



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Estill County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Estill County Clerk Sherry L. Fox. 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 Estill 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 noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

The county clerk did not have a written agreement to protect deposits and the depository institution did not pledge or provide sufficient collateral. On September 2, 2015, the county clerk's deposits of public funds were uninsured and unsecured in the amount of \$161,228. In addition, there was no written agreement between the county clerk and the depository institution, signed by both parties, securing the county clerk's interest in the collateral. The bank failed to provide sufficient collateral in accordance with statutes. The county clerk switched bank accounts for calendar year 2015 and forgot to get a new collateral security agreement with the new bank. The county clerk has since executed a written agreement. By not providing adequate collateral, deposits were at risk in the event of a bank failure.

According to KRS 66.480(1)(d) and KRS 41.240, financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend the county clerk enter into a written agreement with the depository institution to secure the county clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (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.

County Clerk's response: An Agreement has been put into place.

The county clerk's office lacks adequate segregation of duties. Due to a small staff, the responsibilities of receiving, recording, depositing, disbursing, reporting, and reconciling funds are delegated to the same individual. The county clerk prepares all weekly and monthly reports, signs all checks, performs all bookkeeping duties, and prepares all bank reconciliations. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error or misstatement, increasing the risk of undetected fraud or errors.

The functions of receiving, recording, depositing, disbursing, reporting, and reconciling should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, or fraud. If, due to a small staff, duties cannot be adequately segregated, the county clerk could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: another employee comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, reviewing invoices prior to payment, and reviewing all financial reports. The employee could document the review process by initialing reports and supporting documentation. We recommend the county clerk segregate the duties of receiving, recording, depositing, disbursing, reporting, and reconciling funds, or implement and document compensating controls to offset this control issue.

County Clerk's response: The official did not provide a response.

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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