

**REPORT OF THE AUDIT OF THE
GREEN COUNTY
CLERK**

**For The Year Ended
December 31, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY

AUDIT OF THE GREEN COUNTY CLERK

**For The Year Ended
December 31, 2015**

The Auditor of Public Accounts has completed the Green County Clerk's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$9,291 from the prior year, resulting in excess fees of \$51,890 as of December 31, 2015. Receipts decreased by \$31,275 from the prior year and disbursements decreased by \$21,984.

Report Comments:

- 2015-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2015-002 The County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers And Reconcile To All Monthly And Quarterly Reports
- 2015-003 The County Clerk Did Not Maintain Proper Internal Controls Over Payroll
- 2015-004 The County Clerk Did Not Properly Report And Transfer Usage Tax Due To The Department Of Revenue
- 2015-005 The County Clerk Did Not Properly Distribute Ad Valorem Taxes To The Department Of Revenue And Ambulance District
- 2015-006 The County Clerk Paid 2015 License Fees From His 2016 Fee Account

Deposits:

The county clerk's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Green County Clerk
Members of the Green County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Green County, Kentucky, for the year ended December 31, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Green County Clerk
Members of the Green County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Green County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Green County Clerk, as of December 31, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Green County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the Green County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Green County Clerk
Members of the Green County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2015-001 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2015-002 The County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers And Reconcile To All Monthly And Quarterly Reports
- 2015-003 The County Clerk Did Not Maintain Proper Internal Controls Over Payroll
- 2015-004 The County Clerk Did Not Properly Report And Transfer Usage Tax Due To The Department Of Revenue
- 2015-005 The County Clerk Did Not Properly Distribute Ad Valorem Taxes To The Department Of Revenue And Ambulance District
- 2015-006 The County Clerk Paid 2015 License Fees From His 2016 Fee Account

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 22, 2016

GREEN COUNTY
 BILLY JOE LOWE, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Grant - Libraries and Archives	\$	8,205
HB 537 Revenue Supplement		65,767
State Fees For Services		3,422
Fiscal Court		3,895
 Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 365,811	
Usage Tax	376,914	
Tangible Personal Property Tax	801,284	
Other-		
Marriage Licenses	2,485	
Lien Fees	6,494	
Deed Transfer Tax	17,834	
Delinquent Tax	117,281	1,688,103
 Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	7,348	
Real Estate Mortgages	14,478	
Chattel Mortgages and Financing Statements	35,026	
Powers of Attorney	1,234	
Affordable Housing Trust	10,590	
All Other Recordings	8,076	
Charges for Other Services-		
Copywork	1,209	
Postage	471	
Notary Fees	1,572	
Delinquent Tax Sale Registration	1,000	81,004
 Other:		
Miscellaneous	597	
Refunds	46	643

The accompanying notes are an integral part of this financial statement.

GREEN COUNTY
 BILLY JOE LOWE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Receipts (Continued)

Interest Earned	\$	329
Total Receipts		1,851,368

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 262,147	
Usage Tax	365,485	
Tangible Personal Property Tax	285,115	

Licenses, Taxes, and Fees-

Delinquent Tax	10,187	
Legal Process Tax	10,882	
Affordable Housing Trust	10,590	
Unspent Grant Proceeds	<u>1,310</u>	\$ 945,716

Payments to Fiscal Court:

Tangible Personal Property Tax	72,588	
Delinquent Tax	9,629	
Deed Transfer Tax	<u>16,942</u>	99,159

Payments to Other Districts:

Tangible Personal Property Tax	411,442	
Delinquent Tax	<u>60,270</u>	471,712

Payments to Sheriff 9,983

Payments to County Attorney 15,035

Tax Bill Preparation 2,204

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	101,065	

The accompanying notes are an integral part of this financial statement.

GREEN COUNTY
 BILLY JOE LOWE, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2015
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Employee Benefits-		
Employer's Share Social Security	\$	14,154
Contracted Services-		
Payroll Preparation		5,794
Advertising		587
Software Maintenance		15,286
Grant Document Scanning		6,895
Materials and Supplies-		
Office Supplies		7,302
Other Charges-		
Conventions and Travel		2,528
Dues		1,400
Postage		3,028
Refunds		1,504
Telephone/Cable/Internet		3,855
Uncollected Returned Checks		1,609
Bank Charges		40
Miscellaneous		329
		<u>\$ 165,376</u>
Total Disbursements		<u>\$ 1,709,185</u>
Net Receipts		142,183
Less: Statutory Maximum*		<u>82,752</u>
Excess Fees		59,431
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>3,941</u>	<u>7,541</u>
Excess Fees Due County for 2015		51,890
Payment to Fiscal Court - February 2, 2016		<u>47,888</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 4,002</u>

*The county clerk's statutory maximum for calendar year 2015 was \$82,752 as noted above. The clerk was paid \$87,572 during calendar year 2015. The clerk owes his 2015 fee account \$4,820 in personal funds and needs to pay additional unpaid liabilities. The remaining balance due fiscal court at the completion of the audit is \$4,002.

The accompanying notes are an integral part of this financial statement.

GREEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2015 services
- Reimbursements for 2015 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2015

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GREEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2015
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

GREEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2015
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Green County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The Green County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Grant

The Green County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in calendar year 2014 of \$11,250. During calendar year 2014, grant funds expended were \$3,045, leaving an unexpended grant balance of \$8,205. Funds totaling \$6,895 were expended during calendar year 2015, leaving an unexpended grant balance of \$1,310 when the grant expired on June 30, 2015. The county clerk returned unexpended grant funds of \$1,310 to the Kentucky Department for Libraries and Archives on August 7, 2015, in accordance with the grant agreement.

Note 5. Related Party Transaction

The Green County Clerk owns and operates a vending machine in the Green County Courthouse. Profits from the vending machine are retained by the county clerk personally.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John H. Frank, Green County Judge/Executive
The Honorable Billy Joe Lowe, Green County Clerk
Members of the Green County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Green County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated November 22, 2016. The Green County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Green County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Green County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Green County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, and 2015-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Green County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-003 and 2015-004.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 22, 2016

COMMENTS AND RECOMMENDATIONS

GREEN COUNTY
BILLY JOE LOWE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 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.

2015-002 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 recommend the county clerk reconcile his quarterly financial statement to the ledgers to ensure accurate financial reporting.

County Clerk's Response: No Response.

GREEN COUNTY
BILLY JOE LOWE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 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, 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.

GREEN COUNTY
BILLY JOE LOWE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The County Clerk Did Not Maintain Proper Internal Controls Over Payroll (Continued)

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.

2015-004 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.

GREEN COUNTY
BILLY JOE LOWE, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 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 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.

2015-006 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 was 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.

