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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Marion County Clerk Chad G. Mattingly. 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 Marion 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Marion County Clerk did not present an annual financial statement to the fiscal court: The annual financial statement of the county clerk was not presented to the fiscal court by March 15 of the preceding calendar year. The clerk presented a check for excess fees on May 16, 2018, to the fiscal court; however, he was not aware that a final settlement needed to be presented by March 15 with payment.

The county clerk is not in compliance with KRS 64.152. Under the provisions of KRS 64.152, "[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensating of deputies and assistants, and reasonable expenses."

We recommend the county clerk comply with KRS 64.152 by presenting the annual settlement to the fiscal court by March 15 for the preceding year.

County Clerk's Response: A profit and loss report will be presented to Fiscal Court for 2018 by March 1, 2019.

The Marion County Clerk's Office lacks adequate segregation of duties: The Marion County Clerk's Office lacks adequate segregation of duties. All employees, including the county clerk, collect payments from customers and prepare receipts. At the end of each day, each deputy clerk reconciles their drawer to the KAVIS printout. The following day, a full-time deputy clerk prepares the daily checkout sheet and the deposit ticket, and posts to the receipts ledger. A different employee will compare the daily checkout sheet to the deposit ticket and the county clerk will take the deposit to the bank. There is no documentation of review on the daily checkout sheet, receipts ledger, or bank deposit receipt. A profit and loss report is printed weekly, but there is no documentation of review when compared to the daily checkout sheets. When invoices are received for operating expenses, a full-time deputy clerk will post to the disbursements ledger, and prepare and sign the disbursement checks. All invoices are stamped paid and initialed by the employee processing the disbursement. All disbursement checks require dual signatures. After the disbursement was entered into the ledger, there was no documentation of review when compared to the invoice or check. When reports are printed for required payments, the preparer will sign the report. There was no documentation of review on the reports or ledgers when they were compared to the disbursement check. When payroll is prepared, a deputy clerk will input the payroll data and print and sign the checks. The county clerk will sign all payroll checks, but there was no documentation of review when compared to the employee earnings report. A deputy clerk completes the bank reconciliation at the end of each month. There was no documentation of review. The county clerk did not prepare the quarterly report following the end of each quarter, but did prepare the year-end quarterly report. This report was not accurate or compared to ledgers, and was not reviewed by another employee. A profit and loss report is printed weekly, but is not printed monthly or quarterly. It is not compared to the reports of required payments or the quarterly report. Multiple employees have access to QuickBooks and can modify the program. Auditors noted errors during testing that should have been prevented or detected by properly implementing internal controls.

According to the clerk, due to the limited staff size and cost to hire additional staff in the clerk's office, segregation of duties is not possible. The clerk has implemented some compensating controls to help offset the lack of segregation of duties, but the controls were not effective because they were not applied consistently during calendar year 2017. Without segregation of duties, the risk of material misstatements significantly increases because undetected errors and theft can occur.

Strong internal controls and procedures are vital to ensure proper segregation of duties over collection, reporting, depositing, disbursing, and reconciling receipts and disbursements. If segregation of duties is not possible, effective compensating controls should be put in place, applied consistently, and evidenced.

We recommend the compensating controls that are in place be improved and applied consistently. Auditors recommend that daily checkout sheets be initialed when compared to the KAVIS reports to verify transactions were reported in the accurate fund/account on the ledger and initial the bank deposit receipt when compared to the deposit ticket to verify the correct amount was deposited into the bank. A profit and loss report should be printed and reviewed weekly, by comparing to the daily checkout sheets, and also printed monthly and quarterly. After disbursement checks are processed for operating expenses, the disbursements ledger should be initialed after comparison to the invoice and disbursement check. When required payments are issued, we recommend the disbursement check be compared to the report and the report be initialed for review and comparison. When payroll checks are issued, the employee earnings report should be documented after comparison to the payroll check to verify accuracy. The bank reconciliation should be documented after review when compared to the bank balance. Auditors also recommend the quarterly report be completed for each quarter, compared to the profit and loss report, and documented after review by a different employee. It is also recommended that employees with access to ledgers and payroll information be limited in order to prevent fraud or a material misstatement from occurring.

County Clerk's Response: We will do a better job of initialing our checks and balances, with the staff we have.

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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