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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2014 financial statement of former Grant County Clerk Layne Wagoner. 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 former Grant County Clerk in accordance with accounting principles generally accepted in the United States. 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 former County Clerk should have prepared and submitted accurate quarterly financial statements. The former County Clerk did not prepare or submit quarterly financial statements to the Department for Local Government, only a final 4th Quarter Report with year-to-date totals. The quarterly reports, which also serve as the Clerk's year-end financial statements, are required to be submitted by the 30th day following the close of each quarter per the Department for Local Government reporting requirements. Furthermore, the former County Clerk did not accurately reflect amounts in the receipts or disbursements sections on the final 4th Quarter Report, requiring numerous adjustments.

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 former County Clerk to maintain accurate books of original entry and submit an accurate quarterly financial report. Failure to submit an accurate quarterly financial report could result in misrepresentation of financial reporting.

The former County Clerk should have maintained accurate receipts and disbursements ledgers, and reconciled those ledgers to the monthly reports and bank accounts to ensure accurate ledger amounts were carried to the quarterly financial reports. The former County Clerk should have ensured that correct amounts were shown on all financial statements presented to the public and to the Department for Local Government. Lastly, quarterly reports should have been submitted at the close of each quarter.

Former County Clerk's response: No response.

The former County Clerk should have improved controls over receipts. The former County Clerk did not comply with Kentucky Revised Statutes (KRS) or the State Local Finance Officer Policy Manual regarding receipts. Due to inconsistent, incomplete, and inaccurate implementation of controls, we noted the following issues with receipts:

- A receipts journal for the accounting of all receipts, collected and separated into appropriate categories, was not maintained. Receipts were posted by daily totals and not recorded by individual source.
- Receipts were not issued in numerical sequence, were not batched daily, were not being accounted for, and were not filed with the Daily Checkout Sheets.
- Auditors were unable to compare Daily Checkout Sheet totals to batched receipts or to receipts journals.

Based on the minimum accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210, the former County Clerk should have maintained a receipts journal for all collections. At the end of each business day, receipts should have been separated into categories listed on the Daily Checkout Sheet. The total of each category should have been entered in the appropriate space provided. The Daily Checkout Sheet total should equal the amount of money on hand at the end of each day, less startup cash.

Receipts should have been posted to the receipts journal and on a daily basis and a copy of each receipt should have been placed with the daily checkout sheet in sequential order, per KRS 64.840.

The cumulative effect of the control weaknesses increase the risk of material misstatement caused by error or fraud. Misstatements for receipts increase when they are not maintained and cannot be traced in sequence. The former County Clerk should have implemented controls to ensure receipts were handled properly. All daily receipts should have been attached to Daily Checkout Sheets and should have been accounted for in numerical sequence.

Former County Clerk's response: No response.

The former County Clerk did not have adequate segregation of duties over receipts and disbursements. The former County Clerk's office had a lack of segregation of duties over receipts, disbursements, and bank reconciliations. The former County Clerk printed the Point of Sale (POS) daily checkout sheet, prepared the daily deposit, and posted to the receipts ledger. The former County Clerk also prepared, signed, and posted all disbursements. Further, the former County Clerk prepared all monthly and quarterly reports and performed all of the bank reconciliations.

Segregation of duties over receipts and disbursements or implementation of compensating controls is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets. Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, and recording and reporting of those receipts and disbursements. The lack of segregation of duties increased the former County Clerk's risk of misappropriation of assets, errors, and inaccurate financial reporting.

The former County Clerk should have strengthened internal controls by segregating these duties. If segregation of duties was not possible due to a limited number of staff, strong oversight and compensating controls should have been implemented. All compensating controls and reviews by other individuals could have been documented by initialing source documents.

Former County Clerk's response: No response.

The former County Clerk should have improved controls over disbursements. The former County Clerk did not comply with Kentucky Revised Statutes (KRS) or the State Local Finance Officer Policy Manual regarding disbursements. Due to inconsistent, incomplete, and inaccurate implementation of controls, we noted the following issues with disbursements:

- The former County Clerk made non-check disbursements including two cashier's checks totaling $90,088 and one cash withdrawal for $268. The State Local Finance Officer Policy Manual requires that all disbursements be made by check only.
- The former County Clerk did not have original invoices or other supporting documentation for all disbursements. The State Local Finance Officer Policy Manual, along with <u>Funk vs. Milliken</u>, a case decided by Kentucky's highest court, require adequate documentation for all disbursements.
- The former County Clerk purchased a computer package totaling $35,278 without advertising for bids. KRS 424.260 requires that all disbursements over $20,000 be advertised for bid in a local newspaper.
- The former County Clerk paid one taxing district, the Grant County Fiscal Court, twice for tangible personal property taxes due, resulting in an overpayment of $13,746. Good internal controls dictate that all invoices be cancelled upon payment to prevent duplicate payments.
- The former County Clerk did not disburse delinquent taxes to districts timely, at times as late as 34 days past due. KRS 134.815(1) states, in part, "The county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles

collected by him for the preceding month, less the collection fee of the county clerk, which shall be deducted before payment to the depository."

The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. The former County Clerk should have improved controls over disbursements by implementing the following:

- Requiring all disbursements be made by check only.
- Maintaining original invoices and adequate documentation for all disbursements.
- Bidding all disbursements over $20,000 not purchased on the state master agreement price contract.
- Cancelling invoices to prevent duplicate payments.
- Disbursing all taxes due by the 10th of each month to the respective districts.

Former County Clerk's response: No response.

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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