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### **Harmon Releases Audit of Former Knott County Clerk's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former Knott County Clerk Kenneth Gayheart. 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 former Knott County Clerk in accordance with accounting principles generally accepted in the United States of America. The former clerk's financial statement did not follow this format. However, the former 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 former Knott County Clerk did not have segregation of duties over receipts:** This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former bookkeeper collected cash, prepared the daily checkout sheets, prepared monthly tax reports, and posted to the receipts ledger. These incompatible duties create a lack of segregation of duties over receipts. To adequately protect assets from misappropriation and inaccurate financial reporting, duties involving collecting cash, preparing daily checkout sheets, preparing monthly tax reports, and posting to the receipts ledger should be separated. However, according to the former Knott County Clerk, the office has a limited budget which restricts the number of employees and prevents a proper segregation of duties.

This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Segregation of duties over cash collection, daily checkout procedures, and deposit preparation 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. Also, the former county clerk can implement oversight when duties cannot be segregated.

We recommend the county clerk's office separate the duties involved in receiving cash, preparing bank deposits, posting to ledger, and preparation of reports. If segregation of duties is not feasible due to lack of staff, the county clerk's office can implemented compensating controls that are operating effectively. Additionally, the county clerk could deliver the daily checkout sheets to the outside firm that generates financial reports for the clerk, and request a computerized receipts ledger be generated with the original source documents.

*Former County Clerk's Response: We are a small county with not enough workers.*

**The former Knott County Clerk's ledgers and quarterly financial report did not include all disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The former county clerk's ledgers and fourth quarter financial report did not include all disbursements for calendar year 2017. The former county clerk's receipts and disbursements ledgers should match the fourth quarter financial report to ensure accurate reporting of all financial activity. The former county clerk had disbursements totaling \$4,803 for calendar year 2017 that were paid during January and February 2018. These disbursements were not included on the disbursements ledger and the final quarterly financial report for 2017. In addition to these disbursements, the former clerk did not pay over \$33,077 in delinquent taxes from the January 2017 report.

The former county clerk did not have proper internal controls in place to ensure that all transactions were posted correctly. Transactions occurred after end of year that were not posted to the disbursements ledger and the fourth quarter financial report. In addition, delinquent tax reports were not compared to the daily checkout sheets, causing delinquent tax receipts to not be paid to the districts.

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 and incorrect financial reporting to the Department for Local Government (DLG).

Good internal controls dictate the former county clerk should have reconciled 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 Knott County Clerk's Office maintain complete and accurate receipts and disbursements ledgers which support the amounts reported on the quarterly financial report.

*Former County Clerk's Response: This was fixed as soon as we realized we had this problem.*

**The former Knott County Clerk did not distribute delinquent taxes correctly:** The January 2017 delinquent tax report did not include all bills paid during the month, a total of \$35,675 was not included in the report and was not distributed to districts. Due to a clerical error when entering the date paid on the bills, they were not included on the January 2017 delinquent tax reports.

The former county clerk did not have sufficient controls in place to ensure that payments for delinquent taxes were made to the districts. The former clerk did not reconcile the daily checkout sheets to the amount of delinquent tax collections for each day. When deputies collected delinquent taxes, they did not ensure the correct date of payment, causing the payments to be recorded in a different tax year. As a result, the taxing districts were due an additional \$35,675 for the collections of January delinquent taxes.

Good internal controls dictate that the former county clerk have procedures in place to ensure correct payments are made to the districts.

We recommend the county clerk's office put procedures in place to ensure correct payments are made to the districts for delinquent taxes. We recommend the former county clerk pay the taxing districts delinquent taxes due of \$35,675 for the January collections that were not on the delinquent tax report.

*Former County Clerk's Response: We fixed the program to where the date had to be current and we print out the taxes on a daily basis that has to match day sheets and report has to match the ledger.*

**The former Knott County Clerk owes the fiscal court additional excess fees in the amount of \$10,167:** After fieldwork, the auditors discovered that the former county clerk had set up an account with a third party vendor to receive and collect various fees in the office. This third party account was never disclosed to the auditors. After additional testing, auditors discovered the third party account has been active since 2015 and the fees it collected had never been turned over to the fiscal court as additional excess fees due. As of December 31, 2017, the former clerk owes the fiscal court an additional \$10,167 in excess fees, for total of \$17,223 in excess fees.

The former county clerk failed to disclose the third party account and also did not include those fees it collected on the daily checkout sheets, monthly receipts ledgers, and quarterly reports.

Monies that are collected and remain undisclosed and unaccounted for increase the risk for fraud or theft to occur. In addition, those monies could have been used by the fiscal court as needed. The Department for Local Government (DLG)'s *County Budget Preparation and State Local Finance Officer Policy Manual* requires all revenues to be recorded when received in a daily cash receipts journal, a monthly compiled receipts ledger, and then a quarterly report. In addition, KRS 68.210 requires all daily deposits to be placed in a federally insured banking institution.

We recommend the former county clerk collect the \$10,167 from the third party account holder and deposit them into his 2017 fee account and then turn these monies over to the fiscal court as

additional excess fees. In addition, we recommend the former clerk properly account for these third party collected fees on their receipts ledger and quarterly reports.

*Former County Clerk's Response: I am so sorry that happened but I honestly didn't know about this.*

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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