during 2021, the state has the authority to assess penalties and interest on any late payments made in the future.

2021-005 The Green County Clerk's Office Does Not have Proper Controls Over Disbursements

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The Green County Clerk's office lacks proper controls over disbursement procedures. The following exceptions were noted during disbursements testing:

- One disbursement out of ten tested was paid by statement only with no invoices attached.
- Six disbursements out of ten tested were not paid within 30 days of receipt of the invoice. Two of the six late disbursements were for invoices dated in 2019 and 2020.
- Three of the six disbursements paid late included late fees and/or interest in the total amount of \$19.
- The county clerk did not maintain an invoice or receipt for one of the ten disbursements tested totaling \$63.
- Dual signatures were not noted on cancelled checks for five of the ten disbursements tested. These disbursements were signed by the county clerk only.
- Seven out of 12 monthly lease payments for computer software and hardware were paid late.

These exceptions were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls. The county clerk stated she was not sure if the invoices from 2019 and 2020 were old invoices the companies had resent, or if she had misplaced the bills in the prior years. Further, the county clerk was not aware that late penalties and interest are not allowable disbursements of the office.

These deficiencies could result in inaccurate reporting and misappropriation of assets. By not including detailed invoices with statements, the county clerk or reviewer is not able to verify checks are being written for allowable disbursements. In addition, failure to pay disbursements on time resulted in payment of finance charges and late fees by the county clerk.

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 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-005 The Green County Clerk's Office Does Not Have Proper Controls Over Disbursements (Continued)

Good internal controls dictate the county clerk should monitor disbursements to ensure compliance with state laws and regulations and contract agreements so that payments are timely to avoid penalties and interest charges.

KRS 65.140(2), states, in part, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" Per the software and hardware license and service agreements, "Licensee shall pay each invoice by due date." The invoices reflect the due date is the 21<sup>st</sup> day of each month.

In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the county clerk strengthen controls over disbursements to ensure invoices are paid timely and properly supported. We also recommend the county clerk's office monitor the disbursements to ensure all contractual obligations are met and all disbursements are for allowable purposes. Further, we recommend the county clerk deposit personal funds totaling \$82 to reimburse her 2021 fee account for the \$19 in disallowed fees and interest charged on late payments and the \$63 disbursement that lacked supporting documentation.

*County Clerk's Response: There was no money payed out using tax dollars, I, myself paid the extra fee of \$19.00. Please keep in mind, I am a frontline clerk. A bookkeeper has been hired to help with these duties.*

Auditor's Reply: Based on the auditor's recommendation, at the conclusion of the audit the county clerk presented auditors with a personal check to reimburse the 2021 fee account for the disallowed disbursements.

2021-006 The Green County Clerk's Office Does Not have Adequate Controls Over The Receipt Process

The Green County Clerk's office lacks adequate controls over the receipts process. The following exceptions were noted during receipts testing:

- In August 2021, the county clerk deposited a check to her 2021 fee account for \$39 from the state board of elections dated May 8, 2020. The county clerk received the check in May 2020. Since the check date was more than a year before the date of deposit, the bank returned the check as a stale dated check.
- Auditors were not able to trace a \$63 check from the state board of elections to the county clerk's bank deposits or receipts ledger.
- Deposits for two of the six days tested during daily receipts testing were prepared by the bank, not the county clerk or a deputy. The bank's deposit ticket does not include a breakdown of cash and checks deposited.
- Deposits for two of the six days tested were not deposited daily.
- Credit card receipts for January and February 2022 were deposited to the clerk's 2021 fee account in error. The county clerk transferred the February receipts to her 2022 fee account in March 2022. The January credit card receipts totaling \$17,562 were not transferred by the county clerk and remain in her 2021 fee account.

