

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

**For The Year Ended
December 31, 2018**



**MIKE HARMON
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
SCHEDULE OF FINDINGS AND RESPONSES	19

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dan Ison, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby 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 Shelby County, Kentucky, for the year ended December 31, 2018, 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 Dan Ison, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby 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 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, 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 the Shelby County Clerk, as of December 31, 2018, 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 Shelby County Clerk for the year ended December 31, 2018, 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 October 18, 2019, 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 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 Shelby County Clerk's internal control over financial reporting and compliance.

The Honorable Dan Ison, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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:

- 2018-001 The Shelby County Clerk Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2018-002 The Shelby County Clerk Lacks Segregation Of Duties Over Payroll Processing

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

October 18, 2019

SHELBY COUNTY
SUE CAROLE PERRY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State Grant	\$	14,950	
State Fees For Services			14,281
Fiscal Court			11,812
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,556,553	
Usage Tax		5,729,239	
Tangible Personal Property Tax		4,938,405	
Notary Fees		21,086	
Other-			
Marriage Licenses		12,638	
Deed Transfer Tax		308,249	
Delinquent Tax		619,077	13,185,247
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Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		24,937	
Real Estate Mortgages		98,099	
Chattel Mortgages and Financing Statements		116,885	
Powers of Attorney		3,737	
Bail Bonds		88	
Fixture Filing		581	
Leases		262	
Liens		5,564	
Releases		20,645	
Lien Release Fees		28,258	
Wills		1,177	
Affordable Housing Trust		48,618	
All Other Recordings		8,015	
Charges for Other Services-			
Candidate Filing Fees		2,000	
Copies		4,886	
Postage		7,889	
Convenience Fee		12,913	
Miscellaneous		1,510	
Web Renewals		1,871	

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

SHELBY COUNTY
 SUE CAROLE PERRY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Receipts (Continued)

Other:

Child Victim Fund Donations	\$	173	
Refunds		61,261	
Overpayments		<u>3,671</u>	\$ 453,040

Interest Earned			<u>11,626</u>
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Total Receipts			13,690,956
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	1,094,146	
Usage Tax		5,555,250	
Tangible Personal Property Tax		1,814,124	
Disabled Parking Placards		1,688	

Licenses, Taxes, and Fees-

Delinquent Tax		49,158	
Legal Process Tax		41,786	
Affordable Housing Trust		<u>48,618</u>	8,604,770

Payments to Fiscal Court:

Tangible Personal Property Tax		556,438	
Delinquent Tax		40,381	
Deed Transfer Tax		<u>292,837</u>	889,656

Payments to Other Districts:

Tangible Personal Property Tax		2,369,624	
Delinquent Tax		<u>345,425</u>	2,715,049

Payments to Sheriff			50,087
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Payments to County Attorney			85,735
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Operating Disbursements:

Personnel Services-

Deputies' Salaries		409,404	
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Employee Benefits-

Employer's Share Social Security		37,927	
Employer's Share Retirement		104,907	
Employer's Paid Health Insurance		102,971	

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

SHELBY COUNTY
 SUE CAROLE PERRY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2018
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Contracted Services-		
Microfilming and Indexing	\$	80,840
Libraries and Archives Grant		14,950
Office Equipment		4,308
Tax Bill Preparation		7,573
Materials and Supplies-		
Office Supplies		8,346
Other Charges-		
Dues		3,879
Postage		12,689
Convenience Fee		12,354
Refunds		67,840
MV Ad Val Refunds		2,898
MV Usage Refund		2,112
Transfer of Funds-previous year fund		675
Employee Training Program		60
Miscellaneous Election Expenses		42,579
New Equipment		6,570
Miscellaneous		5,995
		<u>\$ 928,877</u>
Total Disbursements		<u>\$ 13,274,174</u>
Net Receipts		416,782
Less: Statutory Maximum		<u>99,291</u>
Excess Fees		317,491
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,137</u>	<u>7,737</u>
Excess Fees Due County for 2018		309,754
Payment to Fiscal Court - February 27, 2019		<u>317,326</u>
Balance Due From Fiscal Court at Completion of Audit		<u><u>\$ (7,572)</u></u>

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

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

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 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) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2018 services
- Reimbursements for 2018 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2018

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 clerk's office has 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.

