



Auditor of Public Accounts
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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 2018 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 comment:

The former 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 2017-001. The bookkeeper collects cash, prepares the daily checkout sheets, prepares monthly tax reports, and posts 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, the county clerk's 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 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 ledgers, and preparing 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's office 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 did the best we could do with a small staff.

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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