



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2022 financial statements of former Christian County Clerk Mike Kem. 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 statements present fairly the receipts and disbursements of the former Christian County Clerk and the receipts, disbursements, and fund balances of the former Christian County Clerk's operating fund and county fund in accordance with accounting principles generally accepted in the United States of America. The former clerk's financial statements did not follow this format. However, the former clerk's financial statements are 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 finding:

The former Christian County Clerk's fourth quarter financial report was materially misstated: The former Christian County Clerk's fourth quarter financial report was materially misstated by \$730,780 due to the former county clerk not accounting for the delinquent tax sale activity in his fee account. The former county clerk placed the delinquent tax deposits along with funds from the fee account into an e-commerce bank account. This bank account was used to issue refunds of the delinquent tax deposits and also issue refunds due to motor vehicle tax assessment changes. The motor vehicle tax refunds were properly accounted for in the fee account financial statement; however, the delinquent tax activity was not included on the former clerk's fourth

quarter report of his fee account, resulting in both the receipts and disbursements being understated by \$730,780.

According to the bookkeeper, the former clerk's office did not combine the delinquent tax sale deposits and refunds on the fourth quarter because they did not consider it to be a fee of the office. In addition, the bookkeeper thought accounting for the activity related to the account on the cover of the fourth quarter was sufficient. As a result, the fourth quarter financial statement was materially understated. In addition, the financial information did not reflect an accurate financial accounting of the former county clerk's office as reported to the Department for Local Government (DLG).

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* requires official to ensure accurate financial reporting. KRS 134.128(2) states, "[t]he department shall promulgate administrative regulations to establish a process for the purchase and sale of certificates of delinquency to third parties." These procedures are included in 103 KAR 5:180 and define the advance payments as fees of the county clerk. Additionally, good internal controls dictate that the financial report would be accurate and properly classified.

We recommend the Christian County Clerk's office prepare a complete and accurate fourth quarter financial report by accounting for the delinquent tax sale transactions on the fourth quarter financial report.

Former County Clerk's Response: The former Christian County Clerk's Quarterly Financial Report was not materially misstated. The amount in question was included on page one column five. Although this has been the procedure in the clerk's office for the past 7 years, in the future we will present delinquent tax overpayments and refunds in the County Clerk's Quarterly Financial Report part two as requested by the auditors.

Auditor's Reply: The former Christian County Clerk's fourth quarter financial statement was misstated since it failed to account for Delinquent Tax Deposits collected as well as Delinquent Tax Refunds remitted. Those classifications do not appear in any part of the fourth quarter financial statement. While the former county clerk did not consider these receipts to be "fees of the office", 103 KAR 5:180 Procedures for sale of certificates of delinquency by county clerks states, "(1) 'Clerks fees' means any fee required to be collected by a county clerk for the filing, recording, release, processing, or other handling of a certificate of delinquency or a lien created by a certificate of delinquency."

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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