

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
CLERK**

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



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS .....	3
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS.....	5
NOTES TO THE FINANCIAL STATEMENTS.....	7
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	15
SCHEDULE OF FINDINGS AND RESPONSES .....	19

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

The Honorable Reagan Taylor, Madison County Judge/Executive  
The Honorable Kenny Barger, Madison County Clerk  
Members of the Madison 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 Madison 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, 2018, 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 Reagan Taylor, Madison County Judge/Executive  
The Honorable Kenny Barger, Madison County Clerk  
Members of the Madison 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 Madison 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 Madison 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 statements referred to above present fairly, in all material respects, the receipts and disbursements of the Madison County Clerk and the receipts, disbursements, and fund balances of the Madison County Clerk's operating fund and county fund with the state treasurer 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 December 18, 2019, on our consideration of the Madison 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 comment:

2018-001 The Madison County Clerk Lacked Adequate Internal Controls Over The Daily Receipts Process

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 18, 2019

MADISON COUNTY  
 KENNY BARGER, COUNTY CLERK  
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Year Ended December 31, 2018

Receipts

State Fees For Services \$ 22,417

Fiscal Court 13,466

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 2,745,664

Usage Tax 12,575,326

Tangible Personal Property Tax 7,958,494

Notary Fees 6,534

Lien Release Fees 47,816

Other-

Fish and Game Licenses 13,357

Marriage Licenses 22,330

Occupational Licenses 20

Deed Transfer Tax 421,570

Delinquent Tax 1,408,316 25,199,427

Fees Collected for Services:

Recordings-

Releases 34,785

Deeds, Easements, and Contracts 40,025

Real Estate Mortgages 146,943

Chattel Mortgages and Financing Statements 242,520

Powers of Attorney 5,398

Affordable Housing Trust 83,100

All Other Recordings 42,537

Charges for Other Services-

Candidate Filing Fees 2,490

Copy Work 10,423

Postage 9,218

Passport Photo 4,550

Passport 13,515 635,504

Other:

Miscellaneous 10,365

Refunds 39,997 50,362

Total Receipts 25,921,176

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

MADISON COUNTY  
 KENNY BARGER, COUNTY CLERK  
 STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS  
 For The Year Ended December 31, 2018  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 1,866,387	
Usage Tax	12,200,838	
Tangible Personal Property Tax	2,766,791	
Licenses, Taxes, and Fees-		
Fish and Game Licenses	13,024	
Delinquent Tax	123,147	
Legal Process Tax	78,811	
Affordable Housing Trust	<u>83,100</u>	\$ 17,132,098

Payments to Fiscal Court:

Tangible Personal Property Tax	541,252	
Delinquent Tax	84,997	
Deed Transfer Tax	<u>400,491</u>	1,026,740

Payments to Other Districts:

Tangible Personal Property Tax	4,331,719	
Delinquent Tax	<u>784,841</u>	5,116,560

Payments to Sheriff

114,660

Payments to County Attorney

188,803

Other Disbursements:

Overpayments/Refunds	37,989	
Miscellaneous	<u>4,080</u>	<u>42,069</u>

Total Disbursements \$ 23,620,930

Net Receipts 2,300,246

Payments to State Treasurer:

75% Operating Fund *	1,742,077	
25% County Fund	<u>558,169</u>	<u>2,300,246</u>

Balance Due at Completion of Audit \$ 0

\* Includes reimbursed expenses in the amount of \$65,502 for the audit period.  
 See Note 1 of Notes to Financial Statements.

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



MADISON COUNTY  
 KENNY BARGER, 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, 2018

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2018	\$ 605,305	\$ 37,951	\$ 643,256
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	1,742,077		1,742,077
Fees Paid to State - County Funds (25%)		558,169	558,169
Total Funds Available	<u>2,347,382</u>	<u>596,120</u>	<u>2,943,502</u>
<u>Disbursements</u>			
Madison County Fiscal Court		596,120	596,120
Personnel Services-			
Official's Statutory Maximum	111,702		111,702
Official's Expense Allowance	3,600		3,600
Official's Training Incentive	4,137		4,137
Deputies' Salaries	740,777		740,777
Overtime Gross	18,005		18,005
Employee Benefits-			
Employer's Share Social Security	65,351		65,351
Employer's Share Retirement	173,062		173,062
Employer's Share Health Insurance	108,545		108,545
Workers' Compensation	1,040		1,040
Unemployment Insurance	3,202		3,202
Contracted Services-			
IT Support/Licenses	26,540		26,540
Supplies and Materials-			
Office Supplies	32,571		32,571
Other Charges-			
Conventions and Travel	5,129		5,129
Miscellaneous	119		119
Postage	16,535		16,535
Supplies	1,500		1,500

