



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

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the 2012 financial statement of Martin County Clerk Carol Sue Mills. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the revenues, expenditures and excess fees of the Martin County Clerk in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Clerk 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 non-compliance 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 remit all delinquent tax payments to the appropriate districts.

The County Clerk Collected delinquent taxes in accordance with KRS 134.126, however, she did not remit the total due to the appropriate districts. The State is due \$1,133, the County \$994, the School \$4,455, the Library \$740, the Health Department \$304, the Extension district \$316, the City of Inez \$110, the Sheriff \$711, and the County Attorney \$1,716 for delinquent taxes for calendar year 2012. KRS 134.126 states, "The county clerk shall allocate payments among the various entities entitled to a portion of the payment." Failure to make these payments does not allow the taxing districts to utilize these funds. We recommend the County Clerk pay \$10,479 to the taxing districts.

County Clerk's response: On October 28-29, 2013, checks were prepared and remitted to the above mentioned entities for delinquent property taxes owed to them.

The County Clerk should prohibit the practice of cashing checks from office funds. During our audit, we noted that personal checks and/or third party checks were cashed from the clerk's official bank account. When this occurs, the receipts deposited do not agree with the original form of cash and checks received by the clerk's office for daily collections. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis and reconciling deposits to batched receipts. The clerk should have deposited receipts intact (i.e., in the same form as they were collected) as required by the State Local Finance Officer. Furthermore, the practice of cashing checks whether personal or third party should have been prohibited as such unrelated receipt transactions distorts the cash audit trail.

County Clerk's response: The practice of cashing personal and third party checks is now strictly prohibited. Deposits are made intact from cash and checks received for daily collection by the County Clerk's office.

The County Clerk had \$2,682 in disallowed expenditures. The clerk paid \$2,682 to individuals as contract laborers for office repairs, election duties and other miscellaneous jobs. After reviewing the clerk's records, we found that she did not maintain any supporting documentation and there was no evidence of actual work performed. In Funk vs. Milliken, 317 S. W.2d 499 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. We recommend the County Clerk only expend fee account monies for allowable purposes and have the proper supporting documentation for each purchase. We also recommend the County Clerk deposit personal funds in the amount of \$2,682 for the disallowed expenditures. This matter has been referred to the Kentucky State Police for further investigation.

County Clerk's response: On October 24, 2013, the County Clerk deposited funds in the 2012 fee account to cover disallowed expenditures. Payments are now made only when there is adequate documentation provided.

The County Clerk's office lacks adequate segregation of duties. The County Clerk's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The Clerk's bookkeeper has access to cash, works up the daily bank deposit, posts to the receipts and disbursements ledgers and reconciles the bank account. These control deficiencies could adversely affect the Clerk's ability to record, process, summarize, and report accurate financial information. Good internal controls dictate the same employee should not receive payments, make deposits, and prepare checks for payment.

If, due to a limited number of staff, it is not possible to segregate duties strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the County Clerk could provide the oversight. If the County Clerk does implement compensating controls, these should be documented on the appropriate source documentation. Examples of possible compensating controls include the following:

- The Clerk could periodically compare the daily checkout sheet to the deposit slip and receipts ledger. Any discrepancies should be resolved and the review should be documented by initialing and dating the deposit ticket, the daily checkout sheet, and the receipts ledger.
- The County Clerk could compare total collections per monthly and weekly reports to the daily checkout sheets. Any discrepancies should be resolved and the review should be documented by initialing and dating the report.
- The County Clerk could compare cancelled checks listed on the bank statement to the amounts recorded in the disbursements ledger. Any discrepancies should be resolved and the review should be documented by initialing and dating the bank reconciliations and disbursements ledger.

We recommend the County Clerk immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner.

County Clerk's response: Financial activities are now assigned to several employees in order to segregate duties. Also, the County Clerk will now ensure oversight by randomly reviewing daily, monthly, and quarterly reports.

The County Clerk did not reconcile bank statements on a monthly basis. The County Clerk did not reconcile bank statements on a monthly basis. We observed that the 2012 Fee Account was not reconciled timely from January 2012 through June 2012. When reconciliations were prepared, they only reflected the ledger balance, not the actual bank balance as of the reconciliation date. This lack of control over reconciliations increases the risk that errors may occur and go undetected. Furthermore, when accurate reconciled balances are not reported, expenditures in excess of receipts may occur. We recommend the County Clerk reconcile bank statements monthly to the ledgers and/or financial statements.

