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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Perry County Clerk Haven King. 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 Perry 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 Perry County Clerk's office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The Perry County Clerk's office lacks segregation of duties over receipts, disbursements, and reconciliations. During our review of internal controls we noted all of the county clerk's employees receive cash. The bookkeeper receives cash, prepares deposits on a rotating basis with other deputy clerks, posts revenue to the ledger, prepares disbursements other than those listed elsewhere in this comment, posts disbursements to the ledger, and completes the monthly bank reconciliations. The county clerk has assigned different deputies to be responsible for the usage, registration, delinquent tax, legal process, and chattel disbursements. Employees are not cross-trained; therefore, only the deputy responsible for a certain report is knowledgeable about those reports. The deputy who prepares the report is also responsible for preparing all disbursement checks. Although the county clerk reviews the monthly reports and disbursements, auditors found no evidence that he reviews refund or overpayment disbursements. In order to post all disbursements, the bookkeeper uses the check register instead of the actual disbursement check and supporting documentation.

According to the county clerk, a limited budget places restrictions on the number of employees the clerk can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting.

When one deputy collects revenue, prepares deposits, prepares the reports and prepares the disbursements, that deputy has control over the entire process. Auditors could find no evidence that the county clerk or another deputy verifies the receipts or disbursements, with the exception of payroll, before they are remitted or posted to the ledgers. Also, allowing one person control over an entire process without oversight subjects the monies of the county clerk's office to inaccurate financial reporting or misappropriation.

Segregation of duties over cash collections, daily checkout procedures, deposit preparation, and the preparation of checks 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.

We recommend the county clerk segregate duties and institute compensating controls. Examples of controls include, but are not limited to, cross-training employees, requiring deputies to periodically rotate duties, routinely recalculating daily checkout procedures for accuracy, obtaining bank statements unopened, re-performing bank reconciliations, and ensuring that reports and financial statements are accurate by comparing to the ledgers. The county clerk should appoint one individual to be responsible for issuing all disbursements. The county clerk should approve all refunds. The county clerk and deputies should document the review processes by initialing the reports and supporting documentation.

County Clerk's Response: Limited budget and limited staff makes proper segregation of duties difficult. The County Clerk has reviewed the recommendations in the audit and will take action to implement those recommendations.

The Perry County Clerk did not present the final settlement to the fiscal court: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The Perry County Clerk did not present his final settlement to the fiscal court. The county clerk failed to ensure that he or his staff submitted the final settlement to the fiscal court. Without presenting an annual settlement, the fiscal court is unaware of the financial condition of the county clerk's office.

KRS 64.152(1) states, in part, "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 all of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses."

We recommend the county clerk comply with KRS 64.152(1) and establish procedures to ensure an annual settlement is presented to the fiscal court by March 15th of each calendar year.

County Clerk's Response: The County Clerk will ensure that all final settlements are properly and timely submitted to the Perry County Fiscal Court.

The Perry County Clerk's ledgers and fourth quarter financial report did not include all receipts and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The clerk's ledgers and fourth quarter financial report did not include all receipts and disbursements for calendar year 2016. The county clerk's receipts and disbursements ledgers should match the fourth quarter financial report to ensure accurate reporting of all financial activity. The county clerk received $10,500 on May 15, 2017, for reimbursement of use of software in the clerk's office that was not included on the fourth quarter financial report. The county clerk also included calendar year 2015 disbursements on the current year fourth quarter financial report.

The county clerk does not have proper internal controls in place to ensure that all transactions are posted correctly. Transactions that occurred after year end were not posted to the receipts and disbursements ledgers and the fourth quarter financial report. As a result, numerous audit adjustments were recommended to correct the receipts and disbursements ledgers. Inaccurate reporting of receipts and disbursements can result in overspending of the planned budget, expending more on allowable operating disbursements than income received (See finding 2016-004), and incorrect financial reporting to the Department for Local Government.

