



Auditor of Public Accounts
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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 2022 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 finding:

The Magoffin County Clerk's Office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The county clerk's office does not have 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 is a result of limited resources and a restricted budget, thereby restricting the clerk's

staffing and delegation abilities. A lack of adequate segregation of duties can result in material misstatements occurring without detection and imperative review. 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: Will have deputy look over all of my work.

The Magoffin County Clerk has a deficit of \$9,523 in her 2022 fee account: This occurred because the county clerk failed to implement an internal control system to ensure receipts and disbursements were properly posted to her ledgers and fourth quarter report. The county clerk also did not review monthly bank balances to determine if there were sufficient funds to pay outstanding liabilities. This led the county clerk to end the year with a negative cash balance of \$114. In addition, the county clerk has disallowed disbursements totaling \$2,258, the repayment of \$16,302 to the 2023 fee account for deposit errors, and \$1,056 due to the fiscal court for storage fees not remitted. She also remitted excess fees in the amount of \$5,691 to the fiscal court that is due back to her account. The deficit is as follows:

Reconciled Cash Balance As Of 12/31/22	\$ (114)
Due From Fiscal Court For CY 2022 Excess Fees Paid In Error	5,691
Due From Clerk For Disallowed Disbursements	2,258
Storage Fee Due Fiscal Court	(1,056)
Fees Due 2023 Fee Account For Deposit Errors	<u>(16,302)</u>
Total Deficit	<u>\$ (9,523)</u>

As a result, the county clerk's office did not have the funds needed to settle the 2022 fee account.

Strong internal controls and proper oversight procedures dictate that expenditures should be monitored closely and compared to budgets to ensure sufficient funds are available. If insufficient funds are available to meet obligations, expenses must be reduced to compensate and to avoid overspending and a fund deficit.

We recommend the county clerk consult with the fiscal court and the county attorney to determine how to eliminate this deficit, up to and including using personal funds to pay the office's obligations that are currently outstanding.

County Clerk's Response: Will pay as the County Judge and Fiscal Court directs.

The Magoffin County Clerk's fourth quarter financial report was inaccurate: The county clerk's fourth quarter report submitted to the Department for Local Government (DLG) was inaccurate reflecting posting discrepancies that required multiple audit reclassifications and adjustments. Auditors recommended adjustments and reclassifications of \$31,702 to correct the receipts ledger and \$32,202 to correct the disbursements ledger.

Proper controls were not in place to detect or correct mispostings. The county clerk did not reconcile monthly to determine if ledgers were correct.

Failure to submit required reports prevents proper oversight from DLG. Mispostings increase the risk of uncorrected errors, theft, loss, or misappropriated assets. Several reclassifications and adjustments were necessary to accurately reflect the activity of the county clerk's office.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This system of accounts requires that fee official quarterly financial reports should be submitted by the 30th day following the close of each quarter. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county clerk to prepare a quarterly report which includes total receipts and total disbursements on a cash basis per line-item category. In addition, good internal control procedures would detect errors in daily posting to ledgers, reducing the risk of misappropriation and inaccurate financial reporting.

KRS 43.075(3) requires that "each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee, and whether or not each official is complying with all other legal requirements relating to the management of public funds by his office[.]"

We recommend the county clerk ensure that she is complying with applicable state laws and DLG's manual. We also recommend the county clerk reconcile the ledgers monthly, review reclassifications and adjustments, and develop policies for posting transactions to ensure that receipts and disbursements are categorized correctly on her ledgers and quarterly report.

County Clerk's Response: Have purchased a program to help with my bookkeeping.

The Magoffin County Clerk was late remitting state payroll withholdings: The county clerk did not remit \$7,896 of state withholdings for the first three quarters of calendar year 2022 until December 20, 2022, which resulted in interest charges of \$157. In addition, the county clerk did not remit any state withholdings for calendar year 2021 which resulted in interest of \$387 and \$1,714 in penalties which were paid from her 2022 fee account. The fiscal court returned excess fees of \$8,570 to pay these liabilities; however, total penalties and interest of \$2,258 will be disallowed.

The county clerk failed to implement controls to prevent and detect errors over state withholdings. The state did not receive payroll taxes in a timely manner. Also, these disallowed disbursements are misspent taxpayer funds and a reduction in the amount of excess fees paid to the fiscal court.

Proper internal controls require the county clerk implement strong controls over payroll functions to ensure timely withholding payments are made. In addition, 103 KAR 18:150 Section 2 requires employers that withhold income tax of \$2,000 or more but less than \$50,000 to file and pay the tax monthly on or before the 15th day of the following month. Additionally, in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend the county clerk personally reimburse the 2022 fee account \$2,258. Furthermore, we recommend the county clerk remit state withholdings monthly.

County Clerk's Response: Had forgotten this had went to internet and when was made aware, I began immediately.

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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