



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 2021 financial statement of Green County Clerk Jessica Shofner Baker. 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 does not have 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 2020-001. The county clerk and deputies collecting receipts also close out cash drawers, prepare daily checkout sheets, prepare deposit tickets, prepare daily reports, prepare, and sign checks, and post to the receipts and disbursements ledgers. In addition, the county clerk prepares weekly, monthly, and quarterly reports, and reconciles the bank accounts. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and reconciliations. No documented compensating controls were noted to offset this control deficiency.

According to the county clerk, a lack of segregation of duties existed because a limited number of employees were available to properly segregate job duties.

The lack of adequate segregation of duties provides an environment in which an individual could manipulate financial records and misappropriate or misdirect public funds. The following deficiencies occurred due to the lack of segregation of duties over these areas:

- The county clerk did not properly reconcile the payroll revolving account and failed to properly transfer payroll amounts to the account as reported in Finding 2021-002.
- The county clerk did not reconcile the usage tax account to zero monthly as reported in Finding 2021-003.
- The county clerk did not transmit payments to the state for usage tax, tangible personal property tax, and license collections timely as reported in Finding 2021-004.
- The county clerk did not have adequate internal controls over disbursements as reported in Finding 2021-005.
- The county clerk did not have adequate internal controls over the receipts process as reported in Finding 2021-006.
- The county clerk did not have adequate internal controls over the payroll process as reported in Finding 2021-007.
- The county clerk did not prepare payroll tax reports accurately or timely as reported in Finding 2021-008.

Segregation of duties over receipts, disbursements, and reconciliations 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 separate duties over receipts, disbursements, and reconciliations. If these duties cannot be separated due to limited staff or limited budget, then strong oversight over those areas should occur and involve the clerk or an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of review.

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

The Green County Clerk did not reconcile the revolving payroll account and failed to properly transfer gross salaries and employer share social security to the payroll account: As of December 31, 2021, the payroll revolving account had a negative cash balance of \$103 after accounting for all receivables and liabilities. The county clerk transferred lump sum amounts to the payroll account instead of transferring the exact amount needed each pay period to cover gross wages and employer share of social security.

This was allowed to occur due to the lack of controls over the payroll account and the amounts transferred each payroll period. By not transferring the exact amount to cover payroll each period, this created an overpayment of \$8,137 to the payroll account. The county clerk tried to correct the error by transferring \$8,240 back to the fee account creating a negative cash balance.

A payroll revolving account is created for the payment of compensation to employees and distribution of all amounts withheld therefrom pursuant to law and amounts authorized by employees to be withheld pursuant to law. The payroll revolving account is a clearing account and should reconcile to a zero balance at the end of each pay period. Therefore, only the exact amount needed to cover the payroll expenditures should be transferred to the revolving account.

We recommend the county clerk properly reconcile the payroll account to a zero balance each month after accounting for all receivables and liabilities. Also, strong internal controls over this account should be implemented to ensure proper amounts are transferred and reported correctly.

County Clerk's Response: As of August 8, 2022, myself along with another deputy will properly reconcile the payroll account to a zero balance each month. Gross salaries were properly paid, social security was not an issue, as we did not have to recalculate the misfindings because the amount was so little.

Auditor's Reply: The total amount overpaid to the payroll account during the year was \$8,137. This overpayment was not the result of miscalculating employees' gross salaries and social security; but rather the result of miscalculating the total amount of payroll to be paid from the payroll revolving account each pay period.

The Green County Clerk's usage tax account was not reconciled to zero monthly: The county clerk's office did not document the reconciliation of the usage tax account to a zero balance each month. The June 15, 2021 deposit of fees collected by the county clerk in the amount of \$715 was erroneously deposited to the usage tax account instead of the county clerk's 2021 fee account.

This was allowed to occur due to the lack of controls over the usage tax account. After Automatic Clearing House (ACH) transfers are made from the fee account, the county clerk does not do a separate bank reconciliation for this account since it is simply an in and out account for usage and license tax payments to the state by ACH.

As a result of not reconciling the account, the county clerk did not discover the erroneous fee deposit to the usage tax account until February 2022 (8 months later); when the auditor conducting the 2021 Motor Vehicle Registration (MVR) audit notified her of the error.

