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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 2016 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 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 Green County Clerk's Office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The county clerk prepares the daily deposit, prepares and signs checks, and posts to the receipts and disbursements ledger. The county clerk also prepares all weekly, monthly, and quarterly reports and bank reconciliations. According to the county clerk, the condition 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 duties increases the county clerk's risk of misappropriation of assets, errors and inaccurate financial reporting. Segregation of duties over receipts, disbursements, and the reconciliation process or implementation of compensating controls, when needed because the

number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

We recommend the county clerk strengthen internal controls by segregating these duties. If this is not feasible due to lack of staff, then strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

County Clerk's response: Lack of STAFF

The Green County Clerk lacks adequate internal controls over payroll information processed by a service organization. The county clerk uses a Certified Public Accountant (CPA) to process all payroll transactions. The CPA firm is considered to be a service organization. At the end of each payroll period, the CPA receives from the county clerk the necessary information to process payroll including the clerk's salary information, hours for each employee to be paid, hourly rates, and a listing of required and authorized withholdings. The CPA processes this information and generates a payroll report, which the county clerk relies upon to pay himself and his employees. The CPA also prepares all monthly and quarterly withholding reports which the county clerk relies upon to pay state, city, and federal withholding amounts due; maintains individual earning records; and prepares W-2 forms for the county clerk and his employees. If an error occurs, the county clerk relies on the CPA to determine what caused the error and tell him how to fix it.

The county clerk relies on his CPA payroll service organization who prepares individual earnings records and sends the county clerk payroll reports for each pay period. The county clerk did not review these reports and used them to prepare payroll checks for himself and his employees. As a result, there were numerous discrepancies between employee timesheets and CPA prepared individual earnings records in relation to holidays and vacation/sick leave used. See finding 2016-003.

Without adequate controls in place to ensure all information processed by the CPA payroll service organization is accurate, there is a risk that payroll disbursements could be misstated or fraud relating to payroll could occur. We recommend the county clerk implement internal controls over all information processed by the CPA to ensure all payroll calculations are accurate. This could be documented on payroll reports.

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

The Green County Clerk did not maintain proper internal controls over payroll. This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The county clerk did not maintain proper internal control over timesheets and leave balances and did not adhere to his office policy relating to leave time. The county clerk requires his employees to prepare timesheets and the county clerk reviews. The county clerk provides timesheets to his payroll service organization who prepares individual earnings records (IER) which tracks 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 individual earnings reports:

- 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.
- Four timesheets did not include enough details to support the sick leave, holidays, and hours worked on IERs.
- Holidays were not always noted on timesheets and were not noted on IERs at all.
- Four deputies received an extra paycheck on December 6, 2016. There were no timesheets to support these extra paychecks.
- Twenty-five timesheets were not signed by the county clerk to indicate his review and approval.
- Based upon timesheets, one employee was paid 16 hours more vacation leave than was earned. This occurred due to vacation leave noted on timesheets but noted as sick leave on IERs.
- Vacation and sick leave per timesheets did not always match IERs.
- One part time employee was overpaid by 16 hours and another employee was underpaid one hour in a pay period due to a miscalculation on timesheets.

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

Since excess fees of the county clerk’s office are ultimately paid to the fiscal court, this 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. In addition, 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, are reviewed, approved, and signed by the county clerk or his designee to ensure compliance with KRS 337.320(1). We recommend that all vacation and sick leave balances be tracked and monitored by the county clerk to ensure that his employees do not use more leave than what is allowed per the county clerk’s office policy. We 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 recommend the county clerk implement and add to his office policy of accumulating and using compensation time.

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