

**REPORT OF THE AUDIT OF THE
BALLARD COUNTY
CLERK**

**For The Year Ended
December 31, 2022**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

The Honorable Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard 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 Ballard County, Kentucky, for the year ended December 31, 2022, 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 Ballard County Clerk for the year ended December 31, 2022, 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 Ballard County Clerk, as of December 31, 2022, 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* 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 Ballard 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 Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard 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 Ballard 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 Ballard 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 Ballard 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 Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2023, on our consideration of the Ballard 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 Ballard 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:

- 2022-001 The Ballard County Clerk Failed To Properly Account For And Accurately Report The Fees And Taxes Of Her Office
- 2022-002 The Ballard County Clerk's Office Does Not Have Segregation Of Duties
- 2022-003 The Ballard County Clerk Did Not Account For Fees And Taxes In The Proper Fee Year
- 2022-004 The Ballard County Clerk Failed To Properly Settle Their 2019, 2020, And 2021 Fee Accounts
- 2022-005 The Ballard County Clerk Exceeded The Budget For Operating Disbursements By \$7,157
- 2022-006 The Ballard County Clerk Does Not Have Adequate Controls Over Employees' Leave Balances

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts
Frankfort, KY

August 30, 2023

BALLARD COUNTY
KATIE MERCER, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2022

Receipts

State Revenue Supplement	\$	69,806	
State Fees For Services			2,826
Fiscal Court			1,857
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	367,663	
Usage Tax		1,044,747	
Tangible Personal Property Tax		1,257,412	
Notary Fees		1,127	
Other-			
Fish and Game Licenses		6,485	
Marriage Licenses		2,600	
Occupational Licenses		870	
Deed Transfer Tax		45,251	
Delinquent Tax		93,826	
		<u>93,826</u>	2,819,981
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		30,603	
Real Estate Mortgages		40,175	
Chattel Mortgages and Financing Statements		22,528	
Powers of Attorney		1,466	
Affordable Housing Trust		8,418	
All Other Recordings		6,436	
Charges for Other Services-			
Candidate Filing Fees		2,570	
Copy Work		2,758	
Postage		6,821	
Lien Fees		6,298	
		<u>6,298</u>	128,073
Other:			
Overpayments		10,492	
Document Storage		14,740	
		<u>14,740</u>	25,232
Interest Earned			<u>218</u>
Total Receipts			3,047,993

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

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 291,590

Usage Tax 1,013,414

Tangible Personal Property Tax 467,750

Licenses, Taxes, and Fees-

Fish and Game Licenses 6,411

Delinquent Tax 7,785

Legal Process Tax 8,563

Affordable Housing Trust 8,418

Titles 558 \$ 1,804,489

Payments to Fiscal Court:

Tangible Personal Property Tax 182,043

Delinquent Tax 18,696

Deed Transfer Tax 42,988

Occupational Licenses 820

Document Storage Fee 6,310 250,857

Payments to Other Districts:

Tangible Personal Property Tax 555,167

Delinquent Tax 39,807 594,974

Payments to Sheriff

7,774

Payments to County Attorney

12,319

Tax Bill Preparation

2,085

Other Regulatory Payments:

Refunds 13,601

Executive Order Refunds 2,785 16,386

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

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2022
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	144,139	
Part-Time Salaries		14,384	
Contracted Services-			
Advertising		5,450	
Materials and Supplies-			
Office Supplies		4,194	
Other Charges-			
Conventions and Travel		2,452	
Dues		630	
Insufficient Fund Checks		50	
Miscellaneous		46	
Postage		139	
Election Expense		19,396	\$ 190,880
Capital Outlay-			
Office Equipment		33,527	
Total Disbursements			<u>\$ 2,913,291</u>
Net Receipts			134,702
Less: Statutory Maximum			<u>91,236</u>
Excess Fees			43,466
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for 2022			39,866
Payment to Fiscal Court - March 15, 2023			<u>34,611</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 5,255</u></u>

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

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2022

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 2022 services
- Reimbursements for 2022 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2022

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).

BALLARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2022
 (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 26.95 percent for the first six months and 26.79 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%

BALLARD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2022
(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.

BALLARD COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2022
 (Continued)

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

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 Ballard County Clerk maintained deposits of public funds with federally insured banking institutions as required by 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.

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 Ballard 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, 2022, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 5, 2022, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$8,011

Note 4. Service Agreement

In July 2019, the Ballard County Clerk entered into a service agreement with a third party for the right to use their software and technical support for a period of 48 months at a rate of \$11,300 per year.