Due to the nature of revolving accounts, only the funds necessary to pay the state based on motor vehicle reports are transferred from the fee account electronically. Therefore, the reconciled balance each month of the usage tax revolving account should be \$0 after accounting for all receivables and liabilities. Strong internal controls over this account should be implemented to ensure proper amounts are transferred and reported.

We recommend the county clerk reconcile the usage tax account monthly to zero to ensure electronic transfers and payments are being accounted for properly between accounts.

County Clerk's Response: The usage tax account does not have to be reconciled monthly because if any reports are wrong, I will find the mistake weekly. As we do these reports every week. The

\$715.00 that the auditors are referring to was an amount that they ask to be moved. As of today, August 8, 2022, the usage bank statement will be reconciled monthly.

Auditor’s Reply: The usage tax account should be reconciled monthly so that any errors may be found and corrected timely. Auditors discovered the county clerk had deposited \$715 in fee collections to the usage tax account eight months after the original deposit was made and informed the county clerk these monies needed to be transferred to the correct account.

The Green County Clerk did not transmit payment to the state for usage tax, tangible personal property tax, and license collections timely: The Green County Clerk did not call in or transmit usage tax collections, tangible personal property tax, or license collections to the state timely. For the four weeks tested, usage tax collections were transferred to the local usage tax account late four of 23 days and the call-ins to transmit payment to the state were late four of 23 days. In addition, call-ins to transmit payment to the state for tangible personal property tax collections were late for seven of 12 months. Also, call-ins to transmit payment to the state for license collections were late for one of the four weeks tested. Payments were late as follows:

Usage Tax Collections

<u>Week</u>	<u>Date</u>	<u>Days Paid Late To Usage Tax Account</u>	<u>Days Paid Late To State</u>	<u>Amount Paid Late</u>
11	3/11/2021	3	3	\$ 5,185
11	3/13/2021	2	2	268
28	7/9/2021	2	2	2,202
47	11/17/2021	1	1	2,305
				<u>\$ 9,960</u>

Tangible Personal Property Tax

<u>Month</u>	<u>Date Due</u>	<u>Call-In Date</u>	<u>Days Paid Late To State</u>	<u>Amount Paid Late</u>
March 2021	4/10/2021	4/13/2021	3	\$ 85,772
May 2021	6/10/2021	8/31/2021	82	24,412
June 2021	7/10/2021	8/31/2021	52	29,679
July 2021	8/10/2021	8/31/2021	21	27,936
August 2021	9/10/2021	9/15/2021	5	29,061
October 2021	11/10/2021	11/18/2021	8	24,238
December 2021	1/10/2022	1/18/2022	8	22,286
				<u>\$ 243,384</u>

License Collections

<u>Week</u>	<u>Dates</u>	<u>Days Paid Late To State</u>	<u>Amount Paid Late</u>
28	7/5/2021-7/11/2021	2	\$ 2,429

The county clerk stated she was busy and sometimes didn't get her reports done on time. She also stated she had trouble with the call-ins for the state tangible personal property tax being accepted by the state's system. The state changed the process for submitting tangible personal property tax and the county clerk didn't realize the process had changed.

As a result, the county clerk did not pay the state usage tax, tangible personal property tax, and license collections timely. Failure to pay the state usage tax, tangible personal property tax, and license timely can result in penalties and interest being assessed by the state.

Proper internal controls over usage tax and license collections requires amounts due be called in to the state daily for usage tax and weekly for license. All reports, call-ins, and payments should be reviewed by a responsible individual to ensure accuracy. The review should be documented with initials of reviewer and date reviewed.

KRS 138.464(1) states, "[t]he county clerk shall report each Monday to the department all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period."

KRS 131.155(2)(c) states, in part, "the clerk shall deposit motor vehicle usage tax and sales and use tax collections in the clerk's local depository account not later than the next business day following receipt. The clerk shall cause the funds to be electronically transferred from the clerk's local depository account to the State Treasury in the manner and at the time prescribed by the department[.]"

