



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of former 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 receipts, disbursements and excess fees of the former 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 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 former county clerk did not present an annual financial settlement to the fiscal court and did not pay additional excess fees of \$9,114: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. In the prior year audit, the former county clerk owed additional excess fees of \$7,208 to the fiscal court that have not been paid (see Finding 2016-012).

The former county clerk did not submit an annual financial settlement to the fiscal court, and did not pay \$9,114 in additional excess fees for the period January 1, 2016 through August 10, 2016. The former county clerk did not ensure an annual financial settlement was presented to the fiscal court. The former county clerk has additional excess fees owed because she failed to ensure excess

fee payments were made prior to resigning from office or at any time since her resignation. Under fee pooling, the fiscal court pays for most expenses of the county clerk's office. Therefore it is important for them to know the financial condition of the county clerk's office. Without presenting an annual settlement, the fiscal court is unaware of the financial condition of the county clerk's office. Furthermore, excess fees are budgeted as income for the fiscal court, and not receiving excess fees timely impacts the fiscal court's ability to provide budgeted services, including payments of expenses of the county clerk's office.

KRS 64.152(1) requires a financial settlement to be presented to the fiscal court by March 15 of each year. On February 4, 2013, the Elliott County Fiscal Court passed Ordinance FY-13-001, which requires the sheriff's office and county clerk's office to participate in fee pooling. Under fee pooling, the sheriff's office and county clerk's office pay net income (excess fees) monthly to the fiscal court, and the fiscal court pays all salaries and expenses of those offices. Net income is due no later than the tenth of the month for the preceding month. We recommend the former county clerk pay additional excess fees of \$9,114 to the fiscal court as soon as possible. We also recommend the county clerk's office submit an annual financial settlement and pay any additional excess fees due to the fiscal court by March 15 of each year.

Former County Clerk's Response: No response provided.

The former county clerk owes ad valorem taxes of \$13,018 to taxing districts for August 2016: The former county clerk owes ad valorem taxes of \$13,018 to taxing districts. The former county clerk resigned from office on August 10, 2016. Ad valorem tax reports for the month of August were due by September 10, 2016, however no report was prepared and no payments were made. This amount is included as a liability of the former county clerk's 2016 fee account (see Finding 2016-008).

The former county clerk failed to ensure the August ad valorem payments were made prior to resigning from office or at any time since her resignation. The taxing districts did not receive monies that were owed to them for the month of August 2016, which could have impacted their ability to meet their financial obligations. Because the monies were not distributed, we have proposed audit adjustments to the Statement of Receipts, Disbursements, and Excess Fees to include these unpaid liabilities. KRS 134.815(1) states, "[t]he 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." KRS 134.815(2) states, "[a]ny county clerk who fails to pay over any taxes collected by him on motor vehicles as required by subsection (1) of this section shall be required to pay a penalty of one percent (1%) for each thirty (30) day period or fraction thereof, plus interest at the legal rate per annum of such taxes."

We recommend the former county clerk pay the August 2016 ad valorem taxes owed as follows:

State	\$4,743	County	\$1,723
School	4,968	Health	352
Extension	352	Ambulance	880

We also recommend the county clerk's office perform the ad valorem tax reporting duties as stated in KRS 134.815.

Former County Clerk's Response: These Ad Valorem payments will be made.

The former county clerk owes delinquent taxes of \$2,035 to taxing districts, the county attorney, and the sheriff for August 2016: This is a repeat finding and was included in the prior year audit report as Finding 2015-004. In the prior year, the former county clerk owed \$3,958 of delinquent taxes to taxing districts, the county attorney, and the sheriff that have not been paid (see Finding 2016-012).

The former county clerk owes delinquent taxes of \$2,035 to taxing districts, the county attorney, and the sheriff for August 2016. The former county clerk resigned from office on August 10, 2016. Delinquent tax reports for the month of August were due by September 10, 2016, however no report was prepared and no payments were made. This amount is included as a liability of the former county clerk's 2016 fee account (see Finding 2016-008).