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

MADISON COUNTY  
 KENNY BARGER, 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, 2018  
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Disbursements</u> (Continued)			
Capital Outlay-			
Office Equipment	\$ 4,107	\$	\$ 4,107
Computer Equipment	<u>34,647</u>	<u>          </u>	<u>34,647</u>
Total Disbursements	<u>1,350,569</u>	<u>596,120</u>	<u>1,946,689</u>
Fund Balance - December 31, 2018	<u>\$ 996,813</u>	<u>\$ 0</u>	<u>\$ 996,813</u>

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

MADISON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

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 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 2018 services
- Reimbursements for 2018 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 2018

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).

MADISON COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2018  
 (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 FY 2016 was \$166,153, FY 2017 was \$168,764, and FY 2018 was \$173,062.

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:

MADISON COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 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)

<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.

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.

MADISON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018  
(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 Madison 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.

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

Note 4. Grant

The Madison County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$17,302 during calendar year 2017. No funds were expended during the year. The unexpended grant balance was \$17,302 as of December 31, 2018.

Note 5. Lease Agreement

The Madison County Clerk's office is committed to a lease agreement for software. The agreement requires a monthly payment of \$2,800 for 12 months to be completed on January 31, 2019. The total remaining balance of the agreement was \$2,800 as of December 31, 2018.

Note 6. Outstanding Checks Held In Escrow

The Madison County Clerk deposited outstanding checks into an escrow account. On January 1, 2018, the account had a balance of \$1,485. There was a deposit of \$321 and no disbursements, leaving a balance of \$1,806 on December 31, 2018. When statutorily required, the 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	\$579
2016	\$906
2017	\$321

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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 Reagan Taylor, Madison County Judge/Executive  
The Honorable Kenny Barger, Madison County Clerk  
Members of the Madison 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 Madison 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2019. The Madison 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 Madison County Clerk's internal control over financial reporting (internal control) to determine 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 Madison County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Madison 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 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. 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.



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)

**Internal Control Over Financial Reporting (Continued)**

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 a certain deficiency in internal control described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Madison 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 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 Madison County Clerk's views and planned corrective action for the finding identified in our audit are included in the accompanying Schedule of Findings and Responses. The Madison County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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

December 18, 2019

## SCHEDULE OF FINDINGS AND RESPONSES

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MADISON COUNTY  
KENNY BARGER, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2018

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Madison County Clerk Lacked Adequate Internal Controls Over The Daily Receipts Process

The Madison County Clerk discovered that two employees manipulated the payment type on receipts when entering collections into Kentucky Automated Vehicle Information System (KAVIS). These employees were changing payment types, ensuring their drawers closed out each day without an overage or shortage; therefore receipts were not deposited intact daily and overages/shortages were not properly reported. Further, these employees retained cash/tips in their desk drawers.

Adequate internal controls were not place to ensure deposits be made intact daily and that overages/shortages were posted to the receipts ledgers. The clerk was not privy to KAVIS reports that would alert him of these types of alterations. As a result of the weaknesses noted, the employees were able to manipulate records which altered reports, changed overages/shortages in the daily collections, and increased the risk of fraud or misappropriations.

Strong internal controls dictate that checkout procedures be performed daily and that management provide strong oversight of daily operations. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation And State Local Finance Officer Policy Manual* requires making daily deposits intact into a federally insured banking institution.

Per the clerk's *Employee Policy Manual* for gifts and gratuities, "No employee may accept personal gifts, gratuities or other items from customers, vendors, a person or company doing business or seeking to do business with the Office of the County Clerk. Acceptance of gift of cash or gift cards is prohibited. Non-cash office gifts given during business hours shall be placed in a location available for all employees to use. No gift shall exceed the legal limit of \$25 per person per office location. Employees who accept personal gifts or gratuities will be subject to disciplinary action up to and including termination."

We recommend the clerk implement internal controls to ensure that funds are deposited intact daily, including customer tips, and that all overages/shortages are handled properly.

*County Clerk's Response: Our office maintains strong internal controls. As a result, we were able to find that the two employees were manipulating their cash drawers and transactions. The employees were terminated as a result of the findings. We updated the employee manual to clearly state that force balancing, and cash drawer manipulation will not be tolerated. We also updated the financial procedures manual that each employee must follow. Both manuals are signed by the employees stating they understand and will follow these procedures. Our office has also suggested that KAVIS develop a daily report which will allow the bookkeepers to see when a deputy clerk changes a form of payment on a transaction.*