Auditor of Public Accounts
Mike Harmon

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Harmon Releases Audit of Marion County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Marion County Clerk Chad G. Mattingly. 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 Marion 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 Marion County Clerk's Office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The Marion County Clerk's Office does not have adequate segregation of duties. All employees, including the county clerk, collect payments from customers and prepare receipts. The county clerk has implemented some compensating controls to help offset the lack of segregation of duties, but the controls were not effective because they were not applied consistently and documented during calendar year 2020. At the end of each day, each deputy clerk reconciles their drawer to the Kentucky Automated Vehicle Information System (KAVIS) printout. A different employee will compare the daily checkout sheet to the deposit ticket and the county clerk will take the deposit to the bank. There is no documentation of review on the daily checkout sheet, receipts ledger, or bank deposit receipt. All disbursement checks require dual signatures. After the disbursement was entered into the ledger, there was no documentation of review when compared to the invoice or check. The county clerk will sign all payroll checks, but there was no documentation of review when compared to the employee earnings report. The county clerk completes the bank reconciliation at the end of each month but there is no documentation of review.

According to the county clerk, due to the limited staff size and cost to hire additional staff in the county clerk's office, segregation of duties is not possible. Without segregation of duties, the risk of material misstatements significantly increases because undetected errors and theft can occur.

Strong internal controls and procedures are vital to ensure proper segregation of duties over collection, reporting, depositing, disbursing, and reconciling receipts and disbursements. If segregation of duties is not possible, effective compensating controls should be put in place, applied consistently, and evidenced.

We recommend the county clerk adequately segregate duties and implement compensating controls when segregation of duties is not feasible. Compensating controls that can be implemented are:

- Daily checkout sheets be initialed when compared to reports.
- Initial the bank deposit receipt when compared to the deposit ticket to verify the correct amount was deposited into the bank.
- The disbursement ledger should be initialed after comparison to the invoice, reports, and disbursement check.
- When payroll checks are issued, the employee earnings report should be compared to the payroll check to verify accuracy. This comparison should be documented on the earnings report.
- Bank reconciliations should be reviewed by another person and documented on reconciliation.

County Clerk's Response: We submitted a written internal control policy for this audit. We initial all voided transactions. Every check requires two signatures. All disbursements are double checked before the check is signed. We initial the bank deposits.

The Marion County Clerk did not submit quarterly financial reports to the Department for Local Government: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The county clerk did not submit quarterly financial reports to the Department for Local Government (DLG) by the 30th day of the month following the end of any quarter for calendar year 2020. DLG did not receive anything for the first and second quarter of 2020. The third quarter was received by DLG on December 2, 2020 and the fourth was received March 3, 2021.

Due to lack of management oversight, 2020 quarterly reports were not submitted to DLG. As a result, the county clerk is noncompliant with DLG reporting requirements by not submitting the quarterly financial report by the 30th day of the month following the end of a quarter.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* which requires officials to submit quarterly financial reports to DLG no later than 30 days following the close of the quarters ending March 31, June 30, September 30, and December 31.

We recommend the county clerk comply with DLG's requirements and submit the quarterly financial reports by the 30th day of the month following the end of a quarter.

County Clerk's Response: The 4th Quarter was submitted as soon as the year was finalized.

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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