



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Campbell County Clerk's Fee Account

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

The Campbell County Clerk is not properly handling delinquent tax sale deposits: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The county clerk is not collecting deposits by third party purchasers of delinquent tax certificates. The county clerk allows third party delinquent tax purchasers to provide a blank check in lieu of a check worth 25% of the sum value of delinquent tax bills they desire to purchase. When the county clerk receives these blank checks, he locks them in a safe until the date of the tax sale. Once the third party purchases delinquent taxes on the date of the sale, the county clerk completes the blank check for the total amount owed. The county clerk was not aware that a deposit check needed to be deposited and cleared in a bank account to follow deposit requirements.

The county clerk is not in compliance with statutes and regulations related to the collection of advanced deposits from third party purchasers of delinquent tax bills. KRS 134.128 gives the Department of Revenue the authority to “promulgate administrative regulations to establish a process for the purchase and sale of certificates of delinquency to third parties.” 103 KAR 5:180 Section 3(2) states in part, “[a] third party purchaser's registration shall include...[t]he deposit required by the county clerk pursuant to Section 4 of this administrative regulation.” 103 KAR 5:180 Section 4(4) states in part that “[t]he county clerk shall: (a) Accept payment of the deposit in a method of payment that complied with KRS 134.126(1)(b).” KRS 134.126(1)(b) states in part that “[t]he county clerk may limit the acceptable methods of payment to those that ensure that the payment cannot be reversed or nullified due to insufficient funds.”

We recommend the county clerk require third party delinquent tax purchasers to provide a check worth 25% of the sum value of delinquent tax bills they desire to purchase as stated in Section 4 of 103 KAR 5:180. Further, we recommend the county clerk deposit all delinquent tax sale deposits in the bank when received to ensure compliance with relevant statutes and regulations.

County Clerk's Response: This was brought to our attention during the exit interview for the 2021 audit in October, 2022. We changed the tax sale deposit process for the 2023 tax sale on August 9, 2023 to conform to the Auditor's recommendations.

The Campbell County Clerk has inadequate internal controls over receipts: This is a repeat finding and was included in the prior year audit report as Finding 2021-002. The Campbell County Clerk has inadequate internal controls over receipts in that:

- employees are sharing cash drawers,
- cash shortages are not being accounted for, and
- receipt accounts are not properly classified on the fourth quarter report.

Employees in the recording section of the county clerk's office are using shared cash drawers. All section staff, including the section supervisor, are accepting receipts at shared terminals, and using shared cash drawers. These drawers are spot counted throughout the day as time and business flow allows. At the end of each business day, the drawers are counted by an assistant and reconciled by the section supervisor.

A test of daily check-out sheets found the motor vehicle section had a cash shortage that was manually noted on the daily receipts ledger printout. Also, this shortage was not recorded in the personnel file of the staff member assigned to the cash drawer that was short. The recording section daily check-out reports did not include subtotals for payment types (i.e. cash, check, credit card, and accounts receivable) received to trace to deposit slips. Inaccurate account classifications on financial statements diminish their usefulness for stakeholders.

When access to a cash drawer is not restricted to an individual, no one individual can be held accountable for the proper accounting of funds in that drawer. This lack of direct accountability is also inconsistent with the county clerk's funds accountability in his policies and procedures manual. Not recording cash shortages and overages in the general ledger is a failure to record

accurate financial information and prevents management from monitoring the effectiveness of internal controls. In addition, by not recording the occurrence of a cash drawer overage or shortage, the county clerk is not enforcing his own policy. Not providing subtotals for payment types make it difficult to compare to deposit slips.

Strong internal controls dictate oversight and procedures to ensure accountability for public funds. This includes restricting access to cash drawers to single individuals. The Campbell County Clerk's Policies & Procedures Manual, Funds Accountability section states in part, "[e]mployees are expected to be accountable for the balancing of their funds at the close of business each day. Any variance between what should have been collected or distributed for a transaction...that causes an overage or accumulated amount in the cash drawer is a violation of this policy." This section further states, "[d]epartment managers are required to keep records of all funds accountability violation in their department." KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual*, page 64 requires daily deposits to be made intact. This requires cash and checks received per the Point Of Sale or daily check-out sheet to agree to the deposit slip. Strong internal controls dictate accurate financial statements to ensure their usefulness for stakeholders.

We recommend the Campbell County Clerk strengthen internal controls over receipts by:

- assigning each cash drawer to an individual staff member,
- recording any cash drawer overages or shortages in the receipts ledger and the personnel file of the individual assigned to the drawer, and
- including in daily check-out reports subtotals for the payment types received.

County Clerk's Response: This was brought to our attention during the exit interview for the 2021 audit in October, 2022. We changed to individual cash drawers in our real estate office and had our software vendor update coding to incorporate the changes to conform to the Auditor's recommendations.

The Campbell County Clerk has inadequate internal controls over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2021-003. The Campbell County Clerk has inadequate internal controls over payroll in that payroll amounts were not included on the fourth quarter report. The county clerk's bookkeeping staff has not been entering the payroll distributions made through the state's Kentucky Human Resources Information System (KHRIS) system in their general ledger software. These omitted distributions totaled \$1,920,188, a material amount. The county clerk has been monitoring the payroll distributions made through KHRIS in a separate spreadsheet that does not include miscellaneous employee insurance not paid out by the KHRIS system, resulting in effective monitoring of payroll related disbursements. The county clerk's fourth quarter report is incomplete.

Strong internal controls dictate accurate financial statements to ensure their usefulness for stakeholders. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* provides a template for county clerk's financial statements beginning on page 36. This

form includes disbursements for official expenses including personal services and employee benefits.

We recommend the Campbell County Clerk strengthen internal controls over payroll by entering all disbursements, including payroll amounts made by the state on their behalf, on the ledger and quarterly reports.

County Clerk's Response: This was brought to our attention during the exit interview for