

**REPORT OF THE AUDIT OF THE  
MARION COUNTY  
CLERK**

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



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
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> .....	11
SCHEDULE OF FINDINGS AND RESPONSES .....	15

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

The Honorable David Daugherty, Marion County Judge/Executive  
The Honorable Chad Mattingly, Marion County Clerk  
Members of the Marion 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 Marion County, Kentucky, for the year ended December 31, 2017, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



The Honorable David Daugherty, Marion County Judge/Executive  
 The Honorable Chad Mattingly, Marion County Clerk  
 Members of the Marion 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 Marion County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Marion County Clerk, as of December 31, 2017, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2018, on our consideration of the Marion 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 Marion County Clerk's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2017-001 The Marion County Clerk Did Not Present An Annual Financial Statement To Fiscal Court
- 2017-002 The Marion County Clerk's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

September 6, 2018

MARION COUNTY  
 CHAD MATTINGLY, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2017

Receipts

State Revenue Supplement	\$ 66,599	
State Fees For Services		4,466
Libraries and Archives Grant		4,278
Fiscal Court		6,816

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 679,839	
Usage Tax	1,067,906	
Tangible Personal Property Tax	1,534,110	
Notary Fees	72	
Bill of Sale - VTR	4,410	

Other-

Marriage Licenses	5,148	
Occupational Licenses	4,027	
Deed Transfer Tax	56,416	
Delinquent Tax	127,818	3,479,746

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	12,212	
Real Estate Mortgages	25,835	
Chattel Mortgages and Financing Statements	54,894	
Powers of Attorney	1,357	
Affordable Housing Trust	17,388	
All Other Recordings	17,021	

Charges for Other Services-

Copywork	3,456	
Postage	542	132,705

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

MARION COUNTY  
 CHAD MATTINGLY, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Receipts (Continued)

Other:

Miscellaneous	\$	3,682	
Delinquent Tax Registration		1,370	
Refunds		<u>4,969</u>	\$ 10,021

Interest Earned			<u>224</u>
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Total Receipts			3,704,855
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	498,848	
Usage Tax		1,035,867	
Tangible Personal Property Tax		577,540	

Licenses, Taxes, and Fees-

Delinquent Tax		15,360	
Legal Process Tax		17,851	
Affordable Housing Trust		<u>17,388</u>	2,162,854

Payments to Fiscal Court:

Tangible Personal Property Tax		124,512	
Delinquent Tax		8,470	
Deed Transfer Tax		53,596	
Occupational Licenses		<u>2,904</u>	189,482

Payments to Other Districts:

Tangible Personal Property Tax		759,387	
Delinquent Tax		<u>63,085</u>	822,472

Payments to Sheriff			11,019
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Payments to County Attorney			17,468
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The accompanying notes are an integral part of this financial statement.



MARION COUNTY  
 CHAD MATTINGLY, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$ 214,211	
Libraries and Archives Grant		
Salaries	4,278	
Employee Benefits-		
Employer's Share Social Security	23,191	
Employer's Share Retirement	46,918	
Employer's Paid Health Insurance	38,977	
Health Reimbursement Account	6,853	
Contracted Services-		
Advertising	2,088	
Printing and Binding	3,600	
Computer and Copier Maintenance	4,176	
Materials and Supplies-		
Office Supplies	13,743	
Election Expense	635	
Other Charges-		
Conventions and Travel	939	
Postage	2,959	
Refunds	5,658	
Miscellaneous	3,612	\$ 371,838
		<hr/>
Total Disbursements		<u>\$ 3,575,133</u>
Net Receipts		129,722
Less: Statutory Maximum		<u>88,124</u>
Excess Fees		41,598
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2017*		<u>\$ 37,998</u>

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

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

MARION COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

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

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

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

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

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

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

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

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

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

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous members contribute five percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county clerk's contribution for calendar year 2015 was \$42,846, calendar year 2016 was \$46,218, and calendar year 2017 was \$46,918.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

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

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Marion 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 Marion County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Marion County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,000 in 2016. The grant funds are for salary support in order to index the county's plats and deed books within the clerk's automated indexing system. As of January 1, 2017, the beginning balance was \$4,278 and the grant was fully expended for its intended purpose as of December 31, 2017.

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 David Daugherty, Marion County Judge/Executive  
The Honorable Chad Mattingly, Marion County Clerk  
Members of the Marion 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 Marion County Clerk for the year ended December 31, 2017, and the related notes to the financial statement and have issued our report thereon dated September 6, 2018. The Marion 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 Marion 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 Marion County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2017-002 to be a material weakness.

