



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Nelson County Clerk Jeanette Hall Sidebottom. 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 Nelson 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 Nelson County Clerk does not have adequate controls over accounting functions: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The Nelson County Clerk's Office does not have segregation of duties over receipts and monthly bank reconciliations and has not implemented adequate controls. There are two employees that rotate between doing the daily checkout sheet and comparing the daily checkout sheet to supporting documentation from the computer system. There was no documentation of this review on the daily checkout sheet. The same two employees rotate between completing the bank reconciliation at the end of each month, but there was also no documentation of review.

The county clerk does not have segregation of duties over receipts as part of internal controls for the office. Without proper segregation of duties, the risk of undetected material misstatement significantly increases due to errors and theft. Strong internal controls and procedures are vital to ensure proper segregation of duties over collection, reporting, depositing, and reconciling receipts and disbursements. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If duties are not segregated, effective compensating controls should be maintained and documented.

We recommend the county clerk segregate controls over receipts and reconciliations. If these duties cannot be segregated, then strong oversight should be provided to the employee responsible for these duties. Examples of compensating controls include, but are not limited to, daily checkout be reviewed and initialed and bank deposit receipt be reviewed and initialed as well as the bank reconciliation should be documented after review when compared to the bank balance.

County Clerk's Response: Employees rotate doing checkout and bank reconciliation. The employee who did not do the original double checks work and initials the documents. Started this towards end of 2020.

The Nelson County Clerk did not properly account for daily collections: The Nelson County Clerk did not properly account for daily collections the week tested. The week of August 17 through August 21, 2020, was tested and the following was noted: the August 17 deposit cash total was \$4,980 and daily collections cash total was \$5,005, for a difference of \$25. On August 18, the deposit cash total was \$3,651 and daily collections cash total was \$3,629, for a difference of \$22. Daily deposits of cash did not agree to the daily checkout sheet due to over and short not accurately documented on the daily checkout sheet; and deposits were not made intact within 3 business days.

Per the bookkeeper, the difference is a result of a lien that shows as a refund for the day tested; however, it does not get processed until the following day. In addition, the county clerk does not have procedures in place to ensure that daily cash and checks collected are reconciled to the cash and check per the deposit ticket, including allowing the previous day's collections to not be closed out until after processing the following morning and allowing deposits to be made several days after collection.

Improper accounting for receipts increases the risk of error or fraud. Also, deposits not being made daily, significantly increases the risk and opportunity for the undetected misappropriation of assets.

Proper accounting procedures for receipts dictate that cash and check totals per daily checkout sheets should agree to the cash and check totals for the daily deposit ticket, and overage and shortages should be properly accounted for. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. In addition, the Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* states perform daily check-out procedures and make daily intact deposits to a federal insured banking institution.

We recommend the county clerk implement procedures to comply with the DLG manual to ensure:

- The cash and check totals per daily checkout sheet agree to cash and checks deposited in the bank per the deposit ticket, overages and shortages are accounted for properly.
- All collections are deposited intact daily to the bank.
- Any differences or issues are documented on the daily checkout sheets.

County Clerk's Response: We have a process in place that we think corrects this.

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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