



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Owsley County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2014 financial statement of Owsley County Clerk Shanna Oliver. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

The Owsley County Clerk did not maintain adequate accounting records of fee account receipts and expenditures to provide sufficient audit evidence, which resulted in an unacceptably high audit risk. Auditors were also unable to obtain a required representation letter from the county clerk. Due to these issues and an apparent lack of internal controls, an audit opinion could not be expressed, and the audit report presents a disclaimer of opinion.

The audit report will be referred to the Attorney General, the Department for Local Government, and the Department of Revenue.

As part of the audit process, the auditor must comment on non-compliance 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 is not fulfilling her duties as an elected county official. The county clerk is not fulfilling her duties as an elected county official. KRS 68.210 gives the State Local Finance Officer authority to prescribe a uniform system of accounts, which sets certain minimum accounting requirements for local officials. The county clerk is not meeting these requirements and other statutory requirements. We have noted the following instances of noncompliance, which are detailed in the subsequent findings:

- The county clerk did not submit quarterly reports to the Department for Local Government.

- The county clerk did not present a financial statement and remit excess fees to the fiscal court by March 15, 2015.
- The county clerk did not properly maintain a receipts and disbursements ledger.
- The county clerk did not reconcile her official bank account to financial records.
- The county clerk did not prepare franchise tax bills totaling \$373,181.
- The county clerk did not provide recorded and approved fiscal court minutes.
- The county clerk did not get the maximum salary limitation approved by the fiscal court.
- The county clerk did not properly distribute delinquent tax payments to the districts.

Due to incomplete financial records and failure to perform the required duties as county clerk, we could not verify the accuracy of the county clerk's financial activities. Incomplete financial reports can lead to improper financial decision making, as well as increase the risk of undetected errors or fraud. Due to the lack of financial records, we were unable to express an opinion on the county clerk's financial statement. We recommend the county clerk fulfill her duties as county clerk. We will refer this matter to the Office of the Attorney General and to the Department for Local Government.

County Clerk's response: No response.

The county clerk did not submit quarterly reports to the department for local government. The county clerk did not submit quarterly reports to the Department for Local Government (DLG). As of this date, the clerk still has not completed a 4th Quarter Report for the 2014 Fee Account. Pursuant to KRS 68.210, the State Local Finance Officer requires officials to submit quarterly reports to the Department for Local Government by the 30th day following the close of each quarter. The county clerk did not prepare a quarterly report for every quarter during calendar year 2014. Failure to submit required reports prevents proper oversight from DLG and increases the risk that errors, misstatements, or fraud can occur and go undetected for a significant time period. We recommend the county clerk submit her 4th Quarter Report to DLG and make sure all reports are submitted timely in the future.

County Clerk's response: No response

The county clerk did not present a financial statement and remit excess fees to the fiscal court by March 15, 2015. The county clerk did not submit a financial statement and pay excess fees to the fiscal court by March 15, 2015. KRS 64.152 requires a financial statement to be presented and excess fees to be paid to the fiscal court by March 15 of each year. The county clerk did not maintain accurate financial records and therefore did not prepare a financial statement for calendar year 2014. Failure to submit required reports and pay excess fees to the fiscal court prevents proper oversight from the fiscal court and increases the risk that errors, misstatements, or fraud can occur and go undetected for a significant time period. We recommend the county clerk comply with KRS 64.152 by presenting a financial statement and paying excess fees by March 15 of each year.

County Clerk's response: No response.

The county clerk did not comply with the uniform system of accounts. The county clerk did not comply with the Uniform System of Accounts as adopted under KRS 68.210. Among other

provisions, this statute requires the official to maintain accurate recording of receipts by source, and expenditures by payee, and to fulfill all other legal requirements relating to the oversight and management of public funds by her office. The county clerk failed to comply with the minimum requirements of the Uniform System of Accounts because receipt and disbursement ledgers were not properly maintained and bank reconciliations were not prepared. Failure to complete these tasks results in inadequate oversight and accountability over financial activities, as well as increases the risk that errors and fraud will occur and go undetected. We recommend the county clerk meet the minimum requirements of accountability for compliance with the Uniform System of Accounts by maintaining up to date ledgers and preparing timely bank reconciliations.

County Clerk's response: No response.

