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Harmon Releases Audit of Pulaski County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Pulaski County Clerk Linda Burnett. 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 Pulaski 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 Pulaski County Clerk's Office lacks adequate segregation of duties over receipts, disbursements, and the reconciliation process. This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The county clerk has implemented a compensating control over receipts and the two bookkeepers do not collect cash. However, the bookkeeper recounts the cash after each deputy balances their individual cash drawers with their computer-prepared daily checkout sheet. The bookkeeper is responsible for posting to the receipts and disbursements ledgers, preparing a consolidated daily checkout sheet, preparing the deposit ticket, preparing adjusting entries to the receipts and disbursements ledgers, preparing monthly bank reconciliations, preparing all disbursements, with the exception of payroll, and preparing all monthly and quarterly reports. The two bookkeepers rotate their duties each week. The county clerk has implemented compensating controls over disbursements, including dual signatures on all disbursements, with one signature being the county clerk the majority of the time. Also, the county clerk initials the cancelled invoices before signing the disbursements, evidencing her review. Compensating controls were not effective, not operating as intended, and failed to detect the following issues.

- The accounting software was not able to detail specific postings to both the miscellaneous receipts and miscellaneous disbursements. Therefore, the county clerk was not able to determine if postings to the ledgers were accurate. This created the need for numerous reclassifications of miscellaneous receipts and audit adjustments to disbursements to correct the financial statement.

- Instances in which the monthly delinquent tax reports did not reconcile to the receipts ledger postings. In most cases the taxing districts were not paid correctly. Therefore, the disbursements and the monthly reports signed by the county clerk were inaccurate.

The county clerk stated she knew that other duties in the office kept her from providing adequate oversight. Compensating controls over receipts and disbursements were not effective due to the issues noted with lack of internal controls over the accounting records and delinquent taxes.

Segregation of duties over receipts, disbursements, and the reconciliation process, or implementation of compensating controls when needed, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, recording, and reporting of those receipts and disbursements. The lack of segregation of duties increases the county clerk's risk of misappropriation of assets, errors, and inaccurate financial reporting.

We recommend the county clerk strengthen internal controls by segregating these duties over receipts, disbursements, and the reconciliation process. If segregation of duties is not possible, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation and ensure it is accurate.

County Clerk's response: Added an extra deputy to help with the bank statements reconciliation. Advised them to keep up with the bank reconciliations and ledgers on a closer review and I myself take more time to work in that area and by making sure that we initial all our reconciliations. Our other duties sometimes prevents us in providing this requirement.

The Pulaski County Clerk's Office lacks proper internal controls over the delinquent tax reporting process. The delinquent tax reports for February, June, August, and September 2016 were not accurate. The following discrepancies were noted.

- February - Tax bill #12800 in the amount of $638 was included twice on the February monthly delinquent tax report. Therefore, the taxing districts were overpaid.
- June - Three tax bills (23814, 32437, and 45314) totaling $2,009 were collected and posted to the county clerk's receipts ledger, but were not included on the June monthly delinquent tax report. Therefore, the districts were underpaid.
- June - Tax bill #7480 in the amount of $50 was included on the June monthly delinquent tax report, but was not posted to the county clerk's receipts ledger as collected.
- August - An unexplained variance of $330 existed between the county clerk's receipts ledger and the August monthly delinquent tax report. The amount was included on the county clerk's receipts ledger as collected, but was not included on the August monthly delinquent tax report.
- September - Two bills (19181 and 19359) totaling $2,275 were collected and posted to the county clerk's receipts ledger, but were not included on the September monthly delinquent tax report. Therefore, the taxing districts were underpaid.

These errors were the result of the county clerk's failure to implement internal controls to ensure that proper amounts were reported on the monthly delinquent tax reports, recorded in the receipts ledger, and paid out accurately to the taxing districts. Due to the errors listed above, the taxing districts were not paid accurately.

KRS 134.126(1)(a) states, in part, "[t]he county clerk shall receive and record payments for all certificates of delinquency and personal property certificates of delinquency filed by the sheriff[.]" In addition, good internal controls dictate the county clerk should provide oversight over the monthly reporting to ensure all collected delinquent tax bills are included on the monthly delinquent tax reports and posted to the receipts ledger. The receipts ledger and the monthly tax reports should be reconciled and agree.

We recommend the county clerk review all discrepancies listed above and make all necessary adjustments to the current delinquent tax monthly reports to ensure the taxing districts are paid accurately. Also, we recommend the county clerk develop internal control procedures to ensure accurate posting of collected delinquent tax receipts to both the receipts ledger and the monthly report, thus ensuring disbursements to taxing districts are accurate.

County Clerk's response: Had my vendor prepare a daily check sheet report of each tax bill collected & have the delinquent tax clerks along with the bookkeeper to assure all fees are correct & that all fees match at end of month.

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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