Auditor of Public Accounts
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## Harmon Releases Audit of Former Clay County Clerk's Fee Account

**FRANKFORT, Ky. –** State Auditor Mike Harmon today released the audit of the January 1 – September 30, 2020 financial statement of former Clay County Clerk Michael Baker. 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 former Clay County Clerk in accordance with accounting principles generally accepted in the United States of America. The former clerk's financial statement did not follow this format. However, the former 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 noncompliance 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 Former Clay County Clerk's Office did not have adequate segregation of duties which contributed to the third quarter financial statement being materially overstated:** The former Clay County Clerk's office did not have adequate segregation of duties over receipts and disbursements. Deputy clerks who received payment from customers also prepared daily checkout sheets. The bookkeeper received payment from customers, posted to receipts and disbursements to the ledgers, performed bank reconciliations, prepared deposits, and prepared and signed disbursements. The former county clerk was responsible for the review of daily checkouts, the review of bank reconciliations, the review of deposits, and the review of disbursements.

Furthermore, controls over daily deposits were not operating effectively. During the month of September 2020, the former clerk's office erroneously made fee deposits into the office's payroll account totaling $220,100 which went undetected until the clerk submitted his final quarterly. Additionally, since the deposits were made in the wrong account and the funds had to be reimbursed to the fee account, this caused the final settlement to be materially misstated. Furthermore, the quarterly was filed late with the Department for Local Government (DLG).

According to the former county clerk, a limited number of staff prevented a proper segregation of duties and compensating controls over daily deposits were not designed effectively. A proper review of daily deposits would indicate that the deposits were made into the correct account. Deposit slip books were kept in a bank deposit bag and the deposit made on September 9, 2020 for the fee account used the final deposit slip in the book. Upon preparation of the September 10, 2020 daily deposit, the deputy preparing the deposit used a deposit slip book for the payroll account that was kept in the same deposit bank bag. The review of daily deposits did not identify this error and receipts were erroneously deposited into the payroll account until a new fee account was created upon the retirement of the former county clerk.

To mitigate the effect of this weakness, the former county clerk implemented the use of compensating controls. These controls included the former clerk's review of deposits and daily checkouts, dual signatures on checks, the former clerk's review of bank reconciliations. However, compensating controls were not designed effectively in regards to daily deposits. Deposits were made into the wrong account which could increase the risk of misallocation of funds and could have resulted in a negative financial position of the former clerk's fee account. In addition, the former clerk was not in compliance with applicable laws and statutes pertaining to reporting requirements.

Adequate segregation of duties dictate that duties involving the collection and reporting of receipts, the preparation and recording of disbursements, and bank reconciliations should be separated or strong oversight should be performed by an employee not performing any of those functions. The former county clerk could have implement effective oversight when duties cannot be segregated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to certify that the quarterly report is accurate to the best of their knowledge when they sign the quarterly report and to submit quarterly reports to DLG by the 30th day following the close of each quarter.

The former county clerk should have segregated duties over receipts, disbursements, and reconciliations or if segregation of duties was not feasible due to lack of staff, the former county clerk should have implement effective compensating controls. In addition, the former county clerk should have complied with filing requirements established by DLG.

*Former County Clerk's Response: Although the daily deposits were deposited into the payroll account in error, once the error was found using our compensating controls, the funds were moved to the proper account. The money was 100% accounted for. Upon discovery of the error, additional controls were put into place to prevent an error of this type from happening again.*

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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