SHELBY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2018
 (Continued)

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

The county clerk's contribution for FY 2016 was \$86,619, FY 2017 was \$92,740, and FY 2018 was \$104,907.

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.

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 KRS 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 19.18 percent for the first half of the year and 21.48 percent for the second half of the year.

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%

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(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, 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 161.714 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, 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 161.714 with exception of COLA and retiree health benefits after July 2003. 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.

SHELBY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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.

KRS 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 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 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, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Grant

The Shelby County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$17,610 in calendar year 2017. The beginning balance of the grant account as of January 1, 2018, was \$14,950, which was expended during the year. The ending balance as of December 31, 2018, was \$0.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(Continued)

Note 5. Lease Agreements

The Shelby County Clerk's office was committed to the following lease agreements as of December 31, 2018:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2018
Software	\$ 3,190	60 months	4/1/2020	\$ 51,040
Hardware	3,538	60 months	4/1/2020	56,608
Postage Meter	490	63 months	10/26/2021	2,817
Totals	\$ 7,218			\$ 110,465

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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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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dan Ison, Shelby County Judge/Executive
The Honorable Sue Carole Perry, Shelby County Clerk
Members of the Shelby 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 Shelby County Clerk for the year ended December 31, 2018, and the related notes to the financial statement and have issued our report thereon dated October 18, 2019. 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.

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) 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 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 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

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 2018-001 and 2018-002 to be material weaknesses.



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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the 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 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 Shelby 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 Shelby County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

October 18, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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SHELBY COUNTY
SUE CAROLE PERRY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2018-001 The Shelby County Clerk Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The bookkeeper's responsibilities include receiving cash, preparing daily deposits, preparing checks, signing checks on occasion, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. This is a repeat comment and was included in the prior year audit report as comment 2017-001.

The county clerk does not have segregation of duties as a function of her internal control procedures. 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 result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, preparing monthly reports, and reconciling bank accounts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures or compensating controls could be implemented and documented by the individual performing the review procedure.

We recommend the county clerk separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the review procedure.

County Clerk's Response: The bookkeeper gets the cash only after all the cash drawers have been balanced with the point of sale system.

Auditor's Reply: As noted in the finding, there are multiple duties performed by the bookkeeper that are not properly segregated. The procedure noted in the clerk's response does not reduce the risk of undetected errors or fraud caused by not properly segregating the bookkeeper's duties.

2018-002 The Shelby County Clerk Lacks Segregation Of Duties Over Payroll Processing

The county clerk lacks segregation of duties over payroll processing. The county clerk performs all payroll related duties, with the exception that she pays retirement and health insurance for her and her employees to the fiscal court, and the county treasurer pays those agencies accordingly for the clerk and her staff. The clerk prepares payroll in Quickbooks each pay period, including payroll checks which are automatically deposited to her and her employees' bank accounts, payroll tax reports and payments, and payments to vendors for optional insurances her employees have (i.e. life, and dental, etc.), records payments in the disbursements ledger, and reconciles the payroll transactions in the bank account statements.

SHELBY COUNTY
SUE CAROLE PERRY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES (continued)
For The Year Ended December 31, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2018-002 The Shelby County Clerk Lacks Segregation Of Duties Over Payroll Processing (Continued)

The county clerk does not have segregation of duties as a function of her internal control procedures related to payroll processing. 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 result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not prepare payroll each pay period, prepare payroll checks and payments of taxes and withholdings to respective agencies, record payroll disbursements in the ledger, and reconcile the payroll disbursements to the bank statement. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible, cross checking procedures or compensating controls could be implemented and documented by the individual performing the review procedure.

We recommend the county clerk separate the duties involved in preparing payroll each pay period, including payroll checks and payments of taxes and withholdings to respective agencies, recording payroll disbursements in the ledger, and reconciling the payroll transactions to the bank statement. If this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the review procedure.

County Clerk's Response: I will continue to do payroll. I have written instructions should I be incapacitated.

Auditor's Reply: As noted in the finding, the concern is that the duties performed are not properly segregated. Proper segregation of duties is essential for providing protection from undetected errors or fraud.