



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Elliott Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2014 financial statement of Elliott County Clerk Shelia Blevins. 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 revenues, expenditures and excess fees of the Elliott 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 non-compliance 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 lacks oversight over internal control procedures. The county clerk's internal control procedures have deficiencies in cash receipts, disbursements, bank reconciliations, and financial reporting. A lack of oversight increases the risk that errors could occur and not be detected. The deficiency in internal controls over cash receipts occurs because the county clerk collects cash receipts, prepares daily deposits, and prepares daily checkout sheets and posts to the receipts ledger. A deficiency in the internal controls over disbursements occurs because the county clerk prepares checks and posts to the disbursements ledger. A deficiency in bank reconciliations occurs because the county clerk has access to cash receipts and disbursements and also prepares the bank reconciliation. The deficiency in internal controls over financial reporting occurs because the county clerk prepares all quarterly and annual reports while having access to the receipts and

disbursements ledgers and bank reconciliations. No one reviews the work of the county clerk, and there are no other compensating controls in place. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies.

Compensating controls are documented measures the county clerk could take that do not eliminate the deficiencies but do lessen their severity. Compensating controls would include other office employees preparing daily deposits and posting to ledgers, with the county clerk reviewing the work and preparing reports and reconciliations based upon the work of the other employees. Another employee could prepare checks to be posted to the ledger by the county clerk, along with requiring two signatures on checks, one belonging to the check preparer and one to the county clerk. The county clerk could have another employee review the bank reconciliations and financial reports that she prepares. Any reviews performed should be documented by employee initials.

We recommend the county clerk segregate duties involving cash receipts, disbursements, bank reconciliations, and financial reporting. If this is not feasible due to a limited budget, compensating controls should be implemented and documented by the individual performing the procedure.

County Clerk's response: I continue to work on internal control procedures. I am implementing compensating controls to help correct this situations.

The county clerk's 2014 fee account had four missing daily deposits totaling \$15,680. Daily receipts for May 21, May 22, May 23, and August 11, 2014 were not deposited to the county clerk's 2014 fee account. The 2014 fee account is missing funds totaling \$15,680. The county clerk stated there was a misplaced deposit bag containing these missing deposits and that she deposited the missing deposits on February 5, 2015. Because this large amount of deposit activity after year-end was so unusual, we requested the bank provide the detailed composition for these late deposits. From this bank deposit detail, we identified that \$8,990 of the deposit was in the form of checks, and \$6,690 was in the form of cash. All the \$8,990 of checks could be traced to 2015 fee account daily work. Therefore, it was not due to a misplaced deposit bag for the 2014 fee account. Because cash loses its identity if proper accounting records are not kept in place, it was not possible to determine if the \$6,690 of cash from those deposits were for 2015 activity. Thus, these cash deposits are considered unidentified receipts. Had the clerk been preparing proper, accurate, and timely accounting records, these cash funds could have been identified. In addition, if the cash deposits were from a misplaced deposit bag and the clerk had a proper accounting and monthly reconciliation process in place, those missing deposits would have been discovered in the timeframes of May and August 2014, which they were not. Each day the county clerk's office collects payments from customers those collections must be receipted in and deposited to the county clerk's fee account. Missing daily deposits indicate a cash deficit in the county clerk's 2014 fee account-see comment 2014-003. We recommend the county clerk deposit each day's receipts to the correct fee account and also properly prepare deposits tickets that agree to daily check out sheets that also agree to the accounting ledgers. This matter will be referred to the Office of the Attorney General.

County Clerk's response: All deposits are NOW made on a daily basis. Cash deposits and check deposits are identified separately.

The county clerk has a known deficit of \$8,990 in her 2014 fee account. The county clerk has a deficit in her 2014 fee account in the amount of \$8,990. As stated in comment 2014-002, the county clerk deposited 2015 funds in the 2014 fee account, resulting in \$8,990 due back to the 2015 fee account. The fiscal court has not received the proper amount of excess fees timely. The county clerk should ensure deposits are made to the proper fee account timely and not diverted for other purposes. In the event there is a shortage in an official's fee account, the official is personally liable to replenish the funds. We recommend the county clerk deposit \$8,990 of personal funds to cover the deficit in her 2014 fee account, and then pay remaining excess fees to the fiscal court.

County Clerk's response: A deposit in the amount of \$8,990 will be made to the 2015 fee account by December 31, 2015.

