



Auditor of Public Accounts
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Harmon Releases Audit of Magoffin County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Magoffin County Clerk Renee Arnett Shepherd. 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 Magoffin 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The county clerk's office lacks adequate segregation of duties: This is a repeat finding and was reported in the prior year audit report as Finding 2016-001. The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the office. The county clerk is responsible for receiving cash, preparing daily deposits, preparing and signing checks, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of duties increases the risk of undetected errors.

This condition is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to.

A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk 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 due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: Not enough employees, limited budget.

The fourth quarter financial report was not complete and accurate: This a repeat finding and was reported in the prior year audit report as Finding 2016-002. The county clerk's fourth quarter financial statements did not agree to the county clerk's receipts and disbursements ledger or the reconciled bank balance. In addition, the reconciliation of all accounts on the fourth quarterly financial report did not reconcile. The book balance shows a reconciled balance of \$133,039. The bank balance shows a reconciled balance of \$48,069 for a difference of \$84,970.

The county clerk did not post all receipts and disbursements to the ledger, which resulted in inaccurate financial reporting. The county clerk posted net payroll checks to the disbursements ledger and did not correctly post retirement and social security matching to the ledger.

Inaccurate financial records provide misleading information to the users of the information. Auditors compared the fourth quarter report to the disbursements ledger and discovered that disbursements per the fourth quarter report differed from the disbursements ledger by \$54,691.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* prescribes a uniform system of accounts pursuant to KRS 68.210, and it requires the county clerk to prepare a quarterly report which includes all receipts and disbursements the county clerk collected and paid during the calendar year.

In order to present the most accurate information possible to regulatory agencies, fiscal court, and the public, we recommend the county clerk implement procedures for ensuring the accuracy of financial information. Ledgers should be posted accurately and the fourth quarter report should agree to ledgers and the bank balance. Receipts and disbursements ledgers should be reconciled to the bank receipts and disbursements on a monthly basis. This would reduce reporting errors.

County Clerk's Response: Corrections were noted and applied for future budgeting.

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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