



Auditor of Public Accounts  
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### **Harmon Releases Audit of Knott County Clerk's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Knott County Clerk Kenneth Gayheart. 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 Knott 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 Knott County Clerk did not have segregation of duties over receipts:** This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The bookkeeper collects cash, prepares the daily checkout sheets, prepares monthly tax reports, and posts to the receipts ledger. These incompatible duties create a lack of segregation of duties over receipts. To adequately protect assets from misappropriation and inaccurate financial reporting, duties involving collecting cash, preparing daily checkout sheets, preparing monthly tax reports, and posting to the receipts ledger should be separated. However, according to the Knott County Clerk, the office has a limited budget, which restricts the number of employees and prevents a proper segregation of duties.

This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Segregation of duties over cash collection, daily checkout procedures, and deposit preparation are 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. Also, the county clerk can implement oversight when duties cannot be segregated.

We recommend the county clerk separate the duties involved in receiving cash, preparing bank deposits, posting to ledgers, and preparation of reports. If segregation of duties is not feasible due to lack of staff, the county clerk can implemented compensating controls that are operating effectively. Additionally, the county clerk could deliver the daily checkout sheets to the outside firm that generates financial reports for the clerk, and request a computerized receipts ledger be generated with the original source documents.

*County Clerk's Response: We are a small county with limited money and employees. We have an accountant that helps us with our books and finances. We try to disburse the duties of the office among 5 employees. We will talk to the accountant to see if there is anything that he can help us with this.*

**The Knott County Clerk's ledgers and fourth quarter financial report did not include all disbursements:** The county clerk's ledgers and fourth quarter financial report did not include all disbursements for calendar year 2016. The county clerk's receipts and disbursements ledgers should match the fourth quarter financial report to ensure accurate reporting of all financial activity. The county clerk had disbursements totaling \$6,213 for calendar year 2016 that were paid during January and February 2017. These disbursements were not included on the disbursements ledger and the final quarterly financial report for 2016. The clerk also had expenditures for insurance totaling \$2,040 and health insurance totaling \$746 that were not included on the disbursements ledger and the final quarterly financial report for 2016.

The county clerk does not have proper internal controls in place to ensure that all transactions are posted correctly. Transactions occurred after the end of year that were not posted to the disbursements ledger and the fourth quarter financial report. As a result, numerous audit adjustments were necessary to correct the receipts and disbursements ledgers. Inaccurate reporting of receipts and disbursements can result in overspending of the planned budget and incorrect financial reporting to the Department for Local Government.

Good internal controls dictate the county clerk should reconcile his ledgers to his quarterly financial reports. KRS 68.210 requires the state local finance officer to prescribe a system of uniform accounts for county officials to follow. The state local finance officer requires officials to maintain accurate records which support amounts reported on the quarterly financial reports.

We recommend the Knott County Clerk maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

*County Clerk's Response: Part of this was because the fiscal court didn't get the bill for payroll insurance until March of 2017. Auditor and I talked to our accountant together and have worked a solution that these accounts will be paid on a monthly basis and will match payroll records. We have already started this plan.*

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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