



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Green County Clerk Billy Joe Lowe. 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 Green 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 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 county clerk's office lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations. The county clerk prepares daily deposits, prepares and signs checks, posts to the receipts and disbursement ledgers, prepares bank reconciliations, and prepares all reports. This is a result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to. A lack of segregation of incompatible duties or strong oversight increases the risk that undetected errors could occur.

A proper segregation of duties over the accounting and reporting functions such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected.

Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk segregate the duties now performed by the county clerk. If segregation of duties is not possible, due to a limited number of staff, the county clerk could delegate the duties and implement compensating controls, documenting with his initials on source documents and reports.

County Clerk's response: No response.

The county clerk did not maintain accurate receipts and disbursements ledgers and reconcile to all monthly and quarterly reports. The county clerk's receipts and disbursements ledgers were not accurate and numerous reclassifications and adjustments had to be made. The county clerk used these ledgers to prepare monthly and quarterly reports. As a result, the following problems were found:

- One delinquent tax payment for September 2015 of \$435 was not paid to the sheriff.
- One ad valorem tax payment for October 2015 was underpaid by \$96 to the ambulance district.
- One 2015 license fee payment to the state for \$4,208 was paid out of the county clerk's 2016 fee account.
- One 2015 ad valorem tax payment to the state for \$432 was paid out of the county clerk's 2016 fee account.

Without an accurate receipts ledger, the county clerk cannot ensure all receipts have been accounted for properly. If reports are not reconciled to the receipts and disbursement ledgers, the county clerk cannot ensure proper amounts have been reported and paid to the intended payee. The risk that receipts could be misappropriated, or that fraud or theft could occur increases.

We recommend the county clerk maintain an accurate receipts ledger and disbursement ledger and reconcile all monthly reports before payments are sent to payees. We also recommend the county clerk reconcile his quarterly financial statement to the ledgers to ensure accurate financial reporting.

County Clerk's response: No response.

The county clerk did not maintain proper internal controls over payroll. The county clerk did not maintain proper internal control over timesheets and leave balances and did not adhere to his office policy relating to holidays and leave used. In addition, the county clerk did not pay his full time deputies for overtime hours worked during an election.

The county clerk requires his employees to prepare timesheets. The county clerk then reviews the prepared timesheets. The county clerk provides timesheets to his payroll service organization who prepares individual earnings records (IERS). IERS track hours worked, holiday hours, overtime hours worked, vacation leave, and sick leave. The county clerk relied on reports he received from his payroll service organization without reviewing the reports. As a result, the following problems were noted concerning timesheets and IERS:

- Timesheets were not properly signed by the employee. Employees make a copy of the calendar timesheet filled out for the previous pay period after it is signed and dated. They complete the calendar for the second pay period; however, they do not re-sign and date the timesheet.
- Some timesheets were not signed by the county clerk indicating his review and approval.
- Some timesheets were altered; however, changes were not approved by the employee.
- All full time employees did not receive overtime hours worked during the November 3, 2015 election. Employees stated that on Election Day they came in around 6:00 am and didn't leave until 7:00 pm or later. All full time employees' timesheets on this date reflect eight hours.
- One timesheet did not include any hours worked but the IER include hours worked.
- One employee was paid for three holidays and another employee was paid for two holidays, but did not work the day before and day after the holiday as required by the county clerk's office policy.
- Holidays were not always noted on timesheets and IERs.
- One part time employee was overpaid by eight hours in a pay period due to a miscalculation on timesheet.
- All employees received an extra paycheck in November 2015. There were no timesheets to support this extra paycheck.
- Based on timesheets, one employee was paid 16 hours more vacation leave than was earned.
- Vacation and sick leave per timesheets did not always match IERs.

KRS 337.320(1) states that “[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.”

KRS 337.285(1) states that “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.”

Since excess fees of the clerk's office are ultimately paid to the fiscal court, the lack of maintaining proper documentation and lack of internal controls and monitoring of payroll increases the risk that the fiscal court could incur additional payroll liabilities. Without accurate tracking of vacation and sick leave balances there is an increased risk that employees could be paid for leave not earned.

