Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Spencer County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Spencer County Clerk Lynn Hesselbrock. 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 Spencer 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 comment:

The Spencer County Clerk's Office has a lack of segregation of duties over review and approvals of required regulatory payments and reconciliations: In addition, there were several instances where required regulatory payments due to the state and local districts were not paid timely. During testing the following were noted:

- For the months of April, May, and June the ad valorem taxes collected for the local county districts were not paid timely resulting in taxes being underpaid by $27,615.

- The affordable housing trust fees are collected daily and paid out to the state on a quarterly basis. The first and third quarter payments were less than the fees collected resulting in $12,072 underpayment to the state for 2020.
- The bank reconciliations were prepared monthly as required but there was no documentation of review by county clerk or other designee.

The county clerk indicated that the office did not have enough funds to hire additional personnel to segregate duties. This resulted in bank reconciliations that were not documented as reviewed. Due to management oversight, required regulatory payments were not compared to ledgers to ensure that payments were made on a timely basis.

A lack of segregation of duties over financial functions increases the risk of misstatement due to undetected errors or theft could occur. Noncompliance with regulations governing regulatory required payments could result in penalties and financial statements that are misstated due to underpayment to taxing districts.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, preparing monthly reports, and reconciling bank accounts is 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.

KRS 134.815(1) states, in part, "[t]he county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository."

The Department of Revenue requires quarterly reporting of affordable housing trust fund fees that requires $6 of each $12 fee imposed on certain recording and indexing fees collected by county clerks to be paid to the state. In accordance with form 73A201, this report is to be filed with the Department of Revenue on or before the 10th day of the month following the quarter covered by the report. Payment is due for the total amount computed.

We recommend the county clerk separate the duties involved in preparing and reviewing monthly bank reconciliations and comparing financial reports to ledgers. If this is not feasible due to limited staff or budget, the county clerk should implement strong compensating controls to offset these control deficiencies. Compensating controls could include the official (or designee) reviewing monthly bank reconciliations, the weekly and monthly reports and receipts ledgers and comparing them to the disbursement checks to verify the accuracy of the disbursement amounts. All reviews should be documented by signatures or initials. The official (or designee) should also review the monthly and quarterly financial statements to verify all required disbursements have been made and accurately recorded. In addition, we recommend the required regulatory payments be paid on a timely basis in accordance with the applicable regulations.

County Clerk's Response: We will develop a procedure to ensure that monthly bank reconciliations are documented by initialing bank statements. Dual check signatures are already utilized. This will be implemented immediately. When both of these items were brought to the attention of the Clerk and bookkeeper, corrections were immediately made and payments were sent to the taxing districts and the state. We had a sudden change in personnel and the new bookkeeper had an oversight. This was also at the beginning of the COVID-19 pandemic, and our office was attempting to service the public in a remote manner, which resulted in changes in office procedures.

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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