The former county clerk failed ensure the August delinquent tax payments were made prior to resigning from office or at any time since her resignation. The taxing districts, county attorney, and sheriff did not receive monies that were owed to them for the month of August 2016, which could have impacted their ability to meet their financial obligations. Because the monies were not distributed, we have proposed audit adjustments to the Statement of Receipts, Disbursements, and Excess Fees to include these unpaid liabilities. KRS 134.126 describes the duties of the clerk regarding certificates of delinquency. Those duties require the county clerk to report and pay delinquent taxes by the tenth day of each month and allocate payments among the entities entitled to a payment.

We recommend the former county clerk pay the August 2016 delinquent taxes owed as follows:

State	\$ 205	County	\$ 219
School	700	Health	67
Extension	117	Ambulance	168
Soil Conservation	89	County Attorney	282
Sheriff	188		

We also recommend the county clerk's office perform the delinquent tax reporting duties as stated in KRS 134.126.

Former County Clerk's Response: These Delinquent Property Taxes will be paid.

The former county clerk owes deed transfer taxes of \$705 to the fiscal court: The former county clerk owes deed transfer taxes of \$705 to the fiscal court for July 2016 and August 2016. The former county clerk resigned from office on August 10, 2016. The deed transfer tax payment for July and August was due in October 2016, however no payment was made. This amount has been included as a liability of the former county clerk's 2016 fee account (see Finding 2016-008).

The former county clerk did not ensure deed transfer tax payments were made timely. The fiscal court did not receive revenues in a timely manner, which potentially impacted its ability to meet its financial obligations. Deed transfer taxes are budgeted as income for the fiscal court, and not receiving deed transfer taxes timely impacts the fiscal court's ability to provide budgeted services, including paying expenses of the county clerk's office. KRS 142.050(4) requires the county clerk to remit the deed transfer tax every three months to the county treasurer. We recommend the former county clerk pay the July 2016 and August 2016 deed transfer taxes. We also recommend the county clerk's office remit deed transfer tax payments timely to the fiscal court.

Former County Clerk's Response: Deed Transfer Taxes will be paid to the Fiscal Court.

The former county clerk was overpaid statutory maximum salary of \$1,181: The former county clerk received statutory maximum salary of \$48,482 for service as county clerk for the period January 1, 2016 through August 10, 2016. However, the former county clerk was due statutory maximum salary of \$47,301, resulting in a total overpayment of \$1,181. The fiscal court is responsible for paying employees of the county clerk's office under the fee pooling resolution.

The overpayment was caused by the following:

- The former county clerk was paid biweekly, which caused her salary paid to be \$288 higher than what she had actually earned through August 10, 2016.
- The former county clerk was given a final salary payment of \$893 on August 23, 2016, which was not actually owed.

The overpayment of the former county clerk's statutory maximum salary means the fiscal court has spent more funds than necessary, which reduces the funds available for other uses. KRS 64.5275 established the maximum salary schedule for county clerks. The schedule is adjusted annually for increases in the Consumer Price Index. The former county clerk's maximum salary for calendar year 2016 was set at \$77,402. However the clerk resigned on August 10, 2016, which reduced her salary to \$47,301. We recommend the former county clerk reimburse the fiscal court for the \$1,181 overpayment of her statutory maximum salary for the period January 1, 2016 through August 10, 2016. This overpayment has been included in the balance due fiscal court at completion of the audit on the financial statement.

Former County Clerk's Response: Former Clerk will be paying back the over payment from personal funds.

The former county clerk did not deposit the election commissioner payment to the fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-006. The prior year finding has not been resolved (see Finding 2016-012).

The fiscal court paid the former county clerk \$115 for the former county clerk's required service as an election commissioner on the county's board of elections. The former county clerk did not deposit the election commissioner payment to the fee account. The former county clerk did not ensure this payment was deposited to the fee account. The former county clerk has received income in excess of her authorized salary and deprived the county clerk's office of income.