The county clerk did not prepare franchise tax bills totaling \$373,181. The county clerk did not prepare franchise tax bills after September 2, 2014. The county clerk should prepare franchise bills upon receipt of the state assessment certification and promptly give to the sheriff to mail. KRS 133.220(2) requires the county clerk to prepare tax bills and in part, states “the county clerk shall prepare for the use of the sheriff...a correct tax bill for each taxpayer in the county.” The county clerk failed to perform this duty. This resulted in 31 franchise bills not being prepared, totaling \$373,181, as of the date of our report. By not preparing the franchise tax bills and submitting them to the sheriff to collect, the county, school, and other taxing districts did not receive the tax revenues they were entitled to. These tax districts rely on the timely receipt of tax revenues, and by the county clerk neglecting her duties, the tax districts’ budgets and cash flows were negatively affected. The share of the unbilled franchise taxes for each taxing district is as follows:

County	\$	53,615
School		155,397
Library		60,055
Health		16,918
Extension Service		85,210
Soil Conservation		<u>1,986</u>
Total	\$	<u>373,181</u>

We recommend the county clerk prepare the 31 franchise tax bills that have not been prepared and ensure franchise bills are timely prepared and submitted to the sheriff in the future. We are referring this matter to the Department of Revenue.

County Clerk's response: No response

The county clerk did not provide recorded and approved fiscal court minutes. The county clerk did not provide recorded and approved fiscal court minutes. KRS 67.100 states that the fiscal court is a court of record; therefore, minutes of the proceedings of each meeting shall be prepared and submitted for approval at the next succeeding meeting. Likewise, every official action of the fiscal court shall be made a part of the permanent records of the county, and a copy of all records required by this section shall be kept in the office of the county clerk. Without these documents, we were unable to determine the official activities of the county clerk’s office and were also not

able to confirm any action taken by the fiscal court in regard to the county clerk's office. Therefore, we will disclaim an opinion on the county clerk's 2014 fee audit opinion due, in part, to the fact that the county clerk is not performing her duties as a court recorder of the fiscal court.

We recommend that the county clerk adhere to KRS 67.100 by recording the minutes of each fiscal court meeting, by submitting each recording for approval at the next succeeding meeting, and by maintaining these records in her office to be made available to the public for inspection upon request.

This matter will be discussed with the county judge/executive and the county attorney.

This matter will also be referred to the Department for Local Government.

County Clerk's response: No response.

The county clerk did not get fiscal court approval of the maximum salary limitation for her deputies. The county clerk did not get the salaries of her deputies approved by the fiscal court. KRS 64.530(3) states, in part, "The fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." The county clerk did not provide us with documentation that the maximum salary limitation was set, and there were no fiscal court minutes available for us to verify this. Without this approval, we were unable to determine if the amount paid to the county clerk's deputies was within the allowable amount fixed by the fiscal court. We recommend the county clerk ensure the maximum salary limitation is approved and on record in the fiscal court minutes in the future.

County Clerk's response: No response.

The county clerk did not properly distribute delinquent tax payments to the districts. The county clerk did not properly distribute delinquent tax payments to the taxing districts. No taxing districts were paid for the month of June 2014. Likewise, three other months were not paid timely, and 19 payments did not clear the bank timely. Due to this, the taxing districts did not receive their portion of taxes collected timely and were not paid a total of \$5,041 for the month of June. According to KRS 134.126, the county clerk shall report and pay by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts their allocation of any certificate of delinquency paid. We recommend that the county clerk ensure policies and procedures are in place to ascertain that all delinquent tax payments are made to the taxing districts timely. Moreover, we recommend that the county clerk pay June 2014 delinquent tax report amounts to the appropriate taxing districts.

County Clerk's response: No response.

The county clerk's office lacks adequate segregation of duties. The county clerk's office lacks adequate segregation of duties due to the responsibilities of recording, depositing, and reconciling cash being delegated to the same individual. The functions of receiving, recording, depositing,

and reconciling cash should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error and misstatement. We recommend the county clerk segregate the duties of recording, depositing, and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include:

- An employee could compare daily checkout sheet to the receipt ledger and bank deposit prepared by another employee.
- An employee could review bank reconciliations prepared by another employee for accuracy.
- An employee could review all financial reports and compare to supporting documentation.

These compensating controls could be documented by initialing and dating the documentation reviewed by employees at the time of the review.

County Clerk's response: No 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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