Note 5. Fiduciary Account - Escrow Account

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

2021 \$139

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 Todd Cooper, Ballard County Judge/Executive
The Honorable Katie Mercer, Ballard County Clerk
Members of the Ballard 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 Ballard County Clerk for the year ended December 31, 2022, and the related notes to the financial statement and have issued our report thereon dated August 30, 2023. The Ballard 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 Ballard 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 Ballard County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard 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 certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 2022-001, 2022-002, 2022-003, and 2022-004 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Report on Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-005 and 2022-006 to be significant deficiencies.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Ballard 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 2022-001 and 2022-004.

Views of Responsible Official and Planned Corrective Action

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

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,



Mike Harmon
Auditor of Public Accounts
Frankfort, KY

August 30, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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BALLARD COUNTY
KATIE MERCER, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2022

FINANCIAL STATEMENT FINDINGS:

2022-001 The Ballard County Clerk Failed To Properly Account For And Accurately Report The Fees And Taxes Of Her Office

This is a repeat finding and was included in the prior year audit report as finding 2021-001. The Ballard County Clerk did not maintain accurate and complete ledgers. Some items were posted twice while other items were not posted at all. The county clerk does not reconcile the ledgers to the bank activity accurately. And finally, the fourth quarter financial report did not agree with the ledgers nor was it reconciled to the bank account. The receipts were overstated by \$21,137 and disbursements were overstated by \$10,413.

The county clerk failed to implement control procedures to ensure amounts being recorded and reported were accurate and complete. A lack of familiarity with the accounting software also contributed to some of the accounting errors. The county clerk's quarterly financial report required significant adjustments to accurately report fee receipts and disbursements for the calendar year.

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 implement daily, weekly, and monthly procedures to ensure amounts recorded are accurate and reconcile to bank activity.

County Clerk's Response: Procedures are being streamlined to ensure that all amounts are accurately reconciled, daily, weekly, monthly, and quarterly. The audit revealed that in 2022 taxing districts were accurately paid and that the office collected monies accurately, the miscommunication was in the accounting software's ability to accurately reflect the reporting of this money.

2022-002 The Ballard County Clerk's Office Does Not Have Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2021-003. The Ballard County Clerk's office does not have adequate segregation of duties over the accounting functions of the county 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 the work performed by the deputies, however, there was no documentation of her review of the records.

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 lack of segregation of duties or strong oversight increases the risk that errors or fraud could occur and not be detected.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-002 The Ballard County Clerk's Office Does Not Have Segregation Of Duties (Continued)

A proper segregation of duties over the accounting functions 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: With limited staff and budget, it is not possible to have complete segregation of duties. We do require accounting procedures to be cross-checked and are implementing a new balance sheet that will be helpful in this.

2022-003 The Ballard County Clerk Did Not Account For Fees And Taxes In The Proper Fee Year

This is a repeat finding and was included in the prior year audit report as finding 2021-004. The county clerk did not account for fees and taxes in the proper fee years. Due to errors made, 2022 fees and taxes were accounted for in prior and future fee years. Furthermore, prior year liabilities were settled out of the 2022 fee account, and 2022 account liabilities were settled out of the 2021 account. Once combined, the 2023 year owes the 2022 year \$6,056. The 2022 year owes the 2021 year \$609.

The county clerk failed to notify state agencies the proper fee account information for automatic deposits and ACH payments for motor vehicle taxes. Also, the county clerk failed to implement control procedures to ensure fee receipts and disbursements are accounted for in the proper fee year. The financial statements and ledgers for fee account years were incorrect, as they included receipts and disbursements from past and future fee years. This increases the risk of misappropriation and could lead to overpaying or underpaying excess fees.

Good internal controls dictate that procedures be in place to ensure receipts and disbursements are properly accounted for in the proper period.

We recommend the county clerk implement control procedures to ensure that fee receipts and disbursements are accounted for in the proper fee account.

County Clerk's Response: This is a carry-over from the previous audit that has been resolved and should not be an issue going forward.

2022-004 The Ballard County Clerk Failed To Properly Settle Her 2019, 2020, And 2021 Fee Accounts

This is a repeat finding and was included in the prior year audit report as finding 2021-002. The Ballard County Clerk has not properly settled fees for years 2019, 2020, and 2021. Though the county clerk has paid all liabilities for those fee years, including excess fees, using her personal funds, there are still outstanding items to be collected, and bank accounts to settle.

The county clerk did not have qualified accounting staff who were trained on the uniform system of accounts set forth in the *County Budget Preparation and State Local Finance Officer Policy Manual* and failed to oversee the daily activities of her office.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-004 The Ballard County Clerk Failed To Properly Settle Their 2019, 2020, And 2021 Fee Accounts
 (Continued)

The county clerk failed to accurately reconcile all accounts properly and remit excess fees after the prior year audits were complete. Additionally, the county clerk did not have proper internal controls in place to ensure that the annual settlements were presented to the fiscal court and proper amounts of excess fees were paid timely.

