

**REPORT OF THE AUDIT OF THE
SPENCER COUNTY
CLERK**

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



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Riley, Spencer County Judge/Executive
The Honorable Lynn Hesselbrock, Spencer County Clerk
Members of the Spencer 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 Spencer County, Kentucky, for the year ended December 31, 2020, 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 John Riley, Spencer County Judge/Executive
The Honorable Lynn Hesselbrock, Spencer County Clerk
Members of the Spencer 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 Spencer County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky’s regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Spencer 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 statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Spencer County Clerk 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 June 30, 2021, on our consideration of the Spencer 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 Spencer 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 comment:

2020-001 The Spencer County Clerk’s Office Has A Lack Of Segregation Of Duties Over Review And Approvals Of Required Regulatory Payments and Reconciliations

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 30, 2021

SPENCER COUNTY
LYNN HESSELBROCK, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2020

Receipts

Center for Tech and Civic Life Grant	\$	6,760	
State Revenue Supplement			68,059
State Fees For Services			6,901
Cares Election Fund Grant			29,238
Fiscal Court			107,389
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	648,344	
Usage Tax			1,413,893
Tangible Personal Property Tax			2,360,227
Notary Fees			6,594
Lien Release Fees			10,652
Other-			
Fish and Game Licenses			2,227
Marriage Licenses			4,400
Deed Transfer Tax			144,495
Delinquent Tax			144,356
Delinquent Tax Deposits		<u>86,124</u>	4,821,312
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts			33,851
Real Estate Mortgages			142,565
Chattel Mortgages and Financing Statements			45,823
Powers of Attorney			2,925
Affordable Housing Trust			36,720
All Other Recordings			8,802
Charges for Other Services-			
Candidate Filing Fees			370
Copy Work			1,739
Postage			19,168

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

SPENCER COUNTY
 LYNN HESSELBROCK, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

Receipts (Continued)

Fees Collected for Services: (Continued)

Charges for Other Services- (Continued)

Bail Bonds	\$	188	
Fixture Filing		798	
Liens & Lis Pendens		6,051	
Releases		56,974	
Wills, Estate Settlement & Accom.		1,639	
Storage Fees		62,990	
DTAX Registration Fee		<u>2,225</u>	\$ 422,828

Other:

Miscellaneous			364
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Interest Earned			<u>351</u>
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Total Receipts			5,463,202
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	466,843	
Usage Tax		1,371,088	
Tangible Personal Property Tax		879,495	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		2,124	
Delinquent Tax		10,488	
Legal Process Tax		20,575	
Affordable Housing Trust		<u>36,720</u>	2,787,333

Payments to Fiscal Court:

Tangible Personal Property Tax		135,368	
Delinquent Tax		671	
Deed Transfer Tax		<u>137,653</u>	273,692

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

SPENCER COUNTY
 LYNN HESSELBROCK, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2020
 (Continued)

Disbursements (Continued)

Payments to Other Districts:		
Tangible Personal Property Tax	\$ 1,250,642	
Delinquent Tax	<u>80,006</u>	\$ 1,330,648
Payments to Sheriff		11,752
Payments to County Attorney		18,973
Other Regulatory Payments:		
Delinquent Tax Deposit Refunds		86,124
Other Charges:		
Bank Charges	210	
Miscellaneous	2,525	
Center for Tech and Civic Life Grant	6,760	
Cares Election Fund Grant	<u>29,238</u>	<u>38,733</u>
Total Disbursements		<u>\$ 4,547,255</u>
Net Receipts		915,947
Less: Statutory Maximum		<u>90,562</u>
Excess Fees		825,385
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>4,313</u>	<u>7,913</u>
Excess Fees Due County for 2020		817,472
Payments to Fiscal Court - Monthly		<u>817,472</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

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

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENT

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

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

- Interest receivable
- Collection on accounts due from others for 2020 services
- Reimbursements for 2020 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2020

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).

D. Fee Pooling

The Spencer County Clerk's office is required by the fiscal court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The county clerk is responsible for paying all amounts collected for others and applicable refunds to customers. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses. The fiscal court pays all operating expenses for the fee official.

SPENCER COUNTY
 NOTES TO FINANCIAL STATEMENT
 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.

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 year.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

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

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

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENT
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)

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

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

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

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

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

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

E. Death Benefit

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

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2020
(Continued)

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

KRS Annual Financial Report and Proportionate Share Audit Report

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

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The Spencer 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 Spencer 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.

Note 4. On Behalf Payments

The Spencer County Clerk's office is required by the fiscal court to participate in a fee pooling system. Since the county clerk is fee pooling, the fiscal court pays the county clerk's statutory maximum, expense allowance, and training incentive as reflected on the county clerk's financial statement. For the year ended December 31, 2020, the fiscal court's contributions recognized by the county clerk included the amounts that were based on the statutory maximum as required by KRS 64.5275. The Spencer County Clerk recognized receipts from the fiscal court and disbursements for the statutory maximum of \$90,562, expense allowance of \$3,600, and training incentive of \$4,313 for the year ended December 31, 2020.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2020
(Continued)

Note 5. Fiduciary Account

Escrow Account

The Spencer County Clerk deposited outstanding checks into a custodial bank account. The county clerk turned over the escrowed funds to the Kentucky State Treasurer as unclaimed property on May 21, 2021. The county clerk's escrowed amounts were as follows as of December 31, 2020:

- 2015 \$105
- 2017 \$92

Note 6. Federal Grant

The Spencer County Clerk's office received Cares Act funds in the amount of \$29,238. Funds totaling \$29,238 were paid to the Spencer County Fiscal Court. The grant balance was \$0 as of December 31, 2020.

