



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former Powell County Clerk Rhonda Barnett. 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 Powell 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 former county clerk paid \$659 in disallowed disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former county clerk paid \$659 in penalties, fees, and interest for untimely payments of legal process taxes. According to the former county clerk, due to illness she was not present in the office to perform her duties. Therefore, the reports for legal process taxes were not submitted timely and penalties, fees, and interest were charged. As a result, the former county clerk personally owes \$659 to the 2017 fee account.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately

documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Penalties, fees, and interest are not allowable disbursements for a fee official as they are not necessary expenses and are not beneficial to the public. We recommend the former county clerk reimburse the 2017 fee account \$659 from her personal funds for these disallowed items.

Former County Clerk's Response: These disbursements have been reimbursed in the amount of \$659.00 from my personal account. None of these disallowed disbursements were for any personal use or my personal expenses. They were disallowed penalties, interest and miscellaneous fees for monthly reports to the State not submitted by my deputies during my critical illness and hospital stay while on family medical leave due to their lack of knowledge of the Administrative Duties of the Clerk's office. My "bookkeeper", [name redacted], took on the responsibility of submitting these reports.

The former county clerk did not present an annual settlement to the fiscal court and did not pay excess fees for the period January 1, 2017 through June 30, 2017: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The former county clerk did not present an annual settlement to the fiscal court for the period January 1, 2017 through June 30, 2017. Further, the former county clerk did not pay excess fees to the fiscal court. The former county clerk's 2017 fee account has a bank balance of \$47,759 and she owes \$659 from personal funds for disallowed items. The former county clerk owes \$48,418 to the fiscal court as 2017 excess fees. According to the former county clerk, due to illness, she was not present in the office during the period January 1, 2017 through June 30, 2017, when she retired.

As a result, the fiscal court was not aware of the financial activities for the period January 1, 2017 through June 30, 2017. Furthermore, failure to issue excess fees to the fiscal court in a timely manner deprived the fiscal court the use of these funds for budgeted operations. KRS 64.152(1) states, "the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses." KRS 64.152(2) states, "[a]t the time of filing the statement required by subsection (1) of this section, the clerk shall pay to the fiscal court any income of his office[.]"

We recommend the former county clerk pay excess fees to the fiscal court as soon as possible.

Former County Clerk's Response: Due to my illness and hospital stay while on family medical leave, I was not present during this time but the excess fees and settlement have now been paid to the Powell County Fiscal Court in the amount of \$48,366.28.

The former county clerk failed to maintain adequate controls regarding oversight and review of daily functions: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The former county clerk failed to maintain adequate oversight and review of daily office functions during the period January 1, 2017 through June 30, 2017. Timely review and reconciliation was not performed resulting in multiple issues such as disallowed penalties paid for untimely payments to the state. According to the former county clerk, due to illness, she was not present in the office to perform her duties during the period January 1, 2017 through June 30,

2017. As a result of inadequate review and reconciliation, we found invoices being paid late. Also, legal process reports were not paid timely resulting in penalties and interest totaling \$659 (see Finding 2017-001).

Good internal controls dictate that strong supervisory review and oversight should be in place to reduce the risk of misstatement, uncorrected errors, and unnecessary penalties. We recommend the county clerk's office strengthen controls over daily work by implementing a strong oversight and review process. This review should include reviewing daily work, paying expenditures on time, reviewing bank statements and reconciliations, and providing a strong presence within the office.

Former County Clerk's Response: I was not present in the office during any of the months from January through June 2017 due to illness and was out on family medical leave. I retired on July 1st, 2017.

The former county clerk's office lacked adequate segregation of duties over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-004. The former county clerk's office lacked adequate segregation of duties over disbursements without sufficient compensating controls. According to the former county clerk, due to illness, she was not present in the office to perform her duties during the period January 1, 2017 through June 30, 2017. Therefore, the bookkeeper performed her own duties as well as the former county clerk's duties without implementing compensating controls to mitigate risks involved with inadequate segregation of duties over disbursements. The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. If segregation is not possible, compensating controls or independent checks are needed to mitigate the risks.

Strong internal controls and segregation of duties over disbursements help ensure accurate financial reporting. We recommend the county clerk's office segregate incompatible duties over disbursements or implement compensating controls to help mitigate risks.

Former County Clerk's Response: Prior to my illness I did have my "bookkeeper", [name redacted], to do the balance and checks on all my disbursements and monthly reports. [Bookkeeper] also balanced the bank statements and assisted with the budget in excess of 2.5 million dollars annually and also the quarterly reports to the State. During my illness and absence from the office on FMLA [bookkeeper] was the only employee with the knowledge and also the only one willing to take on the extra job responsibilities saving me thousands of dollars in disallowed disbursements. None of the other deputies had any knowledge of the Administrative duties in the Clerk's office.

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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