Additionally, KRS 134.815(1) states, "[t]he county clerk shall, by the tenth of each month, report under oath and pay to the state, county, city, urban-county government, school, and special taxing districts all ad valorem taxes on motor vehicles collected by him for the preceding months, less the collection fee of the county clerk, which shall be deducted before payment to the depository." Furthermore, KRS 186.230(5) states the clerk shall "[r]eport and remit each Monday to the Transportation Cabinet all moneys collected during the previous week, together with a duplicate of all receipts issued by him during the same period."

We recommend either the county clerk or a deputy reconcile the amounts reported for usage tax and license on the weekly reports and tangible personal property tax on the monthly report to the call-ins and the payments to the state to ensure payments are made timely.

County Clerk's Response: As for the usage tax, we do weekly reports and catch any misfindings in a week if the payment was called in later. There has never been any penalty or late fee tacked on, so this does not cost the taxpayers any extra money.

Auditor's Reply: The county clerk should comply with the applicable statutes and make the payments when required. While penalties and interest were not levied on these late payments

during 2021, the state has the authority to assess penalties and interest on any late payments made in the future.

The Green County Clerk's Office does not have proper controls over disbursements: The Green County Clerk's Office lacks proper controls over disbursement procedures. The following exceptions were noted during disbursements testing:

- One disbursement out of ten tested was paid by statement only with no invoices attached.
- Six disbursements out of ten tested were not paid within 30 days of receipt of the invoice. Two of the six late disbursements were for invoices dated in 2019 and 2020.
- Three of the six disbursements paid late included late fees and/or interest in the total amount of \$19.
- The county clerk did not maintain an invoice or receipt for one of the ten disbursements tested totaling \$63.
- Dual signatures were not noted on cancelled checks for five of the ten disbursements tested. These disbursements were signed by the county clerk only.
- Seven out of 12 monthly lease payments for computer software and hardware were paid late.

These exceptions were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls. The county clerk stated she was not sure if the invoices from 2019 and 2020 were old invoices the companies had resent, or if she had misplaced the bills in the prior years. Further, the county clerk was not aware that late penalties and interest are not allowable disbursements of the office.

These deficiencies could result in inaccurate reporting and misappropriation of assets. By not including detailed invoices with statements, the county clerk or reviewer is not able to verify checks are being written for allowable disbursements. In addition, failure to pay disbursements on time resulted in payment of finance charges and late fees by the county clerk.

Good internal controls dictate the county clerk should monitor disbursements to ensure compliance with state laws and regulations and contract agreements so that payments are timely to avoid penalties and interest charges.

KRS 65.140(2), states, in part, “[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]” Per the software and hardware license and service agreements, “Licensee shall pay each invoice by due date.” The invoices reflect the due date is the 21st day of each month.

In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky’s highest court ruled that county fee officials’ expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the county clerk strengthen controls over disbursements to ensure invoices are paid timely and properly supported. We also recommend the county clerk’s office monitor the disbursements to ensure all contractual obligations are met and all disbursements are for allowable

purposes. Further, we recommend the county clerk deposit personal funds totaling \$82 to reimburse her 2021 fee account for the \$19 in disallowed fees and interest charged on late payments and the \$63 disbursement that lacked supporting documentation.

County Clerk's Response: There was no money payed out using tax dollars, I, myself paid the extra fee of \$19.00. Please keep in mind, I am a frontline clerk. A bookkeeper has been hired to help with these duties.

Auditor's Reply: Based on the auditor's recommendation, at the conclusion of the audit the county clerk presented auditors with a personal check to reimburse the 2021 fee account for the disallowed disbursements.

The Green County Clerk's Office does not have adequate controls over the receipt process: The Green County Clerk's office lacks adequate controls over the receipts process. The following exceptions were noted during receipts testing:

- In August 2021, the county clerk deposited a check to her 2021 fee account for \$39 from the state board of elections dated May 8, 2020. The county clerk received the check in May 2020. Since the check date was more than a year before the date of deposit, the bank returned the check as a stale dated check.
- Auditors were not able to trace a \$63 check from the state board of elections to the county clerk's bank deposits or receipts ledger.
- Deposits for two of the six days tested during daily receipts testing were prepared by the bank, not the county clerk or a deputy. The bank's deposit ticket does not include a breakdown of cash and checks deposited.
- Deposits for two of the six days tested were not deposited daily.
- Credit card receipts for January and February 2022 were deposited to the clerk's 2021 fee account in error. The county clerk transferred the February receipts to her 2022 fee account in March 2022. The January credit card receipts totaling \$17,562 were not transferred by the county clerk and remain in her 2021 fee account.