Good internal controls dictate the county clerk should reconcile his ledgers to his quarterly financial reports. KRS 68.210 requires the state local finance officer to prescribe a system of uniform accounts for county officials to follow. The state local finance officer requires officials to maintain accurate records which support amounts reported on the quarterly financial reports.

We recommend the Perry County Clerk maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

County Clerk's Response: The County Clerk will maintain and complete an accurate receipts and disbursements ledgers which support the amounts reported on quarterly financial reports. The County Clerk will ensure that his ledgers are reconciled to the quarterly financial reports.

The Perry County Clerk's disbursements exceeded receipts by $30,534: The Perry County Clerk's office disbursements exceeded receipts by $30,534 for calendar year 2016. Although the county clerk's total actual disbursements were within approved budgeted amounts, the clerk did not receive sufficient receipts to support total allowable disbursements plus his statutory maximum salary. On January 13, 2017, the Perry County Clerk and the Perry County Fiscal Court entered into a promissory note agreement to borrow $75,150 from a local bank to pay liabilities owed at the end of calendar year 2016. The promissory note agreement provides that the Perry County Clerk and the Perry County Fiscal Court (Borrower) jointly and severally promise to pay to Peoples Bank & Trust Company (Lender), the principal amount of $75,150 together with calculated interest of five percent on the unpaid principal balance from January 13, 2017, until the loan is paid in full.

The promissory note agreement was signed by the Perry County Clerk and by the Perry County Judge Executive for the Perry County Fiscal Court. The Perry County Clerk made payments from the 2016 fee account for the bank loan on June 6, 2017 and June 7, 2017 totaling $20,179, leaving a balance owed of $54,971. The balance due on the bank loan totaling $54,971 cannot be paid from the 2017 fee account. The Perry County Clerk also owes $161 to the fee account for disallowed disbursements for calendar year 2016. The total deficit in the Perry County Clerk's 2016 fee account is $30,534.

The Perry County Clerk did not monitor receipts available for operating disbursements of his office. Receipts for operating disbursements are funds available after making required payments to taxing districts and others. Failing to monitor available receipts resulted in expending more on allowable operating disbursements than income received. Good internal controls dictate that the county clerk should monitor his operating disbursements to ensure that he does not expend more than the available receipts.

We recommend the county clerk monitor his receipts and operating disbursements during the year and only expend available receipts on operating disbursements. We also recommend the county clerk consult with the fiscal court to ensure that the amount due on the bank loan of $54,971 is paid timely.

County Clerk's Response: The County Clerk acknowledges that sufficient income was not received in 2016 to cover the actual expenditures. Based on income projections from previous years, the Clerk anticipated revenue which would be received in December 2016. That anticipated income was not received in December 2016, which resulted in a deficit. The Clerk will follow the recommendations in the audit to ensure that proper monitors are put in place. The County Clerk has received sufficient funds from the amended returns filed with the Affordable Housing Trust to ensure that the bank loan is fully paid.

The Perry County Clerk spent fee receipts on disallowed disbursements: During our review of disbursements, the auditor noted the county clerk used funds from his official fee account to pay for charges not supported with detailed receipts and late payment fees. The following schedule provides details of these disallowed disbursements:

Late Fees For Copier Lease:	$ 79
Unsupported Credit Card Transactions:	82
Total Disallowed Disbursements:	$ 161

The county clerk did not have controls in place to ensure that all disbursements were in compliance with Funk v. Milliken which could have prevented disbursements that were not necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. As a result, the county clerk spent fee receipts on disbursements that were not in compliance with Funk v. Milliken.

In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled 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 primarily personal in nature.

We recommend the county clerk avoid expenses that do not meet the Funk v. Milliken test. We also recommend that the county clerk deposit personal funds of $161 to cover these charges which are included in the deficit amount reflected on the Schedule of Excess of Liabilities Over Assets and included in finding 2016-004.

County Clerk's Response: The County Clerk will avoid any expenses which do not meet the Funk v. Milliken test. The County Clerk will deposit personal funds of $161 to cover these charges. The County Clerk will write a personal check to the Fiscal Court.

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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