



Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Magoffin County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Magoffin County Clerk Renee Arnett Shepherd. 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 Magoffin 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 county clerk commingled public and private funds: The county clerk's 2019 fee account was overdrawn on January 9, 2020, by \$23,715. On January 13, 2020, the county clerk deposited \$1,000 of her personal funds and with additional 2019 collections, making the 2019 fee account a positive balance. On January 14 and 15, the 2019 fee account was overdrawn by \$256 and \$4,839, respectively. On January 16, 2020, the county clerk deposited \$16,825 from the 2020 fee account making the 2019 fee account having a positive balance. On March 5, 2020, the county clerk repaid the 2020 fee account the \$16,825 and herself \$895. The difference between the \$1,000 and the \$859 is the overdraft fees which the county clerk paid for from personal funds.

The county clerk neglected to utilize adequate internal controls in monitoring receipts and disbursements of the 2019 fee account which created a deficit in account. To bring the account even, the county clerk made an unallowable transfer of funds from the 2020 fee account to the 2019 fee account and commingled private funds with public funds. By not utilizing adequate internal controls, the county clerk did not sufficiently monitor the receipts and disbursements of the 2019 fee account and created a negative balance within the account which resulted in a deficit to the fee account and overdraft charges on three days.

KRS 64.850 states, “[i]t shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited.”

We recommend the county clerk monitor her receipts and disbursements more closely to avoid creating a deficit and having to conduct an unallowable transfer of funds and commingle public and private funds.

County Clerk's Response: I didn't want my account negative.

The county clerk's office lacks adequate segregation of duties: This is a repeat finding and was reported in the prior year audit report as Finding 2018-001. The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The county clerk is responsible for receiving cash, preparing daily deposits, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of duties increases the risk of undetected errors.

According to the county clerk, this condition is a result of limited resources and a restricted budget, thereby restricting the clerk's staffing and delegation abilities. A proper segregation of duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary, because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: Don't know. Office is small and not a lot of employees.

The county clerk's fourth quarter financial report was not complete and accurate: This is a repeat finding and was reported in the prior year audit report as Finding 2018-002. The county clerk's fourth quarter financial statements did not agree to the county clerk's receipts and disbursements ledger. In addition, auditor proposed numerous adjustments to the county clerk's

disbursement ledger. Although the differences noted and the proposed adjustments were not material for the current year, the prior three years had the same finding. Given the amount of funds that pass through the clerk's fee account and the lack of internal controls, we feel like there could be a material misstatement in future years if proper internal controls are not implemented.

The county clerk does not have proper internal controls in place to ensure that her accounting records are accurate and reconciles to the bank statements. In addition, the county clerks' accounting system is comprised of a spreadsheet to record receipts and disbursements and a software program is only used to write checks. This system is an "one sided" entry as opposed to a traditional "two sided" system which ensures a balance financial statement.

Inaccurate financial records provide misleading information to the users of the information. Auditors compared the fourth quarter report to the receipts and disbursements ledgers and noted differences of \$3,410 and \$8,680, respectively. The sum of the absolute adjustments proposed to the disbursement ledger were \$31,947.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* prescribes a uniform system of accounts pursuant to KRS 68.210, and it requires the county clerk to prepare a quarterly report which includes all receipts and disbursements the county clerk collected and paid during the calendar year.

We recommend the county clerk implement procedures for ensuring the accuracy of financial information. Ledgers should be posted accurately, and the fourth quarter report should agree to ledgers and the bank balance. Receipts and disbursements ledgers should be reconciled to the bank receipts and disbursements on a monthly basis. In addition, we recommend the county clerk to use her software to its fullest potential thus using a traditional "two sided" accounting system.

County Clerk's Response: Have already began correcting.

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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