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 2017 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 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 2016-001. The Green County Clerk's Office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. 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: The county clerk did not provide a response.

The Green County Clerk lacks adequate internal controls over payroll information processed by a service organization: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. 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 the 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 the CPA prepared individual earnings records in relation to holidays and vacation/sick leave used as reported in Finding 2017-003.

Without adequate internal 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 2016-003. 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. Each pay period the county clerk provides a payroll summary to his service organization who prepares individual earnings records (IER's) which 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 individual earnings reports:

- The majority of timesheets were not dated by the employee preparing the timesheet and no dates of when the county clerk approved the timesheet.
- Three timesheets included the date employee prepared but the date was one to three days before the end of the pay period with no leave time noted on the timesheet.
- Thirty-five hours noted on timesheets as hours worked did not match the hours worked on IERs.
- One timesheet did not include enough detail to support regular hours worked on the IER.
- Holidays were not always noted on timesheets and were not noted on IERs at all.
- Two timesheets were not signed by the county clerk to indicate his review and approval.
- One timesheet was not signed by the employee.
- Vacation and sick leave per timesheets did not always match IERs.

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

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 and dated for each pay period, are reviewed, approved, and signed and dated 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 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 track and monitor any compensation earned and used per his office policy the same as any other leave.

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

The Green County Clerk did not require third-party purchasers of delinquent tax bills to make deposits and payments in accordance with 103 KAR 5:180: The Green County Clerk did not require third-party purchasers of delinquent tax bills to make deposits at the time of registration as required by 103 KAR 5:180 for priority tax bills and current tax bills.

According to the Green County Clerk, this occurred because he did not agree with the requirements set forth in 103 KAR 5:180 and chose to not make the deposits prior to the tax sale date.

Failure to collect deposits could result in the county clerk not being able to cover any additional costs and expenses associated with any purchaser who fails to make full payment at the time of the tax sale. In addition, this resulted in non-compliance with 103 KAR 5:180.

103 KAR 5:180 Section 4 requires third party purchasers to make a deposit with the county clerk for tax bills they wish to purchase at the tax sale. Purchasers are required to provide a deposit of 100 percent of tax bills listed on the purchaser's priority tax bill list and a deposit of 25 percent of the tax bills listed on the purchaser's current tax bill list. 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 should be refunded to the third party purchasers.

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: 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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