KRS 64.5275 allows county clerks to be paid only the statutory maximum and training incentive. KRS 64.017 allows county clerks to be paid an expense allowance. These three items are the only compensation allowed to county clerks. Payments for serving on the county board of elections per KRS 117.035 are considered fees of the county clerk's office. We recommend the former county clerk deposit \$115 from personal funds to the 2016 fee account to reimburse for the election commission payment. This amount has been included in the 2016 excess fees calculation.

Former County Clerk's Response: Election Commissioner payment will be paid into the fee account.

The former county clerk overpaid the usage tax account by \$1,229: This is a repeat finding and was included in the prior year audit report as Finding 2015-007. In the prior year, the former county clerk overpaid the usage tax account and this issue has not been resolved (see Finding 2016-012).

The former county clerk overpaid the usage tax account by \$1,229 during calendar year 2016. The reconciled balance of the usage tax account as of the former county clerk's resignation on August 10, 2016, was \$5,793. Due to a misunderstanding, the current county clerk used the funds in the former county clerk's usage tax account to pay her usage tax liabilities until there were no funds remaining. The current county clerk corrected this error by depositing \$5,793 to the former county clerk's 2016 fee account. Of this balance, \$4,564 was owed to the former county clerk's 2015 fee account and \$1,229 was owed to the former county clerk's 2016 fee account.

The former county clerk was not reconciling her usage tax account. Reconciliation of the usage account would have allowed these overpayments to be corrected timely. Overpaying the usage tax account causes excess fees to be underpaid. Not reconciling the usage account allows for errors to not be detected and resolved timely. Auditors compared the daily payments made from the 2016 fee account to what was actually owed to the usage tax account. The \$1,229 overpayment was the result of numerous daily payment errors. These errors were found by the auditors and not the former county clerk, which indicates the former county clerk was not reconciling the usage tax account. We recommend the former county clerk transfer \$4,564 from her 2016 fee account to the 2015 fee account in order to be able to pay all liabilities of the 2015 fee account, and retain \$1,229 in the 2016 fee account. We also recommend the county clerk's office reconcile the usage tax account at least monthly in order to prevent these types of errors to occur and remain undetected.

Former County Clerk's Response: Overpayment of usage will be paid to the Fiscal Court.

The former county clerk has uncollected receivables and unpaid liabilities in the 2016 fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-008. In the prior audit, the former county clerk had uncollected receivables and unpaid liabilities that have not been resolved (see Finding 2016-012).

The former county clerk needs to collect receivables and pay liabilities in order to settle the 2016 fee account.

The former county clerk did not settle her 2016 fee account prior to or at any time since her resignation on August 10, 2016. As a result of not settling the 2016 fee account, the former county clerk still needs to collect receivables and pay liabilities. Taxing districts and other agencies have been deprived of income, which may have created a financial burden for them.

The former county clerk needs to deposit personal funds in the following amounts:

Former county clerk's statutory maximum salary overpayment (see Finding 2016-005)
\$ 1,181

Former county clerk's personal funds for election commissioner payment (see Finding 2016-006)
\$ 115

The former county clerk needs to pay the following amounts:

Excess fees to the fiscal court (see Finding 2016-001)
\$ 9,114

Ad valorem taxes owed to taxing districts (see Finding 2016-002)
\$13,018

Delinquent taxes owed to taxing districts, county attorney, and sheriff (see Finding 2016-003)
\$ 2,035

Deed transfer taxes to the fiscal court (see Finding 2016-004)
\$ 705

Statutory maximum salary overpayment owed to the fiscal court (see Finding 2016-005)
\$ 1,181

Usage taxes owed to 2015 fee account (see Finding 2016-007)
\$ 4,564

Each comment referenced above contains additional criteria used to determine the receivables and liabilities and provides a detailed explanation of the finding. We recommend the former county clerk collect receivables and pay liabilities as detailed above. Currently, the bank account balance is \$29,321. Once the former county clerk deposits personal funds of \$1,296 and pays all of the liabilities of the 2016 fee account, the bank balance will be \$0.

Former County Clerk's Response: These liabilities will be paid.

The former county clerk's bond did not meet the requirements of KRS 62.055: This is a repeat finding and was included in the prior year audit report as Finding 2015-010.

