Auditor of Public Accounts
Mike Harmon

Harmon Releases Audit of Magoffin County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Magoffin County Clerk Renee Arnett Shepherd. 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 Magoffin 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 comments:

The 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 2017-001. The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the county clerk's office. The county clerk is responsible for receiving cash, preparing daily deposits, preparing and signing checks, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. A lack of segregation of duties increases the risk of undetected errors.

According to the county clerk, this condition is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to. A proper segregation of

duties over the accounting and reporting functions such as reconciling bank records to the receipts and disbursements ledgers or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to a limited budget, cross-checking procedures could be implemented and documented by the individual performing the procedure.

County Clerk's Response: I have been training another deputy to help.

The county clerk's fourth quarter financial report was not complete and accurate: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The county clerk's fourth quarter financial statements did not agree to the county clerk's receipts and disbursements ledger. In addition, we had to propose numerous adjustments to the county clerk's receipt and disbursement ledgers. Although the differences noted and the proposed adjustments were not material for the current year, the prior two years had the same finding. Given the amount of funds that pass through the clerk's fee account and the lack of internal controls, we believe that there could be a material misstatement in future years if proper internal controls are not implemented.

The county clerk does not have proper internal controls in place to ensure that her accounting records are accurate and reconciles to the bank statements. In addition, the county clerks' accounting system is comprised of a spreadsheet to record receipts and disbursements and a software program is only used to write checks. This system is a "one sided" entry as opposed to a traditional "two sided" system which ensures a balanced financial statement.

Inaccurate financial records provide misleading information to the users of the information. Auditors compared the fourth quarter report to the receipts and disbursements ledgers and noted differences of $413 and $8,556, respectfully. The sum of the absolute adjustments proposed to the disbursement ledger were $32,753.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* prescribes a uniform system of accounts pursuant to KRS 68.210, and it requires the county clerk to prepare a quarterly report which includes all receipts and disbursements the county clerk collected and paid during the calendar year.

To present the most accurate information possible to regulatory agencies, fiscal court and the public, we recommend the county clerk implement procedures for ensuring the accuracy of financial information. Ledgers should be posted accurately, and the fourth quarter report should agree to ledgers and the bank balance. Receipts and disbursements ledgers should be reconciled to the bank receipts and disbursements monthly. In addition, we recommend the county clerk to use her software to its fullest potential thus using a traditional "two sided" accounting system.

County Clerk's Response: Will have someone to help me to double check.

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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