



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 Elliott County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Elliott County Clerk Jennifer Carter. 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 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The county clerk did not present her annual settlement to the fiscal court timely: The county clerk presented her fourth quarter financial report in lieu of an annual settlement to the fiscal court for calendar year 2017 on September 26, 2018. According to the county clerk, she did not have her settlement prepared to be able to present it timely. As a result, the fiscal court was not aware of the financial activities for calendar year 2017, unable to verify if the amount of excess fees remitted were accurate, and in violation of KRS 64.152. KRS 64.152(1) states, "the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses." We recommend the county clerk present an annual settlement along with

her final excess fees check to fiscal court by March 15, and ensure that it is documented in the fiscal court minutes.

County Clerk's Response: The county clerk did not provide a response.

The county clerk did not comply with the county's fee pooling ordinance: This is a similar finding included in the prior year audit report as Finding 2016-002. As depicted in the following chart, the county clerk did not remit her monthly excess fees timely to the fiscal court per the fee-pooling ordinance:

<u>Months Late</u>	<u>Month(s)</u>
5 or more	March, November and December
4	January and April
3	February, May and June
2	July
1	August, September and October

According to the county clerk, she wanted to ensure she was remitting the correct amount of excess fees which delayed payment timeliness. By not submitting the monthly excess fees to the fiscal court by the 10th of each month as required by Elliott County Fiscal Court Ordinance FY-13-001, the county clerk is not in compliance with the ordinance. In addition, the fiscal court is deprived of these funds for a significant amount of time, potentially impacting their budget. 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 10th of the month for the preceding month. We recommend the county clerk comply with the county's fee pooling ordinance by paying excess fees based on calculations from the county clerk's financial records no later than the 10th of the month for the preceding month.

County Clerk's Response: The county fee-pooling ordinance – effective prior to my administration – lacks consideration of time restraints placed on the county clerk's office who have limited staff with limited hours. 10 days is not adequate considering bank statements aren't received until well into or after the 1st week of the month. We are making efforts to pull all reports in earlier and disperse excess fees by the 10th.

The county clerk did not submit quarterly financial reports to the Department for Local Government: The quarterly financial reports were not submitted to the Department for Local Government's (DLG) state local finance officer. Further, the county clerk received delinquent notices from DLG dated July 12, 2017 (for the first quarter), September 7, 2017 (for the second quarter), December 1, 2017 (for the third quarter), and March 14, 2018 (for the fourth quarter) that her quarterly reports were not received. The county clerk did not ensure that she prepared and submitted the quarterly reports to DLG. As a result, the county clerk's financial condition is not known to the state local finance officer and DLG, which is the regulatory agency for county officials. 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 30th day following the close of the quarter in order to satisfy this requirement. We recommend the county clerk ensure quarterly reports are prepared and submitted by the 30th of each month following the close of the quarter.

County Clerk's Response: The county clerk did not provide a response.

The county clerk did not pay license fees timely: Nine weekly license payments (week #2 through #8, week #9, and week #11) to the state from the county clerk were over a week late. The final week (#53) license fees was eight weeks late. It appears the late payments were either the result of errors or an oversight by the county clerk. As a result, the state was not paid timely for license fees collected by the county clerk. KRS 138.464(1) states, “[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period.” KRS 138.464(3) states, “[f]ailure to forward duplicates of all receipts issued during the reporting period or failure to file the weekly report of moneys collected within seven (7) working days after the report is due shall subject the clerk to a penalty of two and one-half percent (2.5%) of the amount of moneys collected during the reporting period for each month or fraction thereof until the documents are filed.” We recommend the county clerk ensure that payments to the state for license fees are paid timely in the future.

County Clerk's Response: The county clerk did not provide a response.

The county clerk overlooked a material error, made late payments, and did not reconcile ad valorem tax reports: The following errors were noted during ad valorem tax report testing:

- The state was overpaid April ad valorem taxes in the amount of \$26,795. Total collections for all districts were carried over to the monthly district calculation report instead of the state only amount. Auditors brought this to the county clerk’s attention and she requested a refund from the state.
- The county clerk paid January and February ad valorem taxes to the taxing districts on April 4, 2017, each at least a month late. The county clerk paid April and May ad valorem taxes to the taxing districts on July 11, 2017, each at least a month late.
- Ad valorem taxing districts are paid monthly from an amount on the revenue county tax collection journal. Daily collection activity is summarized on a point of sale report. Finally, the clerk posts receipts to a receipts ledger. The county clerk is not ensuring all three source documents agree and reconcile to one another.

According to the county clerk, the error and late payments were an oversight. The county clerk does not know why the three receipt reports differ and how to reconcile them. The county clerk does not have procedures in place to ensure accurate reporting. As a result of overpaying the state for April ad valorem taxes, the county clerk did not have funds available to pay necessary payments of the fee account, including November and December excess fees, January through June delinquent taxes to the state, health, extension, ambulance, and soil taxing districts, and second quarter affordable housing due to the state. Once the county clerk receives the refund from the

state for the April ad valorem overpayment, adequate funds will be available to make these payments.

Untimely payments create a delay in funds to the state and other taxing districts; therefore, they cannot use funds if needed. Finally, it is important to reconcile the receipt totals prior to making payments to taxing districts to prevent overpayment which would result in underpayment of excess fees to the fiscal court. 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 county clerk ensure that payments to the state and other taxing districts for ad valorem taxes are paid timely in the future. The county clerk should ensure all reports are reconciled to one another, and have someone review the monthly ad valorem tax reports for accuracy and then compare them to the checks written prior to distribution to the taxing districts.

County Clerk’s Response: The county clerk did not provide a response.

The county clerk did not pay delinquent taxes to districts timely: This is a similar issue included in the prior year audit report as Finding 2016-005. The county clerk did not pay delinquent tax payments to districts timely. Delinquent tax payments for the period January through June 2017 were not paid until January 2019 for six taxing districts, almost two years late. According to the county clerk, there was an unresolved issue with her reports causing the delay in payments to districts. By not remitting payments timely to taxing districts, cash flow problems can occur for these taxing districts as they rely on tax collections to fund a significant portion of their budgeted services. KRS 134.126(3) requires the county clerk to, “report by the tenth day of each month to the department, the county treasurer, the sheriff, and the proper officials of the taxing districts.” We recommend the county clerk ensure monthly delinquent tax payments are paid by the 10th of each month in accordance with KRS 134.126(3).

County Clerk’s Response: The county clerk did not provide a response.

The county clerk’s office lacks 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 2016-006. The county clerk’s office lacks key components of an adequate internal control system. Those key components include the following:

- The county clerk did not prepare receipts and disbursements ledgers or a fourth quarter financial report timely. Subsequent to the audit period, the clerk did prepare these documents.
- The county clerk did not have an adequate segregation of duties in place. The county clerk maintained control of daily deposits, posted to receipts and disbursements ledgers, wrote

checks, prepared monthly and annual reports, and reconciled bank accounts. Other employees who worked in the office handled transactions with customers only.

According to the county clerk, she did not structure her office in a way that segregates duties and responsibilities. No one reviewed the work of the county clerk and there were no compensating controls in place. Without adequate 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 to ensure transactions are recorded timely. Employees receiving payments and preparing deposits should not also post to the receipts ledger and prepare bank reconciliations. Employees preparing and signing checks should not also post to the disbursements ledger and prepare 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.

County Clerk's Response: I have delegated extra duties to deputies and am currently cross-training each.

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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