



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Martin County Clerk Susie Skyles. 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 Martin 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Martin County Clerk's Office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Martin County Clerk's Office lacked adequate segregation of duties. One employee collected cash, prepared the daily checkout sheet, prepared the deposit slip, and took the deposit to the bank. No documented compensating controls were noted to offset this control deficiency.

The lack of segregation of duties occurs because the county clerk has failed to segregate incompatible duties. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from

having a significant role in these incompatible functions. The county clerk can implement oversight when duties cannot be segregated.

Good internal controls dictate that duties should be adequately segregated or compensating controls implemented to ensure accurate financial reporting.

We recommend the county clerk segregate duties or implement strong compensating controls to mitigate risks. If segregation of duties is not feasible due to a lack of staff, the county clerk could implement and document compensating controls to offset this control deficiency.

County Clerk's Response: County Clerk will implement more internal controls along with segregation of duties.

The Martin County Clerk's quarterly financial report was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The county clerk's fourth quarter report did not reflect all financial activity for calendar year 2017. Disbursements after December 31, 2017, totaling \$76,087 were not posted to the disbursements ledger. These adjustments have resulted in the fourth quarter financial report being materially misstated.

The county clerk was not aware that disbursements after December 31, 2017 were required to be accounted for on the fourth quarter financial report.

The county clerk did not provide accurate financial information to the fiscal court and the Department for Local Government. A materially misstated fourth quarter financial report could result in an increased risk of uncorrected errors, theft, loss, or misappropriated assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts as described in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the county clerk to maintain accurate receipts and disbursements ledgers, and prepare a fourth quarterly report which includes all receipts collected and disbursements paid during the calendar year.

We recommend the county clerk ensure the quarterly financial report is complete and accurate.

County Clerk's Response: Bookkeeper must be aware to make sure all disbursement made after Dec. 31st are included on the 4th quarter financial statement.

The Martin County Clerk did not properly distribute delinquent taxes which resulted in the overpayment of excess fees to the fiscal court: This is a repeat finding from calendar year 2016 that has yet to be resolved. It was reported as Finding 2016-003. The county clerk did not distribute delinquent taxes properly for calendar year 2016. The county clerk's office collects delinquent taxes and distributes delinquent taxes to the taxing districts, sheriff, and county attorney on a monthly basis. The bookkeeper generates the monthly tax collection reports and prepares the delinquent tax checks to the taxing districts and prepares monthly bank reconciliations. The county clerk certifies that the monthly tax collection reports are accurate and signs checks to the taxing

districts. During September, the delinquent tax reports stated the state taxing district was due \$192,570. However, the amount of the check written to the state was \$19,570, resulting in an underpayment of \$173,000 to the state. For the months of October and November, checks were not written to the fire and 911 taxing districts. The amount due to fire district is \$542 and the 911 district is \$8,944.

The Martin County Clerk's office does not have internal controls over monthly delinquent tax reports and the distribution of delinquent taxes. Although the county clerk signed the monthly tax reports and signed the checks written, she did not compare the monthly tax reports to the checks written to determine if the checks written agreed to the monthly distribution reports. The lack of attention to detail and lack of reviews of monthly reporting were factors that contributed to these delinquent tax payments not being properly disbursed.

Failing to implement internal controls over monthly disbursement reports and the distribution of delinquent taxes resulted in the underpayment of three taxing districts and the over payment of excess fees. The county clerk overpaid excess fees to the fiscal court \$182,486 for calendar year 2016. The amounts due to the taxing districts for 2016 delinquent tax collections are as follows:

Kentucky State Treasurer - \$173,000
Fire Taxing District - \$542
911 Taxing District - \$8,944

The county clerk has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of monthly tax reports and payments to taxing districts. The same employee should not prepare monthly reports, prepare and sign checks, post to the disbursements ledger, and reconcile the bank account. Additionally, KRS 134.126 requires the county clerk to pay the county, taxing districts, and other persons entitled to all moneys received for them through the collection of delinquent taxes.

The clerk should be more diligent in the day-to-day operations of her office by providing oversight of the monthly tax reports and payments made to the taxing districts. We recommended the county clerk strengthen her internal controls over the monthly reporting and distribution of delinquent taxes by thoroughly reviewing the reports, comparing the reports to the checks, and signing off after a proper review is complete. We also recommend the county clerk request a refund of excess fees from the fiscal court in the amount of \$182,486 and pay the state taxing district \$173,000, the fire taxing district \$542, and the 911 taxing district \$8.

County Clerk's Response: County Clerk will request refund from fiscal court. County Clerk has spoke to a representative from revenue about making a payment arrangement. County Clerk will make sure to check all reports for errors.

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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