

**REPORT OF THE AUDIT OF THE
DAVISS COUNTY
CLERK**

**For The Year Ended
December 31, 2020**



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

The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Leslie McCarty, Daviess County Clerk
Members of the Daviess County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the County Clerk of Daviess County, Kentucky and the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

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The Honorable Al Mattingly, Daviess County Judge/Executive
 The Honorable Leslie McCarty, Daviess County Clerk
 Members of the Daviess County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the Daviess 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 statements 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 Opinions on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Daviess County Clerk, as of December 31, 2020, 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Daviess County Clerk and the receipts, disbursements, and fund balances of the Daviess County Clerk's operating fund and county fund with the state treasurer for the year ended December 31, 2020, 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 4, 2021, on our consideration of the Daviess 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 internal control over financial reporting 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 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:

- 2020-001 The Daviess County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers
- 2020-002 The Daviess County Clerk Did Not Prepare Timely And Accurate Bank Reconciliations

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

October 4, 2021

DAVIESS COUNTY
 LESLIE MCCARTY, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2020

Receipts

Federal Grants	\$	68,715
State Grants		16,164
State Fees For Services		26,501
Fiscal Court		27,411
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 3,386,028	
Usage Tax	10,889,130	
Tangible Personal Property Tax	9,993,984	
Lien Fees	31,450	
Other-		
Marriage Licenses	31,250	
Occupational Licenses	21,692	
Passports	18,025	
Lien Calls	816	
Releases	261,422	
Deed Transfer Tax	497,023	
Delinquent Tax	471,373	
Delinquent Tax Sale Deposits	552,430	26,154,623
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	182,382	
Real Estate Mortgages	484,658	
Chattel Mortgages and Financing Statements	238,564	
Powers of Attorney	11,428	
Affordable Housing Trust	122,040	
All Other Recordings	106,766	
Charges for Other Services-		
Candidate Filing Fees	1,360	
Copy Work	45,740	
Postage	43,240	
Tax Sale Registrations	7,970	
Notary Fees	81,640	1,325,788

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
 LESLIE MCCARTY, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

Receipts (Continued)

Other:

Center For Tech And Civic Life Grant	\$	51,188	
Miscellaneous		5,464	
Over/(Short)		<u>70,095</u>	\$ 126,747

Interest Earned			<u>6,986</u>
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Total Receipts			27,752,935
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Disbursements

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	2,449,178	
Usage Tax		10,563,713	
Tangible Personal Property Tax		3,285,150	
Licenses, Taxes, and Fees-			
Delinquent Tax		49,819	
Legal Process Tax		88,294	
Affordable Housing Trust		<u>122,040</u>	16,558,194

Payments to Fiscal Court:

Tangible Personal Property Tax		1,169,124	
Delinquent Tax		61,164	
Deed Transfer Tax		472,172	
Occupational Licenses		20,066	
Beer and Liquor Licenses		182	
Miscellaneous		<u>132</u>	1,722,840

Payments to Other Districts:

Tangible Personal Property Tax		5,139,951	
Delinquent Tax		<u>228,943</u>	5,368,894

Payments to Sheriff			35,883
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Other Regulatory Payments:

Delinquent Tax Sale Deposits			552,430
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The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
 LESLIE MCCARTY, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

Disbursements (Continued)

Payments to County Attorney		\$	58,009	
Other Disbursements:				
Federal Grant Disbursements	\$	68,583		
Libraries and Archives Grant Disbursements		16,323		
Center for Tech and Civic Life Grant Disbursements		51,188		
Overpayments/Refunds		66,385		
Miscellaneous		95		
Bad Debt Expense		<u>2,657</u>	<u>205,231</u>	
Total Disbursements				<u>\$ 24,501,481</u>
Net Receipts				3,251,454
Payments to State Treasurer:				
75% Operating Fund		2,448,497		
25% County Fund		<u>798,195</u>	<u>3,246,692</u>	
Balance Due at Completion of Audit				<u><u>\$ 4,762</u></u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
 LESLIE MCCARTY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2020