These exceptions were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls. The county clerk stated she does not recall receiving the \$63 check from the state board of elections. Also, she stated that deputies occasionally take monies collected to the bank in a bank bag and leave it with the teller to prepare the daily deposit. When the bank prepares the deposit, the deposit ticket only shows the total amount deposited.

A lack of strong internal controls over the receipts process increases the risk of misappropriation of funds or theft. As a result of the bank preparing deposits and deposit tickets, fee collections of \$715 for one day tested were deposited to the county clerk's usage tax account in error. These funds should have been deposited to the county clerk's fee account instead. By not depositing funds timely to the correct accounts and comingling funds from different calendar years, the county clerk runs the risk of inaccurate reporting to external agencies and to the fiscal court.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds in the *County Budget Preparation and State Local Finance Officer Policy Manual* includes, “daily deposits intact into a federally insured banking institution.”. The practice of making daily deposits intact reduces the risk of misappropriation of cash, which is the asset most susceptible to possible theft. Bank preparation of deposits and deposit tickets is not an internal control of the county clerk’s office.

We recommend the county clerk strengthen controls over receipts to ensure all monies collected are deposited to the correct accounts timely. Further, we recommend the county clerk, or a deputy prepare all daily deposits and deposit tickets in the office before taking monies to the financial institution to be deposited.

County Clerk’s Response: The bank prepared the deposit slip because our new ones had not been delivered yet. The credit card company failed to transfer the money into the right account. I have confirmation that this was done in December 2021. This has never happened in the three years I’ve been clerk. The \$17,562.00 has been moved to the 2022 fee account. There was no missing money found.

Auditor’s Reply: As reported in the finding above, January 2022 credit card receipts totaling \$17,562 remain in the county clerk’s 2021 fee account as of the date of this report.

The Green County Clerk lacks adequate controls over payroll: The Green County Clerk lacks adequate controls over the payroll process. The following deficiencies were noted during payroll testing:

- The county clerk did not sign or initial any timesheets for the pay period tested, indicating timesheets are not reviewed by the county clerk.
- One employee’s timesheet documented 43 hours worked, however the employee was paid for 47 hours.
- Payroll tax withholdings were incorrectly reported on 5 out of 6 deputies’ W-2s.
- Paychecks for 17 out of 24 pay periods were prepared, dated, and issued to employees prior to the end of the pay period; therefore, employees received pay for time not yet earned.

These exceptions were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls over the payroll process. The county clerk manually prepares payroll and frequently posted incorrect withholding amounts to the payroll ledger book. Also, the pay date for a pay period is the same day as the last day of the pay period; therefore, payroll had to be processed prior to the end of pay period.

By not ensuring that timekeeping records are properly maintained and accurate, employees can be over or under compensated and the county clerk assumes the risk of employees disputing the number of hours worked. By not ensuring W-2s are accurate, the county clerk reported incorrect tax withholdings to the Internal Revenue Service (IRS) and the Kentucky Department of Revenue.

Due to receiving payroll checks prior to the end of the pay period, employees were being paid for time not yet earned, thus the county clerk was pre-paying for services, which is prohibited. In addition, there is a risk that employees will be paid for hours not actually earned.

Strong internal controls over payroll and timekeeping are vital in ensuring that payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county clerk's assets and those given the responsibility of accounting for them, as well as helping make certain the county clerk is in compliance with state statutes.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* that includes "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)"

KRS 45.340 states, in part, "[c]hecks shall be tendered to an officer or employee only after he has completed the work for which he is being paid and not later than fifteen (15) days after the designated pay period."