Due to the lack of management oversight, the amounts due per the 2019, 2020, and 2021 audits were not collected, and liabilities were not properly paid. Failure to settle accounts timely increases the risk that misappropriation could occur, and has impacted current year financial accounts, as the fee account years became comingled.

Good internal controls dictate a documented review of the financial activity, which includes the settlement of fee accounts each year. KRS 68.210 authorizes the state local finance officer to implement a system of uniform accounts that sets the minimum requirements for the handling of public funds for government officials. Books of original entry for receipts and disbursements along with monthly bank reconciliations are included in these requirements. Receipts and disbursements ledgers should be prepared from source documents and should be updated daily. Receipts should be posted from daily checkout sheets, while disbursements should be posted from the actual checks and debit memos, if applicable. Monthly bank reconciliations should also be prepared and should include all receivables and liabilities for that month. Each month, the bank statement should be reconciled to the receipts and disbursements ledgers.

KRS 64.152(1) states, “[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.” KRS 64.152(2) states, “[a]t the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office, including income from investments, which exceeds the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants. The settlement for excess fees shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810, and the provisions of this section shall not be construed to amend KRS 64.820.”

Additionally, KRS 64.820(1) states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit.” KRS 64.820(2) states, “[i]n the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.”

We recommend the county clerk establish procedures to ensure an annual settlement is presented to the fiscal court as prescribed in KRS 64.152 and excess fees are paid at that time. We also recommend the county clerk collect all receivables and pay all liabilities for the 2019, 2020 and 2021 calendar years.

County Clerk's Response: We are still trying to collect the monies owed from various taxing districts from previous audits. All requests have been made for repayment, currently all local taxing districts have reimbursed the Clerk's Office.

BALLARD COUNTY
 KATIE MERCER, COUNTY CLERK
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Year Ended December 31, 2022
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2022-005 The Ballard County Clerk Exceeded The Budget For Operating Disbursements By \$17,157

This is a repeat finding and was included in the prior year audit report as finding 2022-005. The Ballard County Clerk's operating disbursements exceeded the approved budget by \$17,157. The Ballard County Fiscal Court approved the county clerk's budget for operating disbursements at \$207,250; however, the county clerk expended \$224,407 on operating disbursements during the calendar year. No budget amendments were presented for approval.

This was due to the county clerk failing to monitor the budget throughout the year. Because the county clerk failed to monitor the budget, the county clerk expended more to operate the clerk's office than what was approved by fiscal court. This resulted in less excess fees being turned over to the county.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15 of each year. Good internal controls include procedures to ensure disbursements are within approved budget amounts or budget amendments are requested as needed.

We recommend the Ballard County Clerk monitor the budget throughout the year by implementing procedures to ensure disbursements are within budgeted limitations. If any disbursements exceed the budget, the county clerk should request budget amendments, as necessary, from the fiscal court, before year end.

County Clerk's Response: We did not present a budget amendment as we should have to edit our original budget. Budget Amendments will be submitted in a timely manner to the appropriate agencies to resolve this issue.

2022-006 The Ballard County Clerk Does Not Have Adequate Controls Over Employees' Leave Balances

The Ballard County Clerk does not have adequate controls over employees' leave balances. The county clerk does not keep a ledger of leave balances for her employees. The county clerk also does not follow the fiscal court's leave policy and did not submit an alternative leave policy for her office to fiscal court.

The county clerk chose to operate her office in a less formal manor, and not keep a ledger for leave balances. According to the county clerk, she was unaware that the county clerk's office was required to follow the leave policy set by fiscal court. By not keeping a leave ledger or following the county's policy, there is a heightened risk of employees not being compensated correctly. Employees can take more time off than they are allotted or receive less time than they are entitled to.

Strong internal controls require accurate record keeping when it comes to payroll and leave balances. Leave balances should be reviewed with timesheets to ensure employees are receiving the correct leave. The Ballard County Fiscal Court approved a vacation and sick leave policy for all county employees. This policy should be followed by the county clerk's office unless the county clerk submits her own policy to fiscal court.

We recommend the Ballard County Clerk keep a ledger of leave balances to ensure employees are getting the appropriate leave time. Also, we recommend the county clerk follow the fiscal court's leave policy or submit her own policy to the fiscal court.

County Clerk's Response: Leave balance will be updated weekly for employees to be aware of the amount they have available and not just marked in the book for an employee to check before they submitted a request for leave.