



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Former Carlisle County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former Carlisle County Clerk Michael Toon. 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 Carlisle County Clerk in accordance with accounting principles generally accepted in the United States of America. The former clerk's financial statement did not follow this format. However, the former 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 former Carlisle County Clerk overspent available funds for 2017: The former Carlisle County Clerk overspent the funds that were available to him in 2017. For calendar year 2017, the former county clerk had recognized receipts of \$1,588,937, and recognized disbursements of \$1,593,516. As a result, the former Carlisle County Clerk's 2017 fee account has a deficit of \$4,579, and the office is unable to pay its financial obligations.

This was due to the former county clerk having weak internal controls over his budget and bookkeeping. Monthly reconciliations were not accurate, which resulted in the former county clerk not knowing the true balance of his fee account. Additionally, the former county clerk deposited 2018 funds into the 2017 fee account, which masked the deficit amount.

Proper internal controls should ensure that disbursements do not exceed receipts. Proper internal controls should also ensure that receipts and disbursements ledgers, as well as monthly bank reconciliations are accurate. We recommend the former Carlisle County Clerk use his personal funds to pay the office's obligations that are currently outstanding.

Former County Clerk's Response: No Comment

The former Carlisle County Clerk had weak internal controls over timekeeping: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The former Carlisle County Clerk did not require employees to maintain timesheets. They only keep track of days off. Payroll summaries are signed by the employee, but do not have a breakdown of hours worked each day.

The former Carlisle County Clerk implemented a process that lacked internal controls. A lack of internal controls over timekeeping increases the risk of improperly compensating employees. Additionally, failure to record the number of hours worked each day results in the former county clerk being noncompliant with KRS 337.320. Strong internal controls over timekeeping are important to ensure that employees are being compensated for hours actually worked and that leave balances are being maintained and used in accordance with county policy. Also, KRS 337.320 states, "[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; [and] (b) [t]he hours worked each day and each week by each employee[.]"

We recommend the county clerk's office strengthen internal controls by requiring timesheets recording the hours worked by each employee, each pay period. These timesheets should be signed by the employees and approved by the county clerk. Approved timesheets should then be used to update and maintain employees' leave balances.

Former County Clerk's Response: No Comment

The former Carlisle County Clerk lacked internal controls over financial reporting: The former county clerk's fourth quarter financial report did not agree to his receipts or disbursements ledgers. Receipts in the amount of \$11,900 were omitted from the fourth quarter financial report. Additionally, the fourth quarter financial report included \$3,884 of disbursements that were not included on the disbursements ledger. During the course of the audit, the auditor recommended numerous adjustments to both receipts and disbursements in order to reconcile the ledgers to the proof of cash, and other reports.

Due to the former county clerk failing to implement strong internal controls over financial reporting, the receipts and disbursements ledgers were inaccurate, with discrepancies noted between the ledgers and quarterly reports. Inaccurate financial reporting allows opportunity for the former county clerk to misrepresent his financial status to the fiscal court and other administrative bodies. Furthermore, the former county clerk's failure to maintain accurate financial records means he is not in compliance with KRS 68.210.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting. Also, strong internal controls are essential to providing protection from asset misappropriation, and preventing inaccurate financial reporting. We recommend the Carlisle County Clerk's Office implement strong internal controls over the accounting process to ensure that accurate receipts and disbursements ledgers are maintained, and quarterly reports are in agreement with these ledgers.

Former County Clerk's Response: No Comment

The former Carlisle County Clerk failed to pay the taxing districts for all delinquent taxes received from 2016: In 2016, the former county clerk collected \$3,976 of delinquent tax bills that did not appear on the delinquent tax distribution reports. These were all bills that were turned over to the county attorney to collect. The county attorney collected them and paid them over to the former county clerk, but the former county clerk failed to include them on the delinquent tax distributions reports. The former county clerk also failed to issue a check to the extension district in the amount of \$71 for February's delinquent taxes. This was brought to the former county clerk's attention on May 11, 2018, but these amounts have yet to be paid to the districts.

The former county clerk failed to correct the prior year comment. Since those bills were not included on the reports, the portions of those bills that should be distributed to the districts did not get paid, and the districts were denied funds. Additionally, the former county clerk was not in compliance with KRS 134.126. KRS 134.126(3) states, "[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly." Furthermore, strong internal controls over the delinquent tax reporting process are essential to ensuring that all delinquent taxes are accounted and reported properly.

