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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Martin County Clerk Susie Skyles. 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 Martin 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 Martin County Clerk's Office lacked adequate segregation of duties: One employee collected cash, prepared the daily checkout sheet, prepared the deposit slip, and took the deposit to the bank. Timecards are maintained by the employees, but are not properly reviewed or approved by a supervisor. One employee was compensated for time off work but did not have leave time accrued. Canceled checks did not have dual signatures, one invoice was not properly canceled, and two invoices were not paid within 30 business days.

The county clerk did not provide proper oversight over disbursements, payroll and cash receipts. The county clerk did not maintain proper internal controls over timesheets and usage of leave time.

A lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

Without strong internal controls, errors can remain undetected. It was found during testing that:

- Two disbursements were not paid within 30 business days. (*As referenced 2016-004)*
- One disbursement was not effectively canceled. (*As referenced 2016-004*)
- Timecards were not reviewed by a supervisor or the county clerk. (*As referenced 2016-005*)
- One employee was being compensated without using leave time. (*As referenced 2016-005*)

Good internal controls dictate that adequate controls and sufficient review is necessary to reduce the risk of errors and misstatements. KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; [and] (b) The hours worked each day and each week by each employee[.]" Also, KRS 65.140(2) states in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]"

We recommend the county clerk adequately segregate duties and implement internal controls over the process of cash, disbursements, and payroll. The clerk should approve all disbursements. This can be documented by initialing invoices. The clerk should require all invoices to be marked paid, or a copy of the canceled check attached to the invoice to prevent duplicate payment. The clerk should require dual signatures on all checks. The clerk should also pay all invoices within 30 days in accordance with KRS 65.140(2). The county clerk should adhere to the adopted administrative policy for payroll. Timesheets should be properly reviewed and signed to prevent future errors, and compensation should not be provided when absent, unless the proper form of leave is being utilized. If segregation of duties is not feasible due to a lack of staff, the county clerk should implement and document compensating controls to offset this control deficiency.

County Clerk's Response: County clerk will implement more internal controls.

The Martin County Clerk's quarterly financial report was materially misstated: The county clerk's fourth quarter report did not reflect all financial activity for calendar year 2016. Disbursements after December 31, 2016, totaling $211,328 were not posted to the disbursements ledger. Failure to post these transactions resulted in the fourth quarter financial report being materially misstated.

The county clerk was not aware that disbursements after December 31, 2016, were required to be accounted for on the fourth quarter financial report.

The Martin County Clerk did not provide accurate financial information to the fiscal court and the Department for Local Government (DLG). A materially misstated fourth quarter financial report could result in an increased risk of uncorrected errors, theft, loss, and misappropriated assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts as described in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the county clerk to maintain accurate receipts and disbursements ledgers and prepare a fourth quarterly report which includes all receipts collected and disbursements paid during the calendar year.

We recommend the county clerk ensure the quarterly financial report is complete and accurate.

County Clerk's Response: First year bookkeeper was unaware to make sure that disbursements made after December 31st was included on the 4th Quarter Financial Statement. She ran the report by calendar year. We are now aware of what needs to be done.

The Martin County Clerk did not properly distribute delinquent taxes which resulted in the overpayment of excess fees to the fiscal court: The county clerk did not distribute delinquent taxes properly for calendar year 2016. The county clerk's office collects delinquent taxes and distributes delinquent taxes to the taxing districts, sheriff, and county attorney on a monthly basis. The bookkeeper generates the monthly tax collection reports and prepares the delinquent tax checks to the taxing districts. The county clerk certifies that the monthly tax collection reports are accurate and signs checks to the taxing districts. During September, the delinquent tax reports stated the state taxing district was due $192,570. However, the amount of the check written to the state was $19,570, resulting in an underpayment of $173,000 to the state. For the months of October and November, checks were not written to the fire and 911 taxing districts. The amount due to fire district is $542 and the 911 district is $8,944.

The Martin County Clerk's office does not have internal controls over monthly delinquent tax reports and the distribution of delinquent taxes. Although the county clerk signed the monthly tax reports and signed the checks written, she did not compare the monthly tax reports to the checks written to determine if the checks written agreed to the monthly distribution reports.