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 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-006 The Green County Clerk's Office Does Not Have Adequate Controls Over The Receipt Process  
 (Continued)

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These exceptions were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls. The county clerk stated she does not recall receiving the \$63 check from the state board of elections. Also, she stated that deputies occasionally take monies collected to the bank in a bank bag and leave it with the teller to prepare the daily deposit. When the bank prepares the deposit, the deposit ticket only shows the total amount deposited.

A lack of strong internal controls over the receipts process increases the risk of misappropriation of funds or theft. As a result of the bank preparing deposits and deposit tickets, fee collections of \$715 for one day tested were deposited to the county clerk's usage tax account in error. These funds should have been deposited to the county clerk's fee account instead. By not depositing funds timely to the correct accounts and comingling funds from different calendar years, the county clerk runs the risk of inaccurate reporting to external agencies and to the fiscal court.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds in the *County Budget Preparation and State Local Finance Officer Policy Manual* includes, "daily deposits intact into a federally insured banking institution." The practice of making daily deposits intact reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft. Bank preparation of deposits and deposit tickets is not an internal control of the county clerk's office.

We recommend the county clerk strengthen controls over receipts to ensure all monies collected are deposited to the correct accounts timely. Further, we recommend the county clerk, or a deputy prepare all daily deposits and deposit tickets in the office before taking monies to the financial institution to be deposited.

*County Clerk's Response: The bank prepared the deposit slip because our new ones had not been delivered yet. The credit card company failed to transfer the money into the right account. I have confirmation that this was done in December 2021. This has never happened in the three years I've been clerk. The \$17,562.00 has been moved to the 2022 fee account. There was no missing money found.*

**Auditor's Reply:** As reported in the finding above, January 2022 credit card receipts totaling \$17,562 remain in the county clerk's 2021 fee account as of the date of this report.

2021-007 The Green County Clerk Lacks Adequate Controls Over Payroll

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The Green County Clerk lacks adequate controls over the payroll process. The following deficiencies were noted during payroll testing:

- The county clerk did not sign or initial any timesheets for the pay period tested, indicating timesheets are not reviewed by the county clerk.
- One employee's timesheet documented 43 hours worked, however the employee was paid for 47 hours.
- Payroll tax withholdings were incorrectly reported on 5 out of 6 deputies' W-2s.
- Paychecks for 17 out of 24 pay periods were prepared, dated, and issued to employees prior to the end of the pay period; therefore, employees received pay for time not yet earned.

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SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-007 The Green County Clerk Does Not Have Adequate Controls Over Payroll (Continued)

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These exceptions were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls over the payroll process. The county clerk manually prepares payroll and frequently posted incorrect withholding amounts to the payroll ledger book. Also, the pay date for a pay period is the same day as the last day of the pay period; therefore, payroll had to be processed prior to the end of pay period.

By not ensuring that timekeeping records are properly maintained and accurate, employees can be over or under compensated and the county clerk assumes the risk of employees disputing the number of hours worked. By not ensuring W-2s are accurate, the county clerk reported incorrect tax withholdings to the Internal Revenue Service and the Department of Revenue.

Due to receiving payroll checks prior to the end of the pay period, employees were being paid for time not yet earned, thus the county clerk was pre-paying for services, which is prohibited. In addition, there is a risk that employees will be paid for hours not actually earned.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county clerk's assets and those given the responsibility of accounting for them, as well as helping make certain the county clerk is in compliance with state statutes.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* that includes "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)"

KRS 45.340 states, in part, "[c]hecks shall be tendered to an officer or employee only after he has completed the work for which he is being paid and not later than fifteen (15) days after the designated pay period."

We recommend the county clerk ensure controls are properly put in place over payroll processing procedures by having all employee timesheets and W-2s prepared accurately and reviewing and approving all timesheets before checks are written. Further, we recommend the county clerk refrain from issuing payroll disbursements prior to the end of the pay period, ensuring compliance with DLG requirements and state statute.

