

**REPORT OF THE AUDIT OF THE  
SHELBY COUNTY  
CLERK**

**For The Year Ended  
December 31, 2023**



**ALLISON BALL  
AUDITOR OF PUBLIC ACCOUNTS  
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**ALLISON BALL**  
**AUDITOR OF PUBLIC ACCOUNTS**

**Independent Auditor's Report**

The Honorable Dan Ison, Shelby County Judge/Executive  
The Honorable Tony Harover, Shelby County Clerk  
Members of the Shelby 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 Shelby County, Kentucky, for the year ended December 31, 2023, 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 Shelby County Clerk for the year ended December 31, 2023, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws 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 Shelby County Clerk, as of December 31, 2023, 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 (GAS)*, issued by the Comptroller General of the United States, and the *Audit Program for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. 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 Shelby 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 Dan Ison, Shelby County Judge/Executive  
The Honorable Tony Harover, Shelby County Clerk  
Members of the Shelby 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 Shelby 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.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Shelby County Clerk's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **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 and GAS 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 and GAS, 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 Shelby 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 Shelby County Clerk's ability to continue as a going concern for a reasonable period of time.

The Honorable Dan Ison, Shelby County Judge/Executive  
The Honorable Tony Harover, Shelby County Clerk  
Members of the Shelby County Fiscal Court

**Auditor's Responsibilities for the Audit of the Financial Statement (Continued)**

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2024, on our consideration of the Shelby 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 Shelby 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 findings:

2023-001 The Shelby County Clerk Does Not Have Segregation Of Duties Over Bank Reconciliations And Payroll Processing

Respectfully submitted,



Allison Ball  
Auditor of Public Accounts  
Frankfort, KY

August 29, 2024

SHELBY COUNTY  
 TONY HAROVER, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2023

Receipts

State Fees For Services		\$	20,604
Fiscal Court			13,004
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,729,960	
Usage Tax		7,272,738	
Tangible Personal Property Tax		7,781,303	
Notary Fees		19,300	
Lien Release Fees		35,034	
Miscellaneous Income		8,118	
Other-			
Marriage Licenses		12,680	
Deed Transfer Tax		422,022	
Delinquent Tax		758,200	
Delinquent Tax Deposits		<u>719,765</u>	18,759,120
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		57,761	
Real Estate Mortgages		136,728	
Chattel Mortgages and Financing Statements		107,634	
Powers of Attorney		7,499	
Affordable Housing Trust		42,408	
Storage Fees		74,520	
All Other Recordings		90,383	
Charges for Other Services-			
Candidate Filing Fees		100	
Copy Work		3,486	
Postage		15,757	
Convenience Fee		<u>36,864</u>	573,140
Other:			
Miscellaneous Income		7,619	
Refunds		<u>28,171</u>	35,790

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



SHELBY COUNTY  
 TONY HAROVER, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2023  
 (Continued)

Receipts (Continued)

Interest Earned	\$ 49,471
Total Receipts	19,451,129

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,257,194
Usage Tax	7,038,190
Tangible Personal Property Tax	2,856,015

Licenses, Taxes, and Fees-

Delinquent Tax	54,270
Legal Process Tax	37,678
Affordable Housing Trust	42,408
	\$ 11,285,755

Payments to Fiscal Court:

Tangible Personal Property Tax	875,453
Delinquent Tax	50,729
Deed Transfer Tax	400,920
Storage Fee	74,520
	1,401,622

Payments to Other Districts:

Tangible Personal Property Tax	3,738,583
Delinquent Tax	435,081
	4,173,664

Payments to Sheriff 63,076

Payments to County Attorney 100,031

Tax Bill Preparation 8,819

Other Regulatory Payments:

Delinquent Tax Deposit Refunds	719,765
Other Refunds	45,896
	765,661

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

SHELBY COUNTY  
 TONY HAROVER, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2023  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	516,082
Employee Benefits-		
Employer's Share Social Security		46,805
Employer's Share Retirement		157,764
Employer's Paid Health Insurance		122,635
Contracted Services-		
Microfilming & Indexing Records		85,819
Office Equipment		6,958
Election Expenses		59,919
New Equipment		1,596
Materials and Supplies-		
Office Supplies		9,340
Books and Maps		60
Other Charges-		
Conventions and Travel		2,287
Dues		1,258
Transfer of Funds - previous yr fund		336
Miscellaneous		3,271
Postage		16,248
Convenience Fee		44,746
		<u>\$ 1,075,124</u>
Total Disbursements		<u>\$ 18,873,752</u>
Net Receipts		577,377
Less: Statutory Maximum		<u>109,714</u>
Excess Fees		467,663
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>1,246</u>	<u>4,846</u>
Excess Fees Due County for 2023		462,817
Payment to Fiscal Court - February 20, 2024		<u>462,817</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

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

SHELBY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2023

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 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 2023 services
- Reimbursements for 2023 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2023

The measurement focus of a fee official's financial statement is upon current financial resources. Per KRS 64.152(2), remittance of excess fees is due to the fiscal court when the county clerk makes their final settlement.

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).

SHELBY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2023  
(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 2021 was \$148,338, calendar year 2022 was \$168,396, and calendar year 2023 was \$157,764.

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 26.79 percent for the first six months and 23.34 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:

SHELBY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2023  
 (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 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.

