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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Perry County Clerk Haven King. 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 Perry 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 Perry County Clerk did not present the final settlement to the fiscal court. Although excess fees were presented and recorded by the fiscal court, the final settlement was never presented. The county clerk failed to ensure that he or his staff submitted the final settlement to the fiscal court. Without presenting an annual settlement, the fiscal court is unaware of the financial condition of the county clerk's office.

KRS 64.152(1) states, in part "the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses."

We recommend the county clerk comply with KRS 64.152(1) and establish procedures to ensure an annual settlement is presented to the fiscal court by March 15 of each calendar year.

County Clerk's response: Will get in compliance.

The Perry County Clerk's ledgers and quarterly financial report did not include all receipts and disbursements. The clerk's receipts ledger, disbursements ledger, and quarterly financial report did not include all receipts and disbursements for calendar year 2015. 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 does not have proper internal controls in place to ensure that all transactions are posted correctly. As a result, numerous audit adjustments were made to 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 that the Perry County Clerk maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

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

The Perry County Clerk's office lacks adequate segregation of duties. All of the county clerk's employees receive cash. The bookkeeper receives cash, prepares deposits, posts revenue to the ledger, prepares disbursements other than those listed elsewhere in this comment, posts disbursements to the ledger, and completes the monthly bank reconciliations. The county clerk has assigned different deputies to be responsible for the usage, registration, delinquent tax, legal process, and chattel disbursements. Employees are not cross-trained; therefore, only the deputy responsible for a certain report is knowledgeable about those reports. The deputy who prepares the report is also responsible for preparing all disbursement checks. Although the county clerk reviews the monthly reports and disbursements, no evidence exists that he reviews refund or overpayment disbursements. In order to post all disbursements, the bookkeeper uses the check register instead of the actual disbursement checks and supporting documentation. The county clerk routinely only signs payroll checks, not checks for other disbursements.

A limited budget places restrictions on the number of employees the county clerk can hire. When faced with a limited staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is 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 responsibilities.

When one deputy collects revenue, prepares deposits, prepares the reports, and prepares the disbursements, that deputy has control over the entire process. No evidence exists that the county clerk or another deputy verifies the receipts or disbursements (with the exception of payroll) before they are remitted or posted to the ledger. Allowing one person control over an entire process without oversight subjects the monies of the county clerk's office to inaccurate financial reporting and misappropriation.

Segregation of duties over cash collections, daily checkout procedures, deposit preparation, and the preparation over checks is 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.

We recommend the county clerk segregate duties and institute compensating controls. Examples of controls include, but are not limited to, cross-training employees, requiring deputies to periodically rotate duties, routinely recalculating daily checkout procedures for accuracy, obtaining bank statements unopened, re-performing bank reconciliations, and ensuring that reports and financial statements are accurate by comparing to the ledgers. The county clerk should appoint one individual to be responsible for issuing all disbursements. The county clerk, along with a deputy, should sign all checks. The county clerk should approve all refunds. The county clerk and deputies should document the review processes by initialing the reports and supporting documentation.

County Clerk's response: The county clerk 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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