We recommend the county clerk's office strengthen internal controls over the delinquent tax reporting process and pay the taxing districts and other entities additional delinquent taxes due from the bills erroneously omitted from the June, August, and October 2016 delinquent tax reports.

Former County Clerk's Response: This will be corrected before the end of the year, 2018.

The former Carlisle County Clerk failed to pay the taxing districts for all delinquent taxes received in 2017: The former county clerk collected \$2,308 of delinquent tax bills that did not appear on the delinquent tax reports, \$1,884 of which did not get properly distributed. The former county clerk also failed to issue a check to the state in the amount of \$699 for July's delinquent taxes, and failed to issue a check to the board of education in the amount of \$1,316 for June's delinquent taxes.

According to the former county clerk, this was due to an oversight by the deputy that was in charge of handling the delinquent taxes. Since those bills were not included on the reports, the portions of those bills that should be distributed to the districts did not get paid, and the districts did not receive the funds they were entitled to. Additionally, the former county clerk was not in compliance with

KRS 134.126, and there may still be certificates of delinquency on these delinquent tax bills that have already been paid.

KRS 134.126(3), which outlines the duties of the county clerk in regards to certificates of delinquency states, “[t]he county clerk shall report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts. The governing body of a county may require the county clerk to report and pay on a more frequent basis if necessary for bonding requirements; however, the county clerk shall not be required to report and pay more frequently than weekly.” Furthermore, strong internal controls over the delinquent tax reporting process are essential to ensuring that all delinquent taxes are accounted and reported properly.

We recommend the county clerk’s office strengthen internal controls over the delinquent tax reporting process, pay the state and board of education the amount owed from June and July 2017, and pay the taxing districts and other entities additional delinquent taxes due from the bills erroneously omitted from 2017 delinquent tax reports.

Former County Clerk’s Response: As was the case in 2016, deputies input the bills that were under contract at the County Attorney’s office incorrectly thus, this appeared again. Entities will be paid.

The Carlisle County Clerk’s Office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Carlisle County Clerk’s Office lacks adequate segregation of duties over the accounting and reporting functions. The former county clerk was responsible for multiple tasks such as preparing weekly and monthly reports, preparing checks for disbursements, completing monthly bank reconciliations, and preparing the quarterly reports.

According to the former county clerk, this is due to having a limited staff due to budget constraints. Thus the former county clerk decided to take on those responsibilities. A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud.

Segregation of duties over these tasks or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk’s office separate the duties involved in writing checks, preparing weekly and monthly reports, completing monthly bank reconciliations, and preparing quarterly reports. If this is not feasible due to a lack of staff, cross-checking procedures could be implemented. Such procedures should be documented by the individual performing them.

Former County Clerk’s Response: No Comment

The former Carlisle County Clerk did not comply with KRS 64.535 by paying his own salary in advance: The former Carlisle County Clerk was overpaid \$150 during 2017, and paid himself a month in advance throughout the year. As a result, the former county clerk received both his January and February paycheck in January 2017. The former county clerk was unaware that he could not pay himself in advance, and was overpaid due to an error made at the beginning of the year, resulting in the former county clerk receiving \$150 more than he should have.

This money could have been used to benefit the county. The former county clerk is also not in compliance with KRS 64.535. KRS 64.535 states, “[t]he county judge/executive, clerk, jailer who operates a full service jail, and sheriff shall each receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275.” Additionally, strong internal controls over the officials payroll is needed to ensure that the salary matches the salary schedule, and is paid appropriately.

We recommend the former Carlisle County Clerk pay \$150 to the 2017 fee account for his salary overpayment, and in the future pay himself monthly as is required by KRS 64.535.

Former County Clerk’s Response: No fraud was intended in this mistake. County will be reimbursed.

The former Carlisle County Clerk had a disallowed disbursement during 2017: One of the former county clerk’s travel reimbursement checks was incorrectly calculated. When this was brought to the former county clerk’s attention, he explained that there was a personal issue that occurred during the trip and reimbursed the amount that should not have been paid. The amount returned was \$169. According to the former county clerk, this was due to an oversight on his part due to the issues that occurred during the trip.

The former county clerk was overpaid \$169, which could have been used for the benefit of the county. In accordance with Funk vs. 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.

Since the former county clerk has already repaid the disallowed amount, we recommend that in the future the county clerk’s office only make expenditures for things that are necessary, reasonable in amount, beneficial to the public, and not personal in nature. Disbursements should also be adequately documented.

Former County Clerk’s Response: No Comment

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](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

