



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Caldwell County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Caldwell County Clerk Toni Watson. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and excess fees of the Caldwell County Clerk in accordance with accounting principles generally accepted in the United States of America. The clerk's financial statement did not follow this format. However, the clerk's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 clerk audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comment:

The county clerk's office lacks segregation of duties over accounting functions. The county clerk collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts and disbursements ledgers, prepares monthly bank reconciliations, and prepares all monthly and quarterly reports. The county clerk performs all accounting functions without any documented independent review. Lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. The segregation of duties or the implementation of compensating controls 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. The county clerk should separate the

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

County Clerk Toni Watson's Response: Have new employee since 2016 who helped with segregation of duties. Expect to continue improvement.

The county clerk failed to timely submit the 2015 fourth quarter financial report. The county clerk's calendar year 2015 fourth quarter financial report was not submitted to the State Local Finance Officer by the 30th day following the close of the fourth quarter. The county clerk did not complete the fourth quarter financial report until March 15, 2016. The county clerk is not in compliance with the uniform system of accounts filing requirements. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This system of accounts requires that fee official quarterly financial report should be submitted by the 30th day following the close of each quarter. The county clerk should ensure that all quarterly financial reports are submitted to the State Local Finance Officer by the 30th day following the close of each quarter.

County Clerk Toni Watson's Response: Deadline was not met. Out of the office at first of year. More timely reports will be made in 2016.

The county clerk failed to collect all customer charges and owes additional excess fees. The county clerk owed \$724 to the fiscal court for official business performed but not collected from customers prior to making settlement with the fiscal court. The county clerk allowed customers to charge transactions, but failed to collect accounts receivable of \$489 prior to making settlement with fiscal court for calendar year 2015. Payments from customers totaling \$235 were collected from customers but these funds were incorrectly deposited into the calendar year 2016 account. The fiscal court was not given all excess fees due for calendar year 2015. Additionally, customers were allowed to avoid late fees and penalties. KRS 64.152 states, "(1) In 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, compensation of deputies and assistants, and reasonable expenses. (2) At the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office, including income from investments, which exceeds the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants." The county clerk should reconcile and collect all accounts receivable monthly. All accounts receivable should be authorized by the county clerk. All accounts receivable should be collected and deposited into the correct calendar year fee account and then any excess should be remitted to the fiscal court in accordance with KRS 64.152.

County Clerk Toni Watson's Response: Was late collecting receivables. In prior years had rolled over to next year and collected. All excess fees collected and paid to Fiscal Court.

The county clerk did not prepare franchise tax bills timely. The county clerk did not prepare franchise tax bills in a timely manner after receiving franchise certifications from the Commonwealth of Kentucky Department of Revenue (DOR). Thirteen franchise bills certified by the DOR between January 2015 and June 2015 were not created by the county clerk until after August 1, 2015, and one franchise tax bill certified in May 2015 has not been billed as of August 7, 2016. The county and other taxing districts did not receive taxes due in the correct fiscal year. Additionally, the sheriff's office did not receive franchise commissions earned in the proper period. In accordance with KRS 133.220, the county clerk is the local official responsible for the preparation of property tax bills each year. The *County Clerk's Office Manual For Public Service (Franchise) Companies & Other Centrally Assessed Companies Prepared By The Public Service Branch Division of State Valuation Office of Property Valuation Department of Revenue* states, "[w]hen these certifications are received, a franchise property tax bill needs to be generated as soon as possible. Unlike the regular county tax bills, the state portion of franchise bills is prepared and billed directly from the Department of Revenue. Therefore, only local property taxes will appear on a franchise tax bill that is prepared by the clerk's office." We recommend the county clerk prepare franchise tax bills as soon as reasonably possible after receiving the DOR certifications.

County Clerk Toni Watson's Response: Had problems with the e-mail system. Now have an additional employee working on franchise bills which should be a more timely system.

The county clerk's responsibilities include collecting certain taxes, issuing licenses, maintaining county records and providing other services. The clerk's office is funded through statutory fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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