The former county clerk's bond did not meet the requirements of KRS 62.055. KRS 62.055 requires the county clerk's bond to be at least \$100,000. The former county clerk obtained a bond in the amount of \$50,000. The former county clerk and the fiscal court did not ensure that the bond met the requirements of KRS 62.055. Funds of the county clerk's office are at risk when the bond coverage is not obtained at the required amount. KRS 62.055(2) states, in part, "the amount of the county clerk's bond shall be at least one hundred thousand dollars (\$100,000). KRS 62.055(3) states "[t]he bond of the county clerk shall be examined and approved by the fiscal court, which shall record the approval in its minutes."

We recommend the current county clerk obtain a bond of at least \$100,000 to comply with KRS 62.055. We also recommend the fiscal court review bond coverage for the current county clerk.

Former County Clerk's Response: No response provided.

The former county clerk did not make timely excess fees payments to the fiscal court: This is a repeat finding and was included in the prior year audit report as Finding 2015-012.

All of the former county clerk's excess fees payments were paid late to the fiscal court. The excess fees payments made for January through June ranged from one day to 21 days late. July and August payments were not paid and are reported as liabilities of the fee account (see Finding 2016-001). The former county clerk did not ensure excess fees payments were made timely. As a result, the fiscal court did not receive much needed revenues in a timely manner, which impacted its ability to meet its financial obligations. Excess fees are budgeted as income for the fiscal court, and not receiving excess fees timely impacts the fiscal court's ability to provide budgeted services, including paying expenses of the county clerk's office.

On February 4, 2013, the Elliott County Fiscal Court passed Ordinance FY-13-001, which requires the sheriff's office and county clerk's office to participate in fee pooling. Under fee pooling, the sheriff's office and county clerk's office pay net income (excess fees) monthly to the fiscal court, and the fiscal court pays all salaries and expenses of those offices. Net income is due no later than the tenth of the month for the preceding month. We recommend the county clerk's office remit monthly excess fee payments to the fiscal court by the tenth of the following month.

Former County Clerk's Response: No response provided.

The second and third quarterly financial reports were not submitted to the Department for Local Government: This is a repeat finding and was included in the prior year audit report as Finding 2015-013.

The second and third quarterly financial reports were not submitted to the Department for Local Government (DLG). The former county clerk resigned from office on August 10, 2016. Therefore, the third quarterly report would serve as the former county clerk's final quarterly report. The former county clerk did not ensure that she or her staff submitted the quarterly reports to DLG. As a result, the former county clerk's financial condition was not known to the state local finance officer and DLG. This was especially important because of the former county clerk's resignation from office. KRS 68.210 authorizes the state local finance officer to require officials from local governments to submit financial reports. Quarterly reports are to be submitted by the 20th day following the close of the quarter in order to satisfy this requirement. We recommend the county clerk's office ensure quarterly reports are prepared and submitted by the 20th of each month following the close of the quarter.

Former County Clerk's Response: No response provided.

The former county clerk has uncollected receivables and unpaid liabilities in the 2015 fee account: This is a repeat finding and was included in the prior year audit report as Finding 2015-008.

The former county clerk needs to collect receivables and pay liabilities in order to settle the 2015 fee account. The former county clerk also has two stale dated outstanding checks totaling \$1,096 that should be escrowed until the checks clear the bank. The former county clerk did not properly account for receipts and disbursements of the 2015 fee account.

The former county clerk needs to collect the following amounts:

Former county clerk's personal funds for election commissioner payment	\$ 115
Former county clerk's personal funds for disallowed disbursements	302
Overpayment from usage tax account	4,564

The former county clerk needs to pay the following amounts:

Delinquent taxes owed to various agencies	2,866
Excess fees to the fiscal court	7,208

Currently, the bank account balance is \$0. However, there are two outstanding checks totaling \$1,096 (\$1,092 July delinquent tax to county attorney and \$4 refund to a taxpayer) that would cause the account to be overdrawn if cashed. The outstanding checks represent obligations owed by the county clerk's office, and as such, cannot be written off. The two outstanding checks, combined with the receivables and liabilities listed above, indicates a deficit of \$6,189. The outstanding checks can be re-issued, but if they do not clear the bank within a reasonable amount of time, the funds should be escrowed and held for three years. If after three years the funds are still unclaimed, the funds should be turned over to the state treasury as property assumed abandoned per KRS 393.090 and KRS 393.110. We recommend the former county clerk collect receivables and pay liabilities of the 2015 fee account as detailed above, and escrow any checks still outstanding after a reasonable amount of time.

