



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

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Woodford County Clerk Sandra Jones. 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 Woodford 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 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's financial statements had misstatements and ineffective reconciliation procedures.** During our audit, we found the following bookkeeping issues:

- Not all disbursements had been posted to the disbursements ledger, creating a material difference in what was reported on the financial statement.
- Ledgers were not reconciled to the bank statement. What was being used as a reconciliation was a recapitulation of transactions posted to the bank statement, but did not reconcile activity posted to ledgers.

- Receipt amounts posted to the financial statement were inconsistently treated. Receipt line items for various filing fees were not handled the same each quarter, making agreement between the ledger and the fourth quarter financial statement impossible.
- The 4<sup>th</sup> quarter financial statement turned in to the fiscal court and the Department for Local Government had mathematical errors causing a material misstatement.

The majority of the issues were caused by errors in bookkeeping and a lack of oversight of the financial statement. The issue related to reconciliations was a failure to recognize that the procedures implemented were not effectively reconciling the ledgers to the bank statement. The failure to post all transactions to the ledgers and properly reconcile resulted in an overpayment of excess fees to the fiscal court in the amount of \$33,095. Mathematical errors resulted in inaccurate financial reporting for the county clerk's office.

KRS 68.210 requires the State Local Finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for handling of public funds, including reconciliations of ledgers to the bank statements. Good internal controls dictate that all transactions should be posted to the ledgers to produce an accurate representation of the financial activity. Further, line items on ledgers should be given the same treatment each time a financial statement is produced in order to give a clear representation of the year's finances. Additionally, all financial reports should be checked for mathematical accuracy.

It is recommended that the county clerk improve procedures over financial reporting to ensure transactions are properly recorded, ledgers are reconciled, and financial reports are mathematically accurate.

*County Clerk's response: The errors in bookkeeping were the result of there not being a bookkeeping program previously implemented in the Woodford County Clerk's Office. The funds awarded from a grant from the Kentucky Department of Library and Archives were used partly for bookkeeping programs that will ensure these types of errors will not be repeated. Absolutely none of the errors that were listed as bookkeeping issues would have materialized if a software program was being used like the majority of county clerks use throughout the state. It is now recognized and understood that the reconciliation method that was used during 2015 did not adequately achieve the correct reconciliations of ledgers to bank statements. Further, in addition to the bookkeeping software program being used and the guidelines that are stated in the County Budget Preparation and State Local Finance Office Policy Manual are being followed, these errors will be eliminated.*

**Controls over receipts, disbursements, and reconciliations are not adequately segregated.**

The bookkeeper receives funds from customers, works in a cash drawer, reconciles the cash drawer, prepares the deposit, posts to ledgers, and reconciles to the bank.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts and disbursements due to the risk of undetected misstatements from error or fraud. The county clerk's office has a limited number of employees, making it difficult to adequately segregate duties. Failure to adequately segregate duties could lead to financial misstatement, mishandling of funds, or fraud.

We recommended the county clerk strengthen internal controls by segregating duties to separate individuals. If that is not possible due to a limited number of staff, the county clerk could mitigate the risk associated with inadequate segregation of duties by implementing compensating controls:

- The county clerk could periodically compare daily bank deposits to the daily cash settlement sheet, then compare the cash settlement sheet to the receipts ledger. Any differences noted should be investigated and reconciled.
- The county clerk could document this by initialing the bank deposit receipt and the daily cash settlement sheet.
- The county clerk could periodically prepare the monthly summary financial report and monthly bank reconciliation.

*County Clerk's response: Internal controls will be strengthened by performing random unannounced cash drawer counts on each deputy clerk. These cash drawer counts will be clearly documented to reflect the date each deputy's cash drawer was counted.*

*The compensating controls that will rectify inadequate segregation of duties include: (1) clerk to make comparison of the daily bank deposits to the daily cash settlement sheet and initial both the bank deposit receipt and the daily cash settlement sheet; and (2) clerk to compare the cash settlement sheet to the receipts ledger, note any differences, and reconcile whatever difference that may be found.*

*The county clerk currently prepares the monthly summary financial report and monthly bank reconciliation jointly with the bookkeeper/deputy clerk.*

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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