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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*  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Marion 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

**Views of Responsible Official and Planned Corrective Action**

The Marion 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 Marion County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 6, 2018



## SCHEDULE OF FINDINGS AND RESPONSES

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MARION COUNTY  
CHAD MATTINGLY, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2017

STATE LAWS AND REGULATIONS:

2017-001 The Marion County Clerk Did Not Present An Annual Financial Statement To Fiscal Court

The annual financial statement of the county clerk was not presented to the fiscal court by March 15 of the preceding calendar year. The clerk presented a check for excess fees on May 16, 2018, to the fiscal court; however, he was not aware that a final settlement needed to be presented by March 15 with payment.

The county clerk is not in compliance with KRS 64.152. Under the provisions of KRS 64.152, “[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensating of deputies and assistants, and reasonable expenses.”

We recommend the county clerk comply with KRS 64.152 by presenting the annual settlement to the fiscal court by March 15 for the preceding year.

*County Clerk’s Response: A profit and loss report will be presented to Fiscal Court for 2018 by March 1, 2019.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-002 The Marion County Clerk’s Office Lacks Adequate Segregation Of Duties

The Marion County Clerk’s office lacks adequate segregation of duties. All employees, including the county clerk, collect payments from customers and prepare receipts. At the end of each day, each deputy clerk reconciles their drawer to the KAVIS printout. The following day, a full-time deputy clerk prepares the daily checkout sheet and the deposit ticket, and posts to the receipts ledger. A different employee will compare the daily checkout sheet to the deposit ticket and the county clerk will take the deposit to the bank. There is no documentation of review on the daily checkout sheet, receipts ledger, or bank deposit receipt. A profit and loss report is printed weekly, but there is no documentation of review when compared to the daily checkout sheets. When invoices are received for operating expenses, a full-time deputy clerk will post to the disbursements ledger, and prepare and sign the disbursement checks. All invoices are stamped paid and initialed by the employee processing the disbursement. All disbursement checks require dual signatures. After the disbursement was entered into the ledger, there was no documentation of review when compared to the invoice or check. When reports are printed for required payments, the preparer will sign the report. There was no documentation of review on the reports or ledgers when they were compared to the disbursement check. When payroll is prepared, a deputy clerk will input the payroll data and print and sign the checks. The county clerk will sign all payroll checks, but there was no documentation of review when compared to the employee earnings report. A deputy clerk completes the bank reconciliation at the end of each month. There was no documentation of review. The county clerk did not prepare the quarterly report following the end of each quarter, but did prepare the year-end quarterly report. This report was not accurate or compared to ledgers, and was not reviewed by another employee. A profit and loss report is printed weekly, but is not printed monthly or quarterly. It is not compared to the reports of required payments or the quarterly report. Multiple employees have access to QuickBooks and can modify the program. Auditors noted errors during testing that should have been prevented or detected by properly implementing internal controls.

MARION COUNTY  
CHAD MATTINGLY, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2017  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2017-002 The Marion County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

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According to the clerk, due to the limited staff size and cost to hire additional staff in the clerk's office, segregation of duties is not possible. The clerk has implemented some compensating controls to help offset the lack of segregation of duties, but the controls were not effective because they were not applied consistently during calendar year 2017. Without segregation of duties, the risk of material misstatements significantly increases because undetected errors and theft can occur.

Strong internal controls and procedures are vital to ensure proper segregation of duties over collection, reporting, depositing, disbursing, and reconciling receipts and disbursements. If segregation of duties is not possible, effective compensating controls should be put in place, applied consistently, and evidenced.

We recommend the compensating controls that are in place be improved and applied consistently. Auditors recommend that daily checkout sheets be initialed when compared to the KAVIS reports to verify transactions were reported in the accurate fund/account on the ledger and initial the bank deposit receipt when compared to the deposit ticket to verify the correct amount was deposited into the bank. A profit and loss report should be printed and reviewed weekly, by comparing to the daily checkout sheets, and also printed monthly and quarterly. After disbursement checks are processed for operating expenses, the disbursements ledger should be initialed after comparison to the invoice and disbursement check. When required payments are issued, we recommend the disbursement check be compared to the report and the report be initialed for review and comparison. When payroll checks are issued, the employee earnings report should be documented after comparison to the payroll check to verify accuracy. The bank reconciliation should be documented after review when compared to the bank balance. Auditors also recommend the quarterly report be completed for each quarter, compared to the profit and loss report, and documented after review by a different employee. It is also recommended that employees with access to ledgers and payroll information be limited in order to prevent fraud or a material misstatement from occurring.

*County Clerk's Response: We will do a better job of initialing our checks and balances, with the staff we have.*