



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 Casey County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Casey County Clerk Casey Davis. 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 Casey 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 Casey County Clerk's Office lacks adequate segregation of duties over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The Casey County Clerk's Office has a lack of adequate segregation of duties over disbursements. The county clerk prepares and signs all checks that are written out of his office and posts all disbursements to the disbursements ledger. Although the county clerk has implemented some compensating controls, such as dual signatures on disbursements, it does not appear these controls mitigate the increased risk caused by lack of segregation of duties.

The county clerk stated that his office is a small office with limited funds which restricts the number of employees the county clerk can hire or delegate duties to, and prevents a proper segregation of duties. The lack of adequate segregation of duties can result in undetected

misappropriation of assets and incorrect financial reporting. Also, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to a lack of oversight and internal controls over disbursements, the usage tax account had an overage reconciled balance of \$822 at December 31, 2018.

Segregation of duties over disbursements or implementation of compensating controls, when needed due to limited staff, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent undetected misappropriation of assets and incorrect financial reporting. Effective internal controls dictate that essential duties should be separated.

In an effort to strengthen internal controls, we recommend the county clerk delegate disbursement duties to other employees within the office. If this is not feasible due to lack of staff then the county clerk could implement the following compensating controls to offset the lack of segregation of duties:

- The county clerk could examine checks prepared by another employee and compare them to invoices or monthly reports to taxing districts. The county clerk's review should be documented by initials and date on the invoices and monthly reports.
- An employee independent of the disbursements ledger preparation could compare the disbursements ledger to source documents, such as monthly reports, to ensure accurate recordings. The employee's review should be documented by initials on the monthly disbursements ledger.
- The usage tax account should be properly reconciled to a zero balance each month. Someone should verify what was deposited and disbursed, ensuring both are accurate.

County Clerk's Response: Have obtained by contract a bookkeeper to eliminate this problem.

The Casey County Clerk did not require third-party purchasers to make deposits as required by 103 KAR 5:180: The county clerk did not require third-party purchasers to make deposits at the time of registration as required by 103 KAR 5:180 for priority tax bills and current tax bills.

This occurred because the county clerk did not require the third party purchasers make the required deposits. Failure to collect deposits can result in the county clerk not being able to cover any additional costs and expense associated with any purchasers who fail to make full payment at the time of the tax sale. In addition, this results in noncompliance with 103 KAR 5:180.

103 KAR 5:180 requires third party purchasers to make deposit with the county clerk for tax bills they wish to purchase at the tax sale.

103 KAR 5:180 Section 4. Deposit Requirement states:

- (1) A purchaser shall deposit funds with the county clerk at the time of registration in the following amounts:
 - (a) 100% of the value of each certificate of delinquency included on the purchaser's list of priority certificates of delinquency;

- (b) All clerk's fees associated with each certificate of delinquency included on the purchaser's list of priority certificates of delinquency;
 - (c) Twenty-five (25) percent of the value of each certificate of delinquency included on the purchaser's list of current certificates of delinquency. A purchaser shall not be required to pay an additional deposit if the certificate of delinquency is included on both lists, and if both lists clearly indicate that the certificate is included on both lists. A purchaser may deposit more than the minimum amount required by the county clerk.
- (2) The county clerk shall apply the deposit to payment of any certificate of delinquency purchases at the sale.
 - (3) The county clerk shall refund any unused portion of the deposit to the purchaser no later than ten (10) business days after the completion of the sale.

Additionally, 103 KAR 5:180 requires purchasers to pay a registration fee of \$5 for each priority tax bill and \$10 for each current tax bill included on their list of tax bills they wish to purchase with the total registration fee not to exceed \$250. The deposits paid by the third party purchasers should be deposited to an official bank account when received. The deposits should be applied to the payment of the tax bills the purchaser purchases at the tax sale and any balances refunded to the third party purchasers. The registration fee paid should also be deposited to an official bank account when received.

We recommend the county clerk require third party purchasers make deposits for tax bills they wish to purchase as required by 103 KAR 5:180.

County Clerk's Response: I AM requiring 3rd party purchasers to make deposits exactly as 103 KAR 5:180 describes.