*County Clerk's Response: Employees were paid the hours that were worked. If the 15<sup>th</sup> fell on a Monday, I paid employees on the Friday before. I assure you, they worked the hours they were paid. The employee that got paid 47 hours, the extra 4 hours was for holiday pay.*

**Auditor's Reply:** The above referenced part-time employee's timesheet documents 39 hours worked and four hours holiday pay during the pay period. According to the county clerk's personnel policy, part-time employees receive four hours holiday pay. Therefore, the employee should have been paid for 43 hours total. The employee's check was written for 47 hours.

GREEN COUNTY  
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 SCHEDULE OF FINDINGS AND RESPONSES  
 For The Year Ended December 31, 2021  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-008 The Green County Clerk Did Not Prepare Payroll Tax Reports Accurately Or Timely

The Green County Clerk did not prepare payroll tax reports or payroll liability payments accurately or timely. The following deficiencies were noted during payroll testing:

- All Forms 941, Employer's Quarterly Federal Tax Return, prepared by the county clerk have miscalculated balances due or overpayments.
- The county clerk overstated wages by \$540 and total taxes due by \$83 on the Form 941 for the second quarter of 2021.
- Forms 941 for the first, second, and third quarter of 2021 were filed late to the Kentucky Department of Treasury.
- Kentucky withholding tax payments for July, August, and October 2021 were paid late to the Kentucky Department of Revenue.
- Local withholding tax forms and payments for the first and second quarter of 2021 were filed and paid late to the City of Greensburg.

These deficiencies were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls over the payroll process. The county clerk manually prepares payroll and frequently posted incorrect withholding amounts to the payroll ledger book.

As a result of preparing inaccurate payroll tax reports, the county clerk overpaid the City of Greensburg \$11 for employees' local tax withholding for the year. The county clerk underpaid the Internal Revenue Service \$22 for employees' FICA and federal tax and the Kentucky Department of Revenue \$51 for employees' state tax withholding for the year.

Due to the late filing of payroll tax reports and late payment of payroll tax liabilities, the county clerk paid \$100 in penalties and interest to reporting agencies.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities timely to avoid penalties and interest charges.

According to the Internal Revenue Service Circular E Publication 15 Employer's Tax Guide, every employer is required by federal law to file each quarter an Employer's Quarterly Federal Tax Return with the Internal Revenue Service by the last day of the month that follows the end of the quarter. The returns should include total wages for all employees, income tax withheld from all wages, and FICA withheld.

103 KAR 18:150 Section 2(3)(b) states, "Revenue Form K-1 and the income tax withheld each month shall be filed and paid on or before the 15<sup>th</sup> day of the following month for each of the first eleven (11) months of the calendar year."

City of Greensburg Ordinance No. 2016-0317ORD, "Occupational License and Net Profits Tax," requires employers within the city limits to withhold tax, make a return and report to the city, and pay to the City of Greensburg the taxes withheld, on or before the end of the month following the close of each quarter.

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For The Year Ended December 31, 2021  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2021-008 The Green County Clerk Did Not Prepare Payroll Tax Reports Accurately Or Timely (Continued)

In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the county clerk strengthen internal controls over the payroll process to ensure payroll tax reports and payroll tax liability payments are accurate and submitted timely. Further, we recommend the county clerk deposit personal funds of \$100 to reimburse her 2021 fee account for the disallowed penalties and interest charged on late payments.

*County Clerk's Response: I saved the county money by taking on the responsibility of doing payroll in my office. I saved the county \$30,000 by taking this extra duty on. I now have a bookkeeper that helps with these duties. The amount miscalculated for was so little, no other action was needed. The gross wages were figured correctly. The only thing figured wrong on the W2 was the federal and state. Like I stated before, the amount was so little, nothing else had to be done. I am currently looking into new software to help with the issue.*

Auditor's Reply: Management has failed to correct issues previously communicated to her in prior audits. While the aggregate number of miscalculations, payroll errors, late penalties, and interest charged was not material during 2021, failure to correct these issues could lead to material misstatements and disallowed disbursements on the county clerk's financial statement in the future.