We recommend the county clerk ensure controls are properly put in place over payroll processing procedures by having all employee timesheets and W-2s prepared accurately and reviewing and approving all timesheets before checks are written. Further, we recommend the county clerk refrain from issuing payroll disbursements prior to the end of the pay period, ensuring compliance with DLG requirements and state statute.

County Clerk's Response: Employees were paid the hours that were worked. If the 15th fell on a Monday, I paid employees on the Friday before. I assure you, they worked the hours they were paid. The employee that got paid 47 hours, the extra 4 hours was for holiday pay.

Auditor's Reply: The above referenced part-time employee's timesheet documents 39 hours worked and four hours holiday pay during the pay period. According to the county clerk's personnel policy, part-time employees receive four hours holiday pay. Therefore, the employee should have been paid for 43 hours total. The employee's check was written for 47 hours.

The Green County Clerk did not prepare payroll tax reports accurately or timely: The Green County Clerk did not prepare payroll tax reports or payroll liability payments accurately or timely. The following deficiencies were noted during payroll testing:

- All Forms 941, Employer's Quarterly Federal Tax Return, prepared by the county clerk have miscalculated balances due or overpayments.
- The county clerk overstated wages by \$540 and total taxes due by \$83 on the Form 941 for the second quarter of 2021.
- Forms 941 for the first, second, and third quarter of 2021 were filed late to the Kentucky Department of Treasury.
- Kentucky withholding tax payments for July, August, and October 2021 were paid late to the Kentucky Department of Revenue.

- Local withholding tax forms and payments for the first and second quarter of 2021 were filed and paid late to the city of Greensburg.

These deficiencies were able to occur due to the combination of inadequate segregation of duties and weakly designed and implemented internal controls over the payroll process. The county clerk manually prepares payroll and frequently posted incorrect withholding amounts to the payroll ledger book.

As a result of preparing inaccurate payroll tax reports, the county clerk overpaid the city of Greensburg \$11 for employees' local tax withholding for the year. The county clerk underpaid the Internal Revenue Service (IRS) \$22 for employees' Federal Insurance Contributions Act (FICA) and federal tax, and the Kentucky Department of Revenue \$51 for employees' state tax withholding for the year.

Due to the late filing of payroll tax reports and late payment of payroll tax liabilities, the county clerk paid \$100 in penalties and interest to reporting agencies.

Strong internal controls over the payroll process are essential in ensuring that employee withholdings and employer contributions are turned over to the appropriate taxing authorities timely to avoid penalties and interest charges.

According to the IRS Circular E Publication 15 Employer's Tax Guide, every employer is required by federal law to file each quarter an Employer's Quarterly Federal Tax Return with the IRS by the last day of the month that follows the end of the quarter. The returns should include total wages for all employees, income tax withheld from all wages, and FICA withheld.

103 KAR 18:150 Section 2(3)(b) states, "Revenue Form K-1 and the income tax withheld each month shall be filed and paid on or before the 15th day of the following month for each of the first eleven (11) months of the calendar year."

City of Greensburg Ordinance No. 2016-0317ORD, "Occupational License and Net Profits Tax," requires employers within the city limits to withhold tax, make a return and report to the city, and pay to the City of Greensburg the taxes withheld, on or before the end of the month following the close of each quarter.

In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the county clerk strengthen internal controls over the payroll process to ensure payroll tax reports and payroll tax liability payments are accurate and submitted timely. Further, we recommend the county clerk deposit personal funds of \$100 to reimburse her 2021 fee account for the disallowed penalties and interest charged on late payments.

County Clerk's Response: I saved the county money by taking on the responsibility of doing payroll in my office. I saved the county \$30,000 by taking this extra duty on. I now have a bookkeeper that

helps with these duties. The amount miscalculated for was so little, no other action was needed. The gross wages were figured correctly. The only thing figured wrong on the W2 was the federal and state. Like I stated before, the amount was so little, nothing else had to be done. I am currently looking into new software to help with the issue.

Auditor's Reply: Management has failed to correct issues previously communicated to her in prior audits. While the aggregate number of miscalculations, payroll errors, late penalties, and interest charged was not material during 2021, failure to correct these issues could lead to material misstatements and disallowed disbursements on the county clerk's financial statement in the future.

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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