



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Shelby County Clerk Sue Carole Perry. 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 Shelby 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 Shelby County Clerk lacks adequate segregation of duties over receipts, disbursements, and reconciliations: The county clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The bookkeeper's responsibilities include receiving cash, preparing daily deposits, preparing checks, signing checks on occasion, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also comparing the weekly, monthly, and quarterly reports to the ledgers. This is a repeat comment and was included in the prior year audit report as Finding 2017-001.

The county clerk does not have segregation of duties as a function of her internal control procedures. A lack of segregation of duties over financial functions increases the risk that

misstatements due to undetected errors or theft could occur. A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, preparing monthly reports, and reconciling bank accounts is 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. If this is not feasible due to budgetary constraints, cross checking procedures or compensating controls could be implemented and documented by the individual performing the review procedure.

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, cross-checking procedures should be implemented and documented by the individual performing the review procedure.

County Clerk's Response: The bookkeeper gets the cash only after all the cash drawers have been balanced with the point of sale system.

Auditor's Reply: As noted in the finding, there are multiple duties performed by the bookkeeper that are not properly segregated. The procedure noted in the clerk's response does not reduce the risk of undetected errors or fraud caused by not properly segregating the bookkeeper's duties.

The Shelby County Clerk lacks segregation of duties over payroll processing: The county clerk lacks segregation of duties over payroll processing. The county clerk performs all payroll related duties, with the exception that she pays retirement and health insurance for her and her employees to the fiscal court, and the county treasurer pays those agencies accordingly for the clerk and her staff. The clerk prepares payroll in Quickbooks each pay period, including payroll checks which are automatically deposited to her and her employees' bank accounts, payroll tax reports and payments, and payments to vendors for optional insurances her employees have (i.e. life, and dental, etc.), records payments in the disbursements ledger, and reconciles the payroll transactions in the bank account statements.

The county clerk does not have segregation of duties as a function of her internal control procedures related to payroll processing. A lack of segregation of duties over financial functions increases the risk that misstatements due to undetected errors or theft could occur. A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not prepare payroll each pay period, prepare payroll checks and payments of taxes and withholdings to respective agencies, record payroll disbursements in the ledger, and reconcile the payroll disbursements to the bank statement. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible, cross checking procedures or compensating controls could be implemented and documented by the individual performing the review procedure.

We recommend the county clerk separate the duties involved in preparing payroll each pay period, including payroll checks and payments of taxes and withholdings to respective agencies, recording payroll disbursements in the ledger, and reconciling the payroll transactions to the bank statement. If this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the review procedure.

County Clerk's Response: I will continue to do payroll. I have written instructions should I be incapacitated.

Auditor's Reply: As noted in the finding, the concern is that the duties performed are not properly segregated. Proper segregation of duties is essential for providing protection from undetected errors or fraud.

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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