The county clerk did not deposit receipts intact on a daily basis. The county clerk made 267 deposits during the year, of which 147 deposits did not clear the bank within three business days. Further, 11 deposits did not clear the bank in over a month, and four deposits cleared the bank on February 5, 2015, which made them over six months late. Receipts not deposited on a daily basis can result in the county clerk's office not being able to distribute funds timely to other agencies and increases the risk that funds could be misplaced or stolen. The county clerk did not ensure that deposits were made intact and on a daily basis. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Requirements for handling public funds as stated in the State Local Finance Policy Manuals are that deposits be made intact daily. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the county clerk deposit receipts intact on a daily basis.

County Clerk's response: All deposits are now being made daily.

The county clerk commingled personal funds with the fee account. The county clerk cashed a \$100 check written on her personal account and the county clerk's son also cashed a \$100 check written on his personal account from the 2014 fee account on February 3, 2015. The personal checks do not trace to a daily checkout sheet or any of the motor vehicle transactions. Funds received were not deposited properly and were used for other purposes at the county clerk's discretion. It cannot be determined if these deposits were either written to the county clerk's account in exchange for cash or made to replenish the 2014 fee account for a cash shortage. KRS 64.850 states that, "It shall be unlawful for any county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than that for which they were received and deposited." Further, checks should not be written to cash, and each check/cash transaction should trace to an item of business on that specific date. We recommend that all monies deposited into the county clerk's account on a specific day tie to that day's business. Otherwise, there is an assumption the check was either exchanged for cash or used to replenish a cash shortage in the county clerk's fee account.

County Clerk's response: No personal checks are now cashed in the Clerk's office.

The county clerk has disallowed disbursements of \$84 in her 2014 fee account. The county clerk has \$84 of disallowed disbursements in her 2014 fee account. When fee account monies are spent on disallowed disbursements, the fiscal court is deprived of excess fees that can be used for other county services. The county clerk used valet parking services at a hotel while in attendance at a county clerk's meeting and was charged \$28 each day for three days totaling \$84. The Auditor of Public Accounts (APA) follows the ruling of Funk v. Milliken, in which criteria for allowable expenditures were established. These criteria state the expenditure should be necessary for the office use; beneficial to the public; not personal in nature; and reasonable in amount and content. We recommend the county clerk deposit personal funds of \$84 in the 2014 fee account for disallowed expenditures.

County Clerk's response: \$84 will be deposited into the 2014 Fee Account to cover this expenditure.

The county clerk overspent the deputies' maximum salary limitation fixed by the fiscal court. The county clerk overspent the deputies' maximum salary limitation as fixed by the fiscal court by \$3,176. The fiscal court approved the deputies' salary limit at \$47,720. However, the clerk expended \$50,896. Disbursements for deputies' salaries were not monitored by the county clerk. The county clerk is not in compliance with KRS 64.530(3). Overspending the amount approved for county clerk's deputies' salaries reduces the funds available to the fiscal court to be used to pay for other expenses of county government. KRS 64.530(3) states, in part, "the fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." We recommend the county clerk monitor payroll disbursements during the year and not exceed the deputies' maximum salary limitation without fiscal court approval.

County Clerk's response: I did not realize that I was close to the salary cap. Steps are in place to monitor this situation before an expenditure can happen.

The county clerk did not present a financial statement and remit excess fees to the fiscal court by March 15, 2015. The county clerk did not submit a financial statement and pay excess fees to the fiscal court by March 15, 2015. There is no record of the county clerk presenting her financial statement to the fiscal court in the minutes. As of our audit date, excess fees of \$17,184 remain unpaid. Not paying excess fees to the fiscal court in a timely manner disrupts the financial reporting process for the fiscal court. KRS 64.152(2) requires a financial statement to be presented and excess fees to be paid to the fiscal court by March 15 of each year. We recommend the county clerk comply with KRS 64.152(2) by presenting a financial statement and paying excess fees by March 15 of each year and pay the remaining 2014 excess fees of \$17,184 as soon as possible.

County Clerk's response: The excess fees will be remitted by December 31, 2015.

The county clerk did not prepare Form 1099's for all applicable contract labor. The county clerk did not prepare and distribute a Form 1099 to her daughter for scanning and indexing work performed during calendar years 2012 and 2013. The county clerk's daughter was paid \$3,552 in calendar year 2012 and \$5,380 in calendar year 2013 as part of a Libraries and Archives grant. The

county clerk's daughter's wages were not properly reported to appropriate agencies. The county clerk neglected to fulfill this obligation. Libraries and Archives scanning and indexing grants are required to be spent as contract labor. The county clerk agrees to this when the grant agreement is signed. The county clerk is responsible for reporting contract labor payments to the appropriate agencies in a timely manner. The Internal Revenue Service requires the Form 1099 be issued to individual contractors for services resulting in income of \$600 or more. We recommend the county clerk prepare a Form 1099 for the contract labor employee for calendar years 2012 and 2013 and submit corrected Form 1096 to the IRS for calendar years 2012 and 2013.

