



Auditor of Public Accounts
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Harmon Releases Audit of Ballard County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Ballard County Clerk Katie Mercer. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the Ballard County Clerk in accordance with accounting principles generally accepted in the United States of America. The clerk's financial statement did not follow this format. However, the clerk's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 clerk audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Ballard County Clerk's Office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The Ballard County Clerk's Office does not have adequate segregation of duties over the accounting function of the clerk's office. The duties associated with the authorization of transactions, custody of cash, and recording of transactions are not properly segregated. Even though daily checkout procedures are performed by the deputy clerks on a rotating basis, the bookkeeper is still responsible for posting transactions to the ledgers, preparing the weekly reports, preparing checks, and reconciling the bank statements. The bookkeeper also works on the front line of the office and receives cash from customers. The county clerk reportedly reviews all of the work performed by the deputies; however, there was no documentation of her review on the records.

A lack of segregation of duties or strong oversight increases the risk that undetected errors or fraud could occur. According to the county clerk, this condition is the result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to.

A proper segregation of duties over the accounting function or the implementation of compensating controls is essential for providing protection from errors occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the Ballard County Clerk separate the duties involved in receiving receipts from customers, posting to the receipts and disbursements ledgers, preparing weekly reports, and performing monthly bank reconciliations. If, due to a limited budget, this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the procedure.

County Clerk's Response: Limited Staff.

The Ballard County Clerk has material weaknesses over the recordkeeping and reporting functions: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The Ballard County Clerk has material weaknesses over the recordkeeping and reporting functions of the office. The county clerk's receipts and disbursements ledgers contained numerous errors. Multiple transactions were either excluded from the ledgers, duplicated, or misclassified. Additionally, the county clerk's fourth quarter financial statement did not agree with the ledgers, daily checkout sheets, or cancelled checks. Receipts were understated by \$85,704 and disbursements were overstated by \$6,844.

The county clerk became a new official in calendar year 2019 and was not sure how to properly implement internal controls over the recordkeeping and reporting functions of the office. In 2020, the county clerk installed new accounting software. The lack of familiarity with the software also attributed to some of the accounting errors. The county clerk needed help to solve all the issues to prepare an accurate fourth quarter. Due to material weaknesses over the recordkeeping and reporting functions, the aforementioned errors occurred without being detected and corrected, thereby causing the fourth quarter financial statement to be materially misstated. Additionally, there is an increased risk of misappropriation. Also the county clerk is in noncompliance with KRS 68.210 and the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*.

Strong internal controls dictate that the ledgers be reconciled to the daily checkout sheets and the weekly and monthly tax reports to ensure all receipts and disbursements are properly accounted for and remitted to the appropriate authorities. Likewise, the ledgers should be reconciled to the bank statements each month. Furthermore, strong internal controls dictate that the ledgers be reconciled to the fourth quarter financial report to ensure that all receipts and disbursements are reported properly.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting. Fee officials use a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

We recommend the Ballard County Clerk strengthen internal controls over the recordkeeping and reporting functions of the office. Controls such as comparison of the tax reports to the ledgers, as well as, comparison of the ledgers to the bank statements should be implemented. We further recommend that the county clerk compare the ledgers to the fourth quarter financial report to ensure that they are in agreement.

County Clerk's Response: There were flaws in the 2020 computerized record keeping system. The program has been upgraded for 2021 with the reports developed that the auditors have requested.

The county clerk's responsibilities include collecting certain taxes, issuing licenses, maintaining county records and providing other services. The clerk's office is funded through statutory fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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