

**REPORT OF THE AUDIT OF THE  
MEADE COUNTY  
CLERK**

**For The Year Ended  
December 31, 2017**



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

The Honorable Gerry Lynn, Meade County Judge/Executive  
The Honorable Judy R. Jordan, Meade County Clerk  
Members of the Meade County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Meade County, Kentucky, for the year ended December 31, 2017, and the related notes to the financial statement.

**Management's Responsibility 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 Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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 Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Gerry Lynn, Meade County Judge/Executive  
The Honorable Judy R. Jordan, Meade County Clerk  
Members of the Meade County Fiscal Court

**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 Meade 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, 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.

**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 paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Meade County Clerk, as of December 31, 2017, or changes in financial position or cash flows thereof for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Meade County Clerk for the year ended December 31, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2018, on our consideration of the Meade 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 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 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 Meade 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:

- 2017-001 The County Clerk's Office Lacks Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2017-002 The County Clerk's Office Lacks Segregation Of Duties Over Payroll Processing

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

July 30, 2018

MEADE COUNTY  
 JUDY R. JORDAN, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Fees For Services \$ 7,408

Fiscal Court 10,011

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 979,041

Child Victim Fund 10

Usage Tax 2,950,692

Tangible Personal Property Tax 2,528,827

Lien Release Fees 16,624

Notary Fees 4,068

Passport Fees 5,050

Miscellaneous 2,175

Other-

Marriage Licenses 7,774

Occupational Licenses 4,738

Deed Transfer Tax 92,402

Delinquent Tax 293,216 6,884,617

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts 16,333

Real Estate Mortgages 49,600

Chattel Mortgages and Financing Statements 79,890

Powers of Attorney 3,240

Affordable Housing Trust 29,934

All Other Recordings 21,603

Charges for Other Services-

Candidate Filing Fees 650

Copywork 1,414

Postage 5,105 207,769

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

MEADE COUNTY  
 JUDY R. JORDAN, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Receipts (Continued)

Other:

Refunds/Overpayments	\$	2,672	
Miscellaneous		<u>875</u>	\$ 3,547

Interest Earned			<u>490</u>
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Total Receipts			7,113,842
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	677,390	
Usage Tax		2,862,156	
Tangible Personal Property Tax		908,210	

Licenses, Taxes, and Fees-

Delinquent Tax		29,186	
Legal Process Tax		26,934	
Affordable Housing Trust		<u>29,934</u>	\$ 4,533,810

Payments to Fiscal Court:

Tangible Personal Property Tax		240,620	
Delinquent Tax		42,324	
Deed Transfer Tax		87,782	
Occupational Licenses		<u>3,629</u>	374,355

Payments to Other Districts:

Tangible Personal Property Tax		1,277,668	
Delinquent Tax		<u>132,947</u>	1,410,615

Payments to Sheriff			24,600
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Payments to County Attorney			38,971
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Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries		279,966	
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The accompanying notes are an integral part of this financial statement.



MEADE COUNTY  
 JUDY R. JORDAN, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued)

Employee Benefits-			
Employer's Share Social Security	\$	26,074	
Employer's Share Retirement		70,044	
Employer's Paid Health Insurance		74,257	
Contracted Services-			
Professional Services		25,315	
Microfilming		650	
Lease		824	
Materials and Supplies-			
Office Supplies		26,502	
Other Charges-			
Conventions and Travel		3,380	
Dues		2,795	
Postage		6,121	
Election Expense		1,028	
Refunds		5,400	
Miscellaneous		353	
Capital Outlay-			
Office Equipment		1,735	\$ 524,444
		<u>1,735</u>	
Total Disbursements			<u>\$ 6,906,795</u>
Net Receipts			207,047
Less: Statutory Maximum			<u>88,124</u>
Excess Fees			118,923
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,039	<u>6,639</u>
Excess Fees Due County for 2017			112,284
Payment to Fiscal Court - March 9, 2018			<u>112,278</u>
Balance Due Fiscal Court at Completion of Audit *			<u><u>\$ 6</u></u>

\* - The county clerk presented a check to the fiscal court for excess fees on April 16, 2018.

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

MEADE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed, with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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).

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

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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.

MEADE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2017  
 (Continued)

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

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 KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

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 members contribute five percent of their annual creditable compensation and 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 Board 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 nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county clerk's contribution for calendar year 2015 was \$57,031, calendar year 2016 was \$62,068, and calendar year 2017 was \$70,044.

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.

Health Insurance Coverage

CERS also 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:

<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, 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.

MEADE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2017  
(Continued)

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

KRS 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.

Note 3. Deposits

The Meade County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC 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 Meade County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The Meade County Clerk's office was committed to the following lease agreements as of December 31, 2017:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2017
Software	\$ 430	60 Months	5/31/2018	\$ 2,150
Software	1,500	45 Months	5/31/2018	7,500
	<u>\$ 1,930</u>			<u>\$ 9,650</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**

The Honorable Gerry Lynn, Meade County Judge/Executive  
The Honorable Judy R. Jordan, Meade County Clerk  
Members of the Meade County Fiscal Court

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

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 Meade County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated July 30, 2018. The Meade 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 Meade County Clerk's internal control over financial reporting (internal control) to determine the 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 Meade County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Meade County Clerk's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, which are described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be significant deficiencies.



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 Meade 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 determination of financial statement amounts. 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**

The Meade 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 Meade 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,



Mike Harmon  
Auditor of Public Accounts

July 30, 2018



## SCHEDULE OF FINDINGS AND RESPONSES

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MEADE COUNTY  
JUDY R. JORDAN, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2017-001 The County Clerk's Office Lacks Segregation of Duties Over Receipts, Disbursements, And Bank Reconciliations

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This is a repeat finding and was included in the prior year audit report as finding 2016-001. The county clerk's office lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations. The county clerk prepares daily checkout sheets and daily deposits along with posting to the receipts and disbursements ledgers. She is also responsible for preparing and signing checks, and preparing the monthly bank reconciliations. The lack of segregation of duties is present due to the county clerk not including segregation of duties in the control procedures over receipts, disbursements, and bank reconciliations.

The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Strong internal controls dictate significant control functions should be segregated or the county clerk should implement compensating controls and ensure they are evidenced to reduce the risk of asset misappropriation and to help prevent inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend that the county clerk segregate controls over receipts, disbursements, and reconciliations. If these duties cannot be segregated, then strong oversight should be provided to the employee responsible for these duties. The county clerk should implement cross-checking procedures and document those control procedures.

*County Clerk's Response: When time permits and when I am out of the office, my chief deputy performs these duties also.*

2017-002 The County Clerk's Office Lacks Segregation Of Duties Over Payroll Processing

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The county clerk lacks adequate segregation of duties over payroll processing. The county clerk is responsible for all of the payroll duties. Because the county clerk performs all payroll related duties without review by another person, there is an increased risk of errors and fraud. Segregation of duties over accounting functions such as payroll is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. We recommend the county clerk assign a deputy some of the payroll responsibilities and perform a supervisory review of that work. Furthermore, we recommend the county clerk sign timesheets to document her review.

*County Clerk's Response: Due to privacy of salaries, I am usually the only one who processes the payroll. My chief deputy has been trained and has processed payroll once before.*