Former County Clerk's Response: These liabilities will be taken care of.

The former county clerk did not prepare IRS Form 1099s for contract labor in calendar years 2012 and 2013: This is a repeat finding and was included in the prior year audit report as Finding 2015-016.

The former county clerk did not prepare and distribute an Internal Revenue Service (IRS) Form 1099 to her daughter for scanning and indexing work performed during calendar years 2012 and 2013. The former county clerk's daughter was paid \$3,552 in calendar year 2012 and \$5,380 in calendar year 2013 as part of a Department for Libraries and Archives grant. The former county clerk did not have policies and procedures in place to ensure contract labor was reported appropriately. The former county clerk's daughter's wages were not properly reported to the appropriate agencies so that taxes could be paid if owed. The Department for Libraries and Archives scanning and indexing grants are required to be spent as contract labor. The former

county clerk agreed to this when the grant agreement was signed. The former county clerk was responsible for reporting contract labor payments to the appropriate agencies in a timely manner. The IRS requires the Form 1099 to be issued to individual contractors for services resulting in income of \$600 or more during a calendar year.

We recommend the former county clerk prepare and provide a Form 1099 to the contract labor employee for calendar years 2012 and 2013, and submit corrected Form 1096 to the IRS for calendar years 2012 and 2013. We also recommend the county clerk's office ensure Form 1099 is prepared and provided to any contract labor employee when Department for Libraries and Archives grants are received.

Former County Clerk's Response: No response provided.

The former county clerk did not prepare an accurate receipts ledger, disbursements ledger, or third quarter report: This is a repeat finding and was included in the prior year audit report as Finding 2015-014.

The former county clerk's receipts ledger, disbursements ledger, and third quarterly report were not accurate. Numerous adjustments were proposed to present accurate information in the report for the audited financial statement. The former county clerk did not ensure that accurate financial information was prepared and provided to auditors. Errors in financial reporting are costly for the official and bring into question the qualifications of those preparing the information. Errors can be corrected, however there is typically a significant amount of time that passes before that occurs, which could create budgeting difficulties for the fiscal court and other agencies that receive payments from the county clerk's office.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The uniform system of accounts as described in *The County Budget Preparation and State Local Finance Officer Policy Manual*, requires the county clerk to maintain accurate receipts and disbursements ledgers, and prepare a quarterly report which includes all receipts collected and disbursements paid during the calendar year. We recommend the county clerk's office ensure all financial information is reported accurately.

Former County Clerk's Response: No response provided.

The former county clerk's office lacked adequate segregation of duties and internal controls over fee receipts and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2015-015.

The former county clerk's office was structured so that the former county clerk or her chief deputy maintained control of daily deposits, posting to receipts and disbursements ledgers, writing checks, preparing monthly and annual reports, and reconciling bank accounts. Other employees who worked in the office handled transactions with customers only. The former county clerk did not structure her office in a way that segregates duties and responsibilities. No one reviewed the work of the former county clerk and there were no compensating controls in place. Without adequately

segregated duties and internal controls in place, there is no way to document that the fee account financial information is accurate.

By not segregating duties, there is an increased risk of undetected misappropriation of assets either by error or fraud. Internal controls and proper segregation of duties protects employees and the county clerk in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger. The same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger. And the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the county clerk's office adequately segregate duties and implement internal controls. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case the county clerk could take on the responsibility of reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations prepared by another employee. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. The county clerk could also choose to prepare the bank reconciliations and other reports herself. Further, the county clerk could require dual signatures on all checks, with one signature being the county clerk's.

Former County Clerk's Response: No response provided.

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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