County Clerk's response: Form 1099 will be issued by December 31, 2015.

The county clerk did not reconcile the usage tax account monthly. The county clerk did not reconcile her usage tax bank account. Auditors spent additional time reconciling the usage account to an account balance of \$947 as of December 31, 2014. This balance indicates overpayments from the county clerk's fee account or underpayments of usage tax to the Department of Revenue which affects excess fees paid to the county. The county clerk neglected to perform this duty. Usage tax payments are made daily from the fee account to the usage account. The amount paid is called in to the Department of Revenue, who then debits the usage tax account. Since there are numerous transactions, the usage tax account should be reconciled monthly to maintain accuracy and ensure that errors are corrected in a timely manner. We recommend the county clerk reconcile the usage tax account on a monthly basis and that any variances found be resolved at that time. The reconciliation should be reviewed for accuracy by someone other than the preparer.

County Clerk's response: No response.

The county clerk did not ensure that non-sufficient funds (NSF) checks were accounted for properly. The county clerk does not account for NSF checks properly. Nine of twelve NSF checks were still in the county clerk's possession when we were doing the audit and had not been turned over to the county attorney's office. Customers are potentially getting away with not paying for their transaction. The county clerk should be following up on the returned checks and if they are not paid, the transaction should be reversed in the county clerk's computer system and turned over to county attorney's office. Uncollected NSF checks should be turned over the county attorney's office within a reasonable amount of time if the county clerk cannot collect on the check. Also, per KRS 500.050, the county attorney's office may have only one year to seek collection on an NSF check. If the county clerk cannot collect an NSF check, then the check should be promptly turned over to the county attorney's office.

County Clerk's response: NSF checks are now immediately turned over for collection by the county attorney.

Affordable Housing Trust payments were not paid for the 3rd quarter timely. The county clerk did not submit her 3rd quarter 2014 Affordable Housing Trust payment until August 2015. The Department of Revenue was not paid timely for the 3rd quarter Affordable Housing distribution. The county clerk neglected to reconcile her checkbook properly. If she had, she would have realized the check was in the checkbook and not yet mailed. Affordable Housing Trust monies received are to be paid to the Department of Revenue on or before the 10th day of the

month following the quarter covered by the report. We recommend the county clerk ensure that the Affordable Housing Trust payments are all made timely.

County Clerk's response: This was an oversight and has been corrected.

The receipts and disbursements ledgers are not accurate. The receipts and disbursements ledgers are not accurate. The Uniform System of Accounts, adopted under KRS 68.210, requires the clerk to maintain accurate receipts and disbursements ledgers. The clerk neglected to reconcile her bank statement to her ledgers. This caused errors in the county clerk's ledgers and the amounts posted were not the same amounts that cleared the bank. We had to make numerous adjustments to correct these posting errors. We recommend the county clerk reconcile the bank statement to the ledgers to ensure that amounts are posted properly.

County Clerk's response: No response.

The county clerk's receipts and disbursements ledger amounts did not agree to the clerk's 4th quarter financial report. The county Clerk's ledgers do not agree to the county clerk's 4th quarter financial report. The county clerk's quarterly report did not include all receipts collected in her office for calendar year 2014. The county clerk has consistently had numerous posting errors on her ledgers. These errors could cause the county clerk to pay the incorrect amount of excess fees to the county. Further, the ledgers are used to prepare the 4th quarter financial report, and if the ledgers are incorrect, then the 4th quarter report is incorrect and cannot be relied upon by external agencies. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, 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. We recommend the county clerk comply with KRS 68.210 by preparing a complete and accurate quarterly report.

County Clerk's response: No response.

The county clerk's quarterly financial reports were not submitted timely to the Department for Local Government. The county clerk did not submit quarterly financial reports timely to the Department for Local Government (DLG). The county clerk did submit the 4th quarter report to DLG, but it was submitted late on February 25, 2015. The county clerk is consistently late on submitting her quarterly reports to DLG. These reports are due by the 30th day of the month following the end of each quarter. By not timely submitting these reports, financial statement users may not be aware of the financial position of the county clerk's office. We recommend the county clerk's office ensure that the quarterly reports are submitted timely in the future.

County Clerk's response: All reports will be submitted on time in the future.

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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