County Clerk's response: All bank statements are now reconciled to ledgers and financial statements monthly. The County Clerk will review randomly.

Deposits should be made intact. Deposits are not made intact on a daily basis. Checks received from a current day's transactions are sometimes cashed out of the prior day's bank deposit. Employees do this because there is an adequate amount of cash on hand to make change. As a result, the total deposit matches the daily checkout sheet, however, the actual breakdown of cash, coins, and checks does not agree to the daily checkout sheet. Deposits should reflect the same amount of cash and checks that were collected during a day's transactions. These current practices leave receipts vulnerable to misappropriation or theft and can result in undeposited receipts.

We recommend that each drawer begin the day with an adequate amount of small bills and coins for change. Each Deputy Clerk should monitor their drawer throughout the day. When a shortage of small bills and/or coins is noticed an employee should go to the bank in order to exchange larger bills received through the day for smaller bills and coins.

County Clerk's response: Deposits are now made intact based upon cash and checks received through daily financial transactions. The deposits match the daily checkout sheet totals for both cash and checks received.

Invoices should be stamped paid or otherwise effectively cancelled to show payment.

During the audit, we observed that while copies of checks are stapled to their respective invoices, they are not always stamped paid or otherwise effectively cancelled to show payment. It is important to effectively cancel all paid invoices to lessen the chance of making duplicate payments. We recommend that all paid invoices be effectively cancelled to show payment.

County Clerk's response: All paid invoices are now stapled to copies of checks. The invoices are stamped "paid" and include the date paid and the check number.

The County Clerk should improve payroll procedures. Our test of payroll revealed employees do not sign time cards at the end of each week. Furthermore, there was no documentation of supervisory review and approval of time cards. Time cards cover one week. At the end of each week, employees should sign (or initial) time cards indicating the accuracy of time reported and the employee's agreement with time reported. A supervisory (or review) employee should sign (or initial) time cards indicating the time cards have been reviewed for accuracy and time worked was approved. We recommend the Clerk improve payroll procedures by having each employee and a supervisory employee sign completed time cards.

County Clerk's response: Time cards are now signed by employees. The County Clerk reviews and approves each time card. The bookkeeper prepares payroll documents to be submitted for payment. The County Clerk signs the documents before submission.

The County Clerk's 2012 Fee Account has undeposited cash receipts. The County Clerk's 2012 Fee Account has undeposited receipts totaling \$16,576. The auditors examined the clerk's 2012 fee account and noted the following undeposited receipts:

- January 9, 2012 \$5,580
- February 7, 2012 \$5,435
- April 28, 2012 \$3,487
- May 9, 2012 \$ 223
- May 12, 2012 \$ 882
- July 3, 2012 \$ 296
- July 14, 2012 \$ 673

Our review found four checks, which were originally listed on the January 9, 2012 daily checkout sheet, were actually deposited at later dates to cover shortages for those daily deposits. Also, we found a deposit made on April 17, 2012 in the amount of \$5,435. This deposit was presented as reimbursement of the undeposited receipts on February 7, 2012. However, we obtained the deposit detail from the bank and determined the deposit actually consisted of \$4,070 of delinquent tax receipts for April 12, 2012, a \$1,362 License fee receipt for April 16, 2012 business and \$3 in cash that was used to cover the remaining deposit; therefore no reimbursement was actually made. We recommend the County Clerk immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner. This matter was stated in the calendar year 2011 audit report as a subsequent event and is being brought

forward for the calendar year 2012 audit report. Also, this matter has been referred to the Kentucky State Police for further investigation.

County Clerk's response: The County Clerk will randomly and routinely review daily deposits and collection reports.

The County Clerk should eliminate the \$25,297 deficit in the 2012 fee account. The County Clerk has a deficit of \$25,297 in her fee account as of December 31, 2012 resulting from expenditures exceeding receipts. To eliminate the deficit, the Clerk should personally deposit \$16,576 for the undeposited cash receipts, \$2,682 for disallowed expenditures, and \$6,039 in delinquent taxes. We recommend the County Clerk deposit personal funds of \$25,297 to cover the known deficit in her 2012 fee account, and then pay all liabilities still outstanding. We also recommend the County Clerk take immediate steps to ensure all funds received by her office are deposited into her official account timely and that all liabilities resulting from official operations are reported properly and paid promptly.

County Clerk's response: On October 24, 2013, a personal check in the amount of \$25,297 from the County Clerk was deposited into the 2012 fee account to cover the known deficit. On October 28-29, 2013, checks were prepared and remitted to pay all outstanding liabilities.

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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