Failing to implement internal controls over monthly disbursement reports and the distribution of delinquent taxes resulted in the underpayment of three taxing districts and the over payment of excess fees. The county clerk overpaid excess fees to the fiscal court $182,486 for calendar year 2016. The amounts due to the taxing districts for 2016 delinquent tax collections are as follows:

Kentucky State Treasurer	$173,000
Fire Taxing District	$542
911 Taxing District	$8,944

The county clerk has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of monthly tax reports and payments to taxing districts. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems. Additionally, KRS 134.126 requires the county clerk to pay the county, taxing districts, and other persons entitled to all moneys received for them through the collection of delinquent taxes.

The clerk should be more diligent in the day-to-day operations of her office by providing oversight of the monthly tax reports and payments made to the taxing districts. We recommended the county clerk strengthen internal controls over the monthly reporting and distribution of delinquent taxes by thoroughly reviewing the reports, comparing the reports to the checks, and signing off after the proper review is complete. We also recommend the county clerk request a refund of excess fees from the fiscal court in the amount of $182,486 and pay the state taxing district $173,000, the fire taxing district $542, and the 911 taxing district $8,944.

County Clerk's Response: Bookkeeper has made a keypunch error resulting in a major difference for the amount disbursed. There was a lot of Dtax collected for a couple months. County Clerk will make sure to check all reports for errors.

The Martin County Clerk's Office did not implement internal controls over disbursements: The Martin County Clerk's Office did not implement internal controls over disbursements. The county clerk receives invoices from the vendors and approves payment. The bookkeeper prepares the checks to the vendors, posts to the disbursements ledger, and prepares monthly bank reconciliations. We noted the following errors in the disbursements process:

- Two disbursements were not paid within 30 business days.
- One disbursement was not effectively canceled.

The clerk has not structured her office in a way that segregates duties and responsibilities. The clerk has also not provided sufficient oversite of the disbursement process. By not segregating these duties and providing strong oversight over the disbursement process, there is an increased risk of undetected misappropriation of assets, errors, and fraud.

Internal controls and proper segregation of duties protects employees and the county clerk in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not sign checks, post to the disbursements ledger, and prepare monthly bank reconciliations.

KRS 65.140(2) states in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice[.]" Employees preparing and signing checks should not post to the disbursements ledger and prepare bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the county clerk could take on the responsibility of reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations prepared by another employee. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. The county clerk could also choose to prepare the bank reconciliations and other reports herself. Furthermore, the county clerk could require dual signatures on all checks, with one signature being the county clerk's.

County Clerk's Response: Segregation of duties and county clerk will take on responsibility of reviewing daily deposits, receipts, and ledgers. Always have dual signatures.

The Martin County Clerk's Office did not maintain proper internal controls over payroll: The county clerk did not maintain proper internal controls over the reviewing of timesheets and usage of leave time accrual. Timecards are maintained by the employee, but are not properly reviewed and signed. One employee during the calendar year 2016 was absent from work without using any leave time and was compensated for these hours. The county clerk did not follow the official administrative policy as provided by the Martin County Fiscal Court.

The county clerk did not have proper controls in place over the payroll process. The lack of adequate review of payroll and failure to adhere to the adopted administrative policy led to discrepancies.

Without proper internal controls, errors might not be detected. No timecards were reviewed by a supervisor or the county clerk. Due to the lack of effective controls, one employee was compensated without properly using any form of leave time.

Good internal controls dictate that adequate controls and sufficient review is necessary to reduce the risk of errors and misstatements. KRS 337.320(1) states, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; [and] (b) The hours worked each day and each week by each employee[.]"

We recommend the county clerk review the procedures that are in place and strengthen controls over the payroll process. The county clerk should adhere to the adopted administrative policy and ensure it is compliant with all applicable guidelines. Timesheets should be properly reviewed and signed off to prevent future errors, and compensation should not be provided when absent, unless the proper form of leave is being utilized.

County Clerk's Response: Time cards will be reviewed by County Clerk bi-weekly before payroll is issued. Time is now kept by employee and approved by County 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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