



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

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Knott County Clerk Maurica Cornett. 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 Knott 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 did not have segregation of duties over receipts:** The bookkeeper collects cash, prepares the daily checkout sheets, prepares monthly tax reports, and posts to the receipts ledger. These incompatible duties create a lack of segregation of duties over receipts. To adequately protect assets from misappropriation and inaccurate financial reporting, duties involving collecting cash, preparing daily checkout sheets, preparing monthly tax reports, and posting to the receipts ledger should be separated. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. The segregation of duties over cash collection, daily checkout procedures, and deposit preparation are 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. Also, the county clerk can implement oversight when duties cannot be segregated.

The county clerk's office has a limited budget which restricts the number of employees, and prevents a proper segregation of duties. We recommend the county clerk separate the duties involved in receiving cash, preparing bank deposits, posting to ledger, and preparation of reports. If segregation of duties is not feasible due to lack of staff, the county clerk can implemented compensating controls that are operating effectively. Additionally, the county clerk could deliver the daily checkout sheets to the outside firm that generates financial reports for the clerk, and request a computerized receipts ledger be generated with the original source documents.

*County Clerk's Response: Clerk has two deputies to perform bookkeeping duties. Each clerk has segregated responsibilities to keep from misappropriation of funds. Each clerk switches off and performs duties of the other. County Clerk does check off of daily balancing sheets and deposits made each month. CPA also gets computer journal ledger to compare deposits and checks each month. This ensures protection of the employees.*

Auditor's Reply: The compensating controls the county clerk's office has in place are not effective to offset the lack of segregation of duties.

**The county clerk overspent her approved budget:** We noted the Knott County Clerk's operating expenditures exceeded the budget approved by the Knott County Fiscal Court. The Knott County Fiscal Court approved the county clerk's budget for official expenses at \$358,624; however, the county clerk expended \$561,306. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15<sup>th</sup> of each year. A budget amendment was not completed to accommodate the additional receipts and corresponding disbursements. We recommend the Knott County Clerk monitor her budget throughout the year and request budget amendments as necessary from the fiscal court, before year end.

*County Clerk's Response: Clerk exceeded budget due to the [name redacted] delinquent tax lawsuit. County Clerk had to take in and distribute back out along with the thirteen (13) percent back to the County Attorney. Budget was not amended for the excess fees taken in by the CPA. In response, the CPA will amend the budget for the 2020 year.*

**The county clerk did not require the depository institution to pledge or provide additional collateral of \$67,809 and enter into a written agreement to protect deposits:** The county clerk should require the depository institution to pledge or provide additional collateral and enter into a written agreement to protect deposits. On December 31, 2019, the county clerk's deposits of public funds were uninsured and unsecured in the amount of \$67,809. According to KRS 66.480(1) (d) and KRS 41.420(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). A lack of proper oversight resulted in a portion of the clerk's deposits being uninsured and unsecured. The county clerk should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all

times We recommend the county clerk enter into a written agreement with the depository institution to secure the county clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A.1823 (e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Clerk's Response: No 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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