SHELBY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2023  
 (Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

Kentucky Retirement Systems 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 Shelby 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 Shelby 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, 2023, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

SHELBY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2023  
 (Continued)

Note 4. Lease Agreements

A. The Shelby County Clerk's office was committed to the following lease agreements as of December 31, 2023:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2023</u>
Hardware	\$ 3,732	60 Months	7/31/2025	\$ 69,864
Postage Meter	\$ 173	63 Months	12/17/2026	\$ 6,234

Note 5. Subscription Based Information Technology Agreements

A. Computer Software – Financial Reporting

The Shelby County Clerk's office was committed to a 60-month subscription-based information technology agreement for acquisition and use of computer software for financial reporting. The agreement requires a monthly payment of \$3,002 for 60 months to be completed on July 31, 2025. The total lease liability balance of the agreement was \$57,038 as of December 31, 2023.

B. Computer Software – Payroll Processing

The Shelby County Clerk's office was committed to an annual subscription-based information technology agreement for acquisition and use of computer software for payroll processing. The agreement requires an annual payment of \$1,536. The total lease liability balance of the agreement was \$0 as of December 31, 2023.

Note 6. Fiduciary Account – Escrow Account

The Shelby County Clerk has an escrow account for checks from prior years that have not cleared. As of January 1, 2023, the balance of the account started at \$1,142. There were receipts of \$36 and disbursements of \$1,178. As statutorily required, the county clerk's office turned over the escrowed funds to the Kentucky State Treasurer as unclaimed property. This resulted in a zero balance in this account as of December 31, 2023.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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## ALLISON BALL 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 Dan Ison, Shelby County Judge/Executive  
The Honorable Tony Harover, Shelby County Clerk  
Members of the Shelby County Fiscal Court

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Shelby County Clerk for the year ended December 31, 2023, and the related notes to the financial statement and have issued our report thereon dated August 29, 2024. The Shelby 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.

### Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Shelby 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 Shelby County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelby 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 identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2023-001 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  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Report on Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Shelby 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Shelby County Clerk's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The Shelby County Clerk's response was not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

**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,



Allison Ball  
Auditor of Public Accounts  
Frankfort, KY

August 29, 2024

## SCHEDULE OF FINDINGS AND RESPONSES

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SHELBY COUNTY  
TONY HAROVER, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2023

INTERNAL CONTROL – MATERIAL WEAKNESS:

2023-001 The Shelby County Clerk Does Not Have Segregation Of Duties Over Bank Reconciliations And Payroll Processing

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This is a repeat finding and was included in the prior year audit reports as findings 2022-001 and 2022-002. The county clerk does not have segregation of duties related to bank reconciliations. The bookkeeper records receipts and disbursements in the ledger and performs the bank reconciliations. The county clerk works with the bookkeeper on the bank reconciliation for the clerk's office bank accounts, but there is no evidence of independent review of the work by someone who does not work with the ledger postings, deposits, or checks for disbursements. Also, the county clerk does not have segregation of duties related to payroll processing. The county clerk inputs payroll in the software program provided by the service organization company each pay period, and the company prepares payroll checks which are automatically deposited to employees' bank accounts. The service organization company prepares payroll tax reports and other payroll payments. The county clerk prepares checks to vendors for optional insurances his employees have (i.e. life and dental, etc.), records payments for taxes and insurance in the fee account disbursements ledger, and reconciles the payroll transactions in the bank account statements. The county clerk does not have segregation of duties over bank reconciliations and payroll processing as part of the internal control procedures for the office. A lack of segregation of duties over financial functions increases the risk that misstatements due to undetected errors or theft could occur. A lack of adequate segregation of duties could also result in undetected misappropriation of assets and inaccurate financial reporting.

KRS 46.010(2) requires, "each county treasurer, and each county officer who receives or disburses state funds, to keep an accurate account of receipts and disbursements, showing a daily balance of receipts and disbursements." KRS 46.010(3) requires, "all county officers handling state funds, other than taxes, to make an annual report to the Department for Local Government showing receipts and disbursements, and to make other financial statements as the Department for Local Government requires." Adequate segregation of duties is a basic internal control necessary to ensure the accuracy and reliability of financial reports.

We recommend the county clerk implement the following procedures:

- Designate someone who does not work on daily receipt collections, deposits, disbursement checks, or receipt and disbursement ledger postings to perform the bank reconciliations.
- Segregate functions of payroll processing, including inputting pay period information for each employee, approving payroll per pay period, and issuing payroll payments to employees, for payroll taxes and insurances.
- If it is not feasible for the county clerk to segregate duties over these two areas, the county clerk should implement compensating controls to ensure bank reconciliations and payroll processing are done accurately. Compensating controls should be evidenced by the reviewer's initials on supporting documentation.

*County Clerk's Response: The County Clerk or a Deputy Clerk other than the Bookkeeping Deputy Clerk will review or perform bank reconciliations. In July 2023, the County Clerk engaged an outside payroll vendor [vendor name redacted] to facilitate the processing of payroll. [Vendor name redacted] has an account analyst/representative monitor and assists the County Clerk with many aspects of issuing and reporting of payroll. [Vendor name redacted] also provides labor and wage laws expertise. Federal, state and local tax filings are completed by [vendor name redacted]. The County Clerk will designate a Deputy Clerk to review payroll processing.*