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2020	\$ 196,605	\$ 187,251	\$ 383,856
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,448,497		2,448,497
Fees Paid to State - County Funds (25%)		798,195	798,195
Total Funds Available	<u>2,645,102</u>	<u>985,446</u>	<u>3,630,548</u>
<u>Disbursements</u>			
Daviess County Fiscal Court		719,580	719,580
Personnel Services-			
Official's Statutory Maximum	112,125		112,125
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	2,156		2,156
Deputies' Salaries	972,120		972,120
Overtime Gross	22,016		22,016
Employee Benefits-			
Employer's Share Social Security	80,136		80,136
Employer's Share Retirement	270,622		270,622
Employer's Share Health Insurance	210,550		210,550
Employer's Share Life Insurance	306		306
Workers' Compensation	4,186		4,186
Contracted Services-			
Advertising	7,560		7,560
Printing and Binding	25,200		25,200
Tax Bill Preparation	6,583		6,583
Supplies and Materials-			
Office Supplies	36,228		36,228

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
 LESLIE MCCARTY, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 3,801	\$	\$ 3,801
Insurance - Property	769		769
Miscellaneous	23,452		23,452
Postage	64		64
Fuel	51		51
Capital Outlay-			
Office Equipment	<u>1,268</u>		<u>1,268</u>
Total Disbursements	<u>1,782,793</u>	<u>719,580</u>	<u>2,502,373</u>
Fund Balance - December 31, 2020	<u>\$ 862,309</u>	<u>\$ 265,866</u>	<u>\$ 1,128,175</u>

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the county clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the county clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, fee official office revenues could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have 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:

- Interest receivable
- Collection on accounts due from others for 2020 services
- Reimbursements for 2020 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2020

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).

DAVISS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2020
 (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 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.

The county clerk's contribution for calendar year 2018 was \$224,233, calendar year 2019 was \$244,901, and calendar year 2020 was \$270,622.

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 24.06 percent for the first half of the year and 24.06 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:

DAVISS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2020
 (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)

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%

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.

DAVIESS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

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

Other Post-Employment Benefits (OPEB) (Continued)

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

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

E. Death Benefit

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

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 Daviess County Clerk maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The Daviess 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, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

DAVIESS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2020
 (Continued)

Note 4. Grants

A. Help America Vote Act Grant

The Daviess County Clerk received a “Help America Vote Act” federal grant through the Kentucky State Board of Elections in the amount of \$68,583. Interest funds totaling \$88 were received during the year. Total funds of \$65,583 were expended during the year. The unexpended balance was \$88 as of December 31, 2020.

B. Center for Tech and Civic Life Grant

The Daviess County Clerk received a grant from the Center for Tech and Civic Life for the purpose of planning and operationalizing safe and secure election administration for 2020 elections in the amount of \$51,188. Total funds of \$51,188 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2020.

C. State Grant

The Daviess County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,164. Total funds of \$16,164 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2020.

Note 5. Lease Agreements

The Daviess County Clerk’s office was committed to the following lease agreements as of December 31, 2020:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2020
Parking Spaces	\$ 756	24 months	12/31/21	\$ 9,072
Software	2,100	60 months	12/31/24	\$ 100,800

Note 6. Imprest Cash Account

The Finance & Administration – County Fee Systems Branch authorized the Daviess County Clerk to administer an Imprest Cash Fund in the amount of \$9,000. This fund is to be used for expenses, such as postage and other necessary expenses \$1,000 or less that needs to be paid in less than a 10 day turn around except travel and payroll expenses.

Note 7. Fiduciary Accounts

A. Escrow Account

The Daviess 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:

2015	\$29
2016	\$143
2017	\$474
2018	\$1,219

DAVISS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020
(Continued)

Note 7. Fiduciary Accounts (Continued)

B. Trust Account

The Daviess County Clerk deposited \$1,122 into a custodial bank account. These funds are held until a resolution in the form of a court order is received. The funds are then remitted in accordance with the court order. The account had a beginning balance of \$1,122 with no receipts and disbursements for calendar year 2020. The account balance was \$1,122 as of December 31, 2020.

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

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Al Mattingly, Daviess County Judge/Executive
The Honorable Leslie McCarty, Daviess County Clerk
Members of the Daviess County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements 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 and Disbursements - Regulatory Basis of the County Clerk of Daviess County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the County Clerk's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2021. The Daviess County Clerk's financial statements are 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 statements, we considered the Daviess 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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Daviess County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Daviess 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 over financial reporting 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 statements 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 2020-001 and 2020-002 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Daviess County Clerk's financial statements are 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2020-001.