Note 7. Center for Tech and Civic Life Grant

The Spencer County Clerk's office received funds from the Center for Tech and Civic Life for the public purpose of planning and operationalizing safe and secure election administration in Spencer County in 2020. The Spencer County Clerk received funds in the amount of \$6,760. Funds totaling \$6,760 were paid to the Spencer County Fiscal Court. The grant balance was \$0 as of December 31, 2020.

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 John Riley, Spencer County Judge/Executive
The Honorable Lynn Hesselbrock, Spencer County Clerk
Members of the Spencer 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 Spencer County Clerk for the year ended December 31, 2020, and the related notes to the financial statement and have issued our report thereon dated June 30, 2021. The Spencer 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 Spencer 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Spencer County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Spencer County Clerk's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2020-001 that we consider to be a significant deficiency.



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 Spencer 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

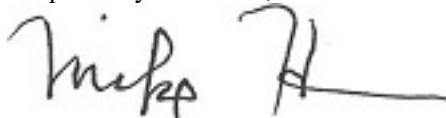
Views of Responsible Official and Planned Corrective Action

The Spencer County Clerk's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Spencer County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement 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,

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

Mike Harmon
Auditor of Public Accounts

June 30, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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SPENCER COUNTY
LYNN HESSELBROCK, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2020

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2020-001 The Spencer County Clerk's Office Has A Lack Of Segregation Of Duties Over Review And Approvals Of Required Regulatory Payments and Reconciliations

The Spencer County Clerk's office lacks segregation of duties over review and approval of required regulatory payments and reconciliations. In addition, there were several instances where required regulatory payments due to the state and local districts were not paid timely. During testing the following were noted:

- For the months of April, May, and June the ad valorem taxes collected for the local county districts were not paid timely resulting in taxes being underpaid by \$27,615.
- The affordable housing trust fees are collected daily and paid out to the state on a quarterly basis. The first and third quarter payments were less than the fees collected resulting in \$12,072 underpayment to the state for 2020.
- The bank reconciliations were prepared monthly as required but there was no documentation of review by county clerk or other designee.

The county clerk indicated that the office did not have enough funds to hire additional personnel to segregate duties. This resulted in bank reconciliations that were not documented as reviewed. Due to management oversight, required regulatory payments were not compared to ledgers to ensure that payments were made on a timely basis.

A lack of segregation of duties over financial functions increases the risk of misstatement due to undetected errors or theft could occur. Noncompliance with regulations governing regulatory required payments could result in penalties and financial statements that are misstated due to underpayment to taxing districts.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, preparing monthly reports, and reconciling bank accounts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

KRS 134.815(1) states, in part, "[t]he county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository."

The Department of Revenue requires quarterly reporting of affordable housing trust fund fees that requires \$6 of each \$12 fee imposed on certain recording and indexing fees collected by county clerks to be paid to the state. In accordance with form 73A201, this report is to be filed with the Department of Revenue on or before the 10th day of the month following the quarter covered by the report. Payment is due for the total amount computed.

SPENCER COUNTY
LYNN HESSELBROCK, COUNTY CLERK
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended December 31, 2020
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued):

2020-001 The Spencer County Clerk's Office Has A Lack Of Segregation Of Duties Over Review And Approvals Of Required Regulatory Payments and Reconciliations (Continued)

We recommend the county clerk separate the duties involved in preparing and reviewing monthly bank reconciliations and comparing financial reports to ledgers. If this is not feasible due to limited staff or budget, the county clerk should implement strong compensating controls to offset these control deficiencies. Compensating controls could include the official (or designee) reviewing monthly bank reconciliations, the weekly and monthly reports and receipts ledgers and comparing them to the disbursement checks to verify the accuracy of the disbursement amounts. All reviews should be documented by signatures or initials. The official (or designee) should also review the monthly and quarterly financial statements to verify all required disbursements have been made and accurately recorded. In addition, we recommend the required regulatory payments be paid on a timely basis in accordance with the applicable regulations.

County Clerk's Response: We will develop a procedure to ensure that monthly bank reconciliations are documented by initialing bank statements. Dual check signatures are already utilized. This will be implemented immediately. When both of these items were brought to the attention of the Clerk and bookkeeper, corrections were immediately made and payments were sent to the taxing districts and the state. We had a sudden change in personnel and the new bookkeeper had an oversight. This was also at the beginning of the COVID-19 pandemic, and our office was attempting to service the public in a remote manner, which resulted in changes in office procedures.