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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former 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 former Perry County Clerk in accordance with accounting principles generally accepted in the United States of America. The former clerk's financial statement did not follow this format. However, the former 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 former Perry County Clerk's Office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former Perry County Clerk's Office lacked segregation of duties over receipts, disbursements, and reconciliations. All of the former county clerk's employees received cash. The bookkeeper received cash, prepared deposits on a rotating basis with other deputy clerks, posted revenue to the ledger, prepared disbursements other than those listed elsewhere in this comment, posted disbursements to the ledger, and completed the monthly bank reconciliations. The former county clerk 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 prepared the report is also responsible for preparing all disbursement checks. Although the former county clerk reviewed the monthly reports and disbursements, auditors found no evidence that he reviewed refund or overpayment disbursements. In order to post all disbursements, the bookkeeper used the check register instead of the actual disbursement check and supporting documentation.

According to the former clerk, a limited budget placed restrictions on the number of employees the former clerk could hire. When faced with a limited number of 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 was found that the former county clerk or another deputy verified the receipts or disbursements, with the exception of payroll, before they were remitted or posted to the ledger. Also, allowing one person control over an entire process without oversight subjects the monies of the Perry County Clerk's Office to inaccurate financial reporting or misappropriation.

Segregation of duties over cash collections, daily checkout procedures, deposit preparation, and the preparation of checks are essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the office of 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 former county clerk could have appointed one individual to be responsible for issuing all disbursements. The former county clerk should have approved all refunds. The former county clerk and deputies should have documented the review processes by initialing the reports and supporting documentation.

Former County Clerk's Response: Limited budget and limited staff makes proper segregation of duties difficult. The County Clerk has reviewed the recommendations in the audit and will take action to implement those recommendations. We have 12 employees that rotate doing the deposit. The County Clerk will sign off on the reports such as the delinquent tax and Ad Valorem. The County Clerk will review each bank statement and invoice.

The former Perry County Clerk's ledgers and quarterly financial report did not include all receipts and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The former county clerk's ledgers and fourth quarter financial report did not include all receipts and disbursements for calendar year 2017. Transactions occurring after the end of the calendar year were not posted to the receipts and disbursements ledger and the fourth quarter financial report. The former county clerk did not have proper internal controls in place to ensure that all transactions were posted to the quarterly financial report. Inaccurate reporting of receipts and disbursements can result in overspending of the planned budget, expending more on allowable operating expenditures than income received, and incorrect financial reporting to the Department for Local Government (DLG). As a result, numerous audit adjustments were recommended to correct the receipts and disbursements ledgers. Good internal controls dictate the county clerk should reconcile his ledgers to his quarterly financial reports on a monthly basis. 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 county clerk's office maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

Former County Clerk's Response: The County Clerk will maintain and complete an accurate receipts and disbursements ledgers which support the amount reported on quarterly financial reports. The County Clerk will ensure that his ledgers are reconciled to the quarterly financial reports.

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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