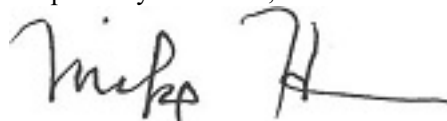
Views of Responsible Officials and Planned Corrective Action

The Daviess County Clerk's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The Daviess County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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

October 4, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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DAVIESS COUNTY
LESLIE MCCARTY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

FINANCIAL STATEMENT FINDINGS:

2020-001 The Daviess County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers

The Daviess County Clerk's receipts and disbursements ledgers were not properly maintained for calendar year 2020. There were multiple items not accounted for on these ledgers and other items that were not properly classified. Differences of \$632,925 were noted on the receipts ledger and \$297,288 were noted on the disbursements ledger. Although the ledgers maintained were not accurate, the clerk's fourth quarter report was materially accurate. This was caused by the official and the bookkeeper's lack of knowledge of record keeping requirements for the clerk's office. During the year, the office switched computer systems and altered how they maintained their ledgers, which caused confusion on how items were being recorded.

By not maintaining a cumulative, ongoing receipts and disbursements ledger, there is nothing to document where quarterly amounts originated. Ledgers are a key part of the documentation for final accounting records.

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 receipts and disbursement ledgers be maintained and should agree with the submitted quarterly reports.

Good internal controls dictate that ledgers be maintained daily to ensure daily receipts are accounted for timely and appropriately, to ensure that disbursements are recorded and accounted for, and to provide a basis for bank reconciliations to ensure cash balances are accurately maintained.

We recommend the county clerk's office maintain accurate receipts and disbursements ledgers and that they are used to reconcile all accounts and are used to ensure accurate financials reports are submitted to the appropriate authorities.

County Clerk's Response: As stated in the comment, any issues in the receipts and disbursements ledgers reviewed by the auditor were resolved as "the clerk's 4th quarter report was materially accurate". The variance listed in the comment according to our exit was a result of our accounting department recognizing the receipts and disbursements involved with the Delinquent Tax Sale. We have since made changes to correct these issues with the ledgers with guidance from our auditor. Specifically, we will make adjustments to how we account for the tax sale in coordination with the auditor's recommendations to address the variance listed in the comment.

2020-002 The Daviess County Clerk Did Not Prepare Timely And Accurate Bank Reconciliations

The Daviess County Clerk's bank reconciliations that were prepared for most of the year were not prepared properly. There were multiple issues throughout the year reconciling balances to ledgers and ensuring that appropriate amounts were being transferred between accounts for credit cards and amounts being sent to the state for their pay-in vouchers. Due to the issues reconciling the accounts, over \$183,000 of corrections were made in the credit card holding account during February 2021, when it was determined where the funds were supposed to be transferred to.

These issues are partly due to the issues noted in finding 2020-001. These errors were also caused due to a lack of controls over the reconciliation processes.

By not reconciling all bank accounts properly on a monthly basis, the clerk is unable to determine if all fees are being accounted for properly and if all payments have been made correctly to their state accounts.

DAVIESS COUNTY
LESLIE MCCARTY, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Daviess County Clerk Did Not Prepare Timely And Accurate Bank Reconciliations
(Continued)

Good internal controls dictate that reconciliations be performed accurately and on a timely basis in order to ensure accurate account balances are calculated for the accounts to ensure that appropriate amounts are available to pay out all appropriate vendors and agencies.

We recommend the county clerk prepare and maintain accurate bank reconciliations within a timely manner for all accounts maintained for her office.

County Clerk's Response: With regards to the bank reconciliations, we did transfers in 2021 to resolve issues from 2020. These issues were caused primarily by our Recording Department starting a new process of E-recording documents. We were one of the first in the State to start this process and have since learned a great deal over the course of the year. Our issues involved the Clerk's Office Credit Account where the E-Recording funds passed through in addition to credit card transactions. We have since created a better process to account for these transactions and transfer them in a timely manner; thus resolving future issues.