We recommend the county clerk strengthen internal controls over the payroll process to ensure timesheets are accurately prepared and signed by all employees for each pay period, and are reviewed, approved, and signed by the county clerk or his designee to ensure compliance with KRS 337.320(1). We also recommend the county clerk pay employees overtime when they work over 40 hours in a work week to ensure compliance with KRS 337.285(1). We further recommend that all vacation and sick leave balances be tracked and monitored to ensure that employees do not use more leave than what is allowed by the county clerk's office policy. We likewise recommend the county clerk monitor his payroll service organization's reports and compare them to timesheets each pay period to ensure they are accurate. We also recommend the county clerk either enforce his office policy of working the day before and day after a holiday or amend his policy concerning holidays.

County Clerk's response: No response.

The county clerk did not properly report and transfer usage tax due to the department of revenue. The county clerk did not always report and transfer the usage tax collections from the local depository bank to the state treasury. On four occasions, the county clerk paid usage tax directly to the Department of Revenue (DOR) from the 2015 fee account. In addition, the county clerk did not reconcile his usage tax account monthly. As of December 31, 2015, the book balance of the usage tax account is \$2,076.

These errors resulted from the combination of inadequate segregation of duties and weakly designed and implemented internal controls. Failure to reconcile the usage tax account monthly results in some usage tax collections not being reported and transferred to the state as well as overages from the fee account not being discovered. As of December 31, 2015, the county clerk owes \$47 to DOR directly from his usage tax account. In addition, the 2015 fee account is due \$2,029 from the usage tax account for an overpayment.

KRS 131.155 requires the county clerk to deposit motor vehicle usage tax no later than the next business day following receipt in a designated local depository account, notify DOR, and cause the funds to be transferred to the Kentucky State Treasury.

Good internal controls dictate the county clerk should reconcile his usage tax account monthly to ensure tax receipts are properly reported and transferred daily to the state treasury. Any overages discovered during the reconciliation process should be refunded to the fee account.

We recommend the county clerk reconcile, report, and transfer usage tax receipts daily to DOR. In addition, we recommend the county clerk remit from his usage tax account \$47 still due to DOR and \$2,029 due to 2015 fee account. Furthermore, we recommend the county clerk reconcile his usage tax account monthly for accuracy.

County Clerk's response: No response.

The county clerk did not properly distribute ad valorem taxes to the department of revenue and ambulance district. The county clerk did not properly calculate and distribute ad valorem taxes to the Department of Revenue (DOR) for December 2015 or the ambulance district for October 2015. This error resulted from the combination of inadequate segregation of duties and weakly designed and implemented internal controls. Failure to review the ad valorem disbursements calculated before remitting payments to the districts resulted in tax collections not being properly distributed. As a result of these errors, the county clerk owes \$432 to the DOR and \$96 to the ambulance district. The county clerk did receive a letter from DOR requesting the additional payment. Since he closed out his 2015 fee account, the county clerk paid \$432 out of his 2016 fee account.

Good internal controls dictate the county clerk should reconcile his monthly ad valorem reports to the disbursements to ensure payments are properly calculated and remitted to districts. Since the county clerk calculates the payments due and prepares the disbursement checks, he should delegate

this processing responsibility to another employee, and implement procedures to monitor this process to ensure effective compensating controls and checks and balances are in place.

We recommend the county clerk reimburse the 2016 fee account \$432 and remit \$96 due to the ambulance district from the 2015 fee account. We also recommend the county clerk implement internal controls which would include the review of the monthly ad valorem disbursements to ensure they are properly calculated.

County Clerk's response: No response.

The county clerk paid 2015 license fees from his 2016 fee account. The county clerk paid the final weekly state license fees for calendar year 2015 in the amount of \$4,208 out of his 2016 fee account. This error resulted from the combination of inadequate segregation of duties and weakly designed and implemented internal controls. As a result, the quarterly financial report is inaccurate and had to be adjusted.

Good internal controls dictate that the county clerk should reconcile the disbursement ledger to weekly license fee reports to ensure they are accurate and posted to the correct account.

We recommend the county clerk reimburse \$4,208 to the 2016 fee account from the 2015 fee account. We also recommend the county clerk implement controls which would include comparing the weekly license reports to the disbursements ledger. Since the county clerk currently calculates the payments due and prepares the disbursement checks, it would be more effective to delegate this responsibility to another employee with the county clerk performing monitoring procedures because compensating controls would not be effective over duties performed by the county clerk and monitored by a subordinate employee.

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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