



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Estill County Clerk's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Estill County Clerk Brian Crowe. 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 Estill 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 county clerk overspent available funds and has a deficit of \$30,461 in his 2019 fee account:** The county clerk overspent the funds that were available to him in 2019. For calendar year 2019, the county clerk had recognized receipts of \$2,616,531, and recognized disbursements of \$2,646,992, which resulted in a deficit of \$30,461 in the 2019 fee account. The county clerk overspent salary maximums for deputies and assistants as approved by the fiscal court. In addition, the county clerk's budget for payroll expenses did not agree to the annual salary maximum approved by the fiscal court. The fiscal court approved \$220,000 in wages and benefits (employer matching, health insurance, etc.) for deputies and assistants but the county clerk's budget only allotted \$200,000 for these same categories. Even though the salary maximum was exceeded by \$18,881, the county clerk's actual payroll expenses exceeded budgeted amounts by \$38,881.

Total actual disbursements (including payroll and all other expenses) were \$31,196 less than the budgeted amount of expenditures. However, total receipts fell short of the projected and budgeted amount by \$61,654. When actual receipts are less than the anticipated amount, it is essential to reduce expenditures by the same amount so that there are funds available to meet all obligations.

The deficit was caused by a combination of factors. First, the county clerk was unfamiliar with the budgeting process as he was a new official. In fact, the budget for calendar year 2019 was approved before he was in office. Second, the county clerk's office had five full-time positions in 2019 rather than four full-time positions as was the case in previous years under previous administrations. Finally, almost all of the employees were new employees and there was a learning curve associated with a new official with new employees that resulted in some overtime expenses that were not applicable in prior years. Payroll expenses for calendar year 2019 were almost \$50,000 more than the previous year due to more employees, overtime, and increases in retirement matching requirements. Since the county clerk was unfamiliar with the budgeting process and did not have proper internal controls and oversight procedures in place to monitor the budget, expenses exceeded available funds for 2019.

There are outstanding obligations that have not been paid from the 2019 fee account. The 2019 fee account owes the 2020 fee account \$34,008 for web renewals deposited into the 2019 fee account that should have been deposited into the 2020 fee account, \$4,596 for funds borrowed from the 2020 fee account to meet obligations of the 2019 fee account, and \$25,013 of license fees paid from the 2020 fee account that should have been paid from the 2019 fee account.

Strong internal controls and proper oversight procedures require the budget to be monitored to ensure any deviations from expected receipts and disbursements be properly accounted for and considered when financial decisions are made. If funds available are not sufficient to meet obligations, expenses must be reduced to compensate and to avoid overspending and a fund deficit.

We recommend the county clerk consult with the fiscal court and the county attorney to determine how to eliminate this deficit, up to and including using personal funds to pay the office's obligations that are currently outstanding.

*County Clerk's Response: Due to being first year budget was set for me. We overspent on salary used for extra employee and overtime trying to learn job.*

**The county clerk failed to implement adequate internal controls regarding oversight and review of daily functions:** The county clerk failed to maintain adequate oversight and review of daily office functions during the period January 1, 2019 through December 31, 2019, resulting in the following issues:

- The fourth quarter report was not submitted timely to the Department for Local Government (DLG) as required.
- Usage tax fees were not paid to the state timely.
- License fees in the amount of \$25,013 were not paid timely and were paid out of the 2020 fee account.
- The annual order of the maximum amount for deputies and assistants was overspent.

- The local records microfilming grant funds not expended were not turned over to the department of libraries and archives timely.
- Franchise tax bills were not prepared timely.

The county clerk was inexperienced and was unaware of all compliance requirements. The county clerk has several noncompliance issues, undetected errors, and a deficit totaling \$30,461 as noted in Finding 2019-001. Good internal controls dictate that strong supervisor review and oversight should be in place to reduce the risk of misstatement, uncorrected errors, and unnecessary penalties.

We recommend the county clerk's office strengthen internal controls over daily work by providing strong oversight and review process to ensure all financial activity is complete and accurate and is properly recorded and classified. Procedures should also be implemented to ensure compliance with applicable statutes, regulations, and policies.

*County Clerk's Response: I have segregated duties to my deputy clerk to help me be able to keep up. Franchise bills email sent to deputy also instead of just me.*

**The county clerk's office does not have adequate segregation of duties:** The county clerk's office does not have adequate segregation of duties. According to the county clerk, due to a small staff size, the responsibilities of receiving, recording, depositing, disbursing, reporting, and reconciling funds are delegated to the same individual. The county clerk prepares all weekly and monthly reports, signs all checks, performs all bookkeeping duties, and prepares all bank reconciliations. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. It increases the risk of undetected fraud and errors. The functions of receiving, recording, depositing, disbursing, reporting, and reconciling should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. If duties cannot be segregated due to a small staff size, the county clerk could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: another employee comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, reviewing invoices prior to payment, and reviewing all financial reports. The employee should document the review process by initialing reports and supporting documentation.

We recommend the county clerk segregate the duties of receiving, recording, depositing, disbursing, reporting, and reconciling funds or implement and document compensating controls to offset this control weakness.

*County Clerk's Response: I have segregated out accounts payable to deputy, also weekly to MVL clerk and rotating deposit between myself and chief deputy.*

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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