Auditor's Response: During the audit period, the county clerk did not require any deposits to be made, which did not comply with 103 KAR 5:180. However, the county clerk has indicated that the issue has been corrected for FY 2019.

The Casey County Clerk issued payroll checks prior to the end of the pay period: This is a repeat finding and was included in the prior year audit report as Finding 2017-004. The Casey County Clerk issued payroll checks prior to the end of the pay period and also issued checks to himself up to a month early. The following exceptions were noted:

The Casey County Clerk issued payroll checks prior to the end of the pay period for the period October 16-31, 2018. The pay period ended on Wednesday October 31, 2018. The payroll disbursements for the pay period were issued on October 30, 2018. Therefore, the deputies who were scheduled to work on Wednesday, October 31 received pay for time not yet worked. In addition, five of the payroll checks actually cleared the bank before October 30, 2018 which was the date the checks were documented as being written.

Payroll checks throughout 2018 were not issued in numerical sequence. The Casey County Clerk received payroll checks throughout 2018 that were prior to the end of the pay period for which they were intended and received over 1/12 of his salary in a single month on three separate occasions, which is stipulated in KRS 64.535, See below:

<u>Check No.</u>	<u>Check Date</u>	<u>Cleared Date</u>	<u>Explanation</u>
4094	3/15/18	3/12/18	County Clerk's March 1-15, 2018 payroll check
4124	3/28/18	3/22/18	County Clerk's March 16-31, 2018 payroll check
4160	4/13/18	3/26/18	County Clerk's April 1-15, 2018 payroll check
4214	4/27/18	4/11/18	County Clerk's April 16-30, 2018 payroll check
4268	5/12/18	4/11/18	County Clerk's May 1-15, 2018 payroll check
4298	5/25/18	4/20/18	County Clerk's May 16-31, 2018 payroll check
4502	8/15/18	7/9/18	County Clerk's August 1-15, 2018 payroll check
4535	8/30/18	7/17/18	County Clerk's August 16-31, 2018 payroll check
4586	9/13/18	7/26/18	County Clerk's September 1-15, 2018 payroll check

The practice of issuing payroll checks early allowed the county clerk to receive more than 1/12 of his salary in a given month as required by KRS 64.535.

This occurred because the county clerk considers his deputy clerks salaried employees and their pay each period is for 72.50 hours regardless of the hours worked. In addition, he distributes payroll checks ahead of the scheduled pay date. The county clerk's administrative code states that each deputy will be paid on or about the 15th and 30th of each month. By receiving payroll checks prior to the end of the pay period, deputies and the county clerk are being paid for time not yet worked, thus the county clerk is pre-paying for services, which is prohibited.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* includes a section, Handling Public Funds Minimum Requirements Pursuant to KRS 68.210 for All Local Government Officials (And Employees) that states, "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)."

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."

We recommend the county clerk refrain from issuing payroll disbursements prior to the end of the pay period. Also, the county clerk should put proper controls in place to ensure compliance with DLG's requirements and state laws.

County Clerk's Response: One of the responsibilities of the new bookkeeper will be payroll, and the distribution of cks every other Friday. The personnel policy will be changed so this does not happen again.

The Casey County Clerk does not have adequate controls in place over payroll, resulting in inaccurate timesheets and noncompliance with his administrative code and applicable statutes: This is a repeat finding and was included in the prior year audit report as Finding 2017-005. Due to lack of adequate controls in the Casey County Clerk's office the following matters were noted regarding payroll:

The Casey County Clerk did not compute compensatory time accurately for the pay period tested of November 5-18, 2018. The following exceptions were noted:

- A deputy clerk was scheduled to work 34 hours the week of November 5-11, 2018. However, the deputy clerk worked 42 hours. The deputy clerk received 8 hours of compensatory time. According to the county clerk's administrative code, on the short weeks (34 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should have received 9 hours compensatory time (6 hours straight compensatory time and 3 hours of time and a half).
- A deputy clerk was scheduled to work 34 hours the week of November 5-11, 2018. However the deputy clerk worked 31.5 and took 2 hours sick leave totaling 33.5 hours. This deputy should have included .50 hours of compensatory leave to have a total of 34 hours for the short week. The deputy clerk received 8 hours of compensatory time. According to the county clerk's administrative code, on the short weeks (34 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should not have received any compensatory time for the week of November 5-11, 2018.
- A deputy clerk was scheduled to work 38.5 hours the week of November 5-11, 2018. However, the deputy clerk worked 46.5 hours. The deputy clerk received 8 hours of compensatory time. According to the county clerk's administrative code, on the long weeks (38.5 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should have received 11.25 hours compensatory time (1.5 hours straight compensatory time and 9.75 hours of time and a half).
- A deputy clerk was scheduled to work 38.5 hours the week of November 5-11, 2018. However, the deputy clerk worked 46.5 hours. The deputy clerk received 8 hours of compensatory time. According to the county clerk's administrative code, on the long weeks (38.5 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should have received 11.25 hours compensatory time (1.5 hours straight compensatory time and 9.75 hours of time and a half).
- A deputy clerk was scheduled to work 34 hours the week of November 5-11, 2018. However, the deputy clerk worked 51 hours. The deputy clerk received 8.5 hours of compensatory time. According to the county clerk's administrative code, on the short weeks (34 hours), up to 40 hours is paid straight compensatory time and hours over 40 are paid at time and a half. Therefore, the deputy should have received 22.50 hours compensatory time (6 hours straight compensatory time and 16.50 hours of time and a half).
- A deputy clerk used 8.50 hours of compensatory leave during the long week which should have totaled 38.50 hours however, this brought the deputy clerk's total to 42.50. Deputy clerk should have only used 4.50 hours of compensatory leave to be in compliance with the County Clerk's Administrative code.
- Time sheets did not reflect accurate compensatory leave used and were not always calculated correctly.
- All employees received holiday pay on November 12, 2018, Veterans Day. Two of the seven employee's timesheets showed additional holiday pay on November 10, 2018, which is not considered a holiday.

The county clerk does not have adequate controls in place to ensure calculations and time reported are accurate. According to the county clerk, deputy clerks are paid for 72.50 hours each pay period, no matter the hours worked. Timesheets may not always be accurate because each deputy clerk has a weekly scheduled day off that always appears on their timesheet. If their schedule varies that week, the timesheet may not reflect the actual hours worked.

Additionally, according to the county clerk he allows his employee's the option to take a payout for their compensatory/vacation time. The employee must have 72.50 hours of compensatory/vacation hours in order to be paid for the hours. This is not a policy stated in the county clerk's or the county's administrative code. Weeks in which compensatory/vacation time payouts occurred, the employee's timesheets reflected actual hours worked, used annual leave, and earned compensatory leave.

The above exceptions resulted in deputy clerks' receiving inaccurate compensatory time hours and two deputy's receiving additional holiday pay on a day in which there was no holiday. Leave time used was inaccurate and not in agreement with the county clerk's administrative code. In addition, the inaccurate timesheets resulted in non-compliance with the county clerk's administrative code.

The county clerk's administrative code and employee handbook personnel policies and procedures states, "[t]he Deputy Clerks in the Casey County Clerk's Office are considered to be full time employees by working a total of 72.50 per pay period. One week will consist of 34 hours while the other will consist of 38.50 hours with a total of 72.50 hours. Each deputy will alter the amount of hours worked in a pay period to allow for Saturdays off every other week."

"Compensatory time will be given hour per hour on the short weeks of work after 34 hours up to 40 hours and everything over 40 hours will be at time and a half. On the long weeks of work comp time will begin after 38.50 hours at the rate of hour per hour and continue at time and a half over 40 hours."

KRS 337.320 states, in part, "(1) [e]very employer shall keep a record of: . . . (b) [t]he hours worked each day and each week by each employee[.]"

We recommend the county clerk abide by his administrative code when calculating compensatory time and determining holiday pay, thus ensuring deputies are receiving the accurate benefits they are entitled to. The county clerk should ensure that timesheets prepared by deputies are an accurate reflection of hours worked and the correct amount of leave time is used. Also, the county clerk should put proper controls in place to ensure compliance with his administrative code and applicable statutes.

County Clerk's Response: Time sheets will be calculated by the bookkeeper on a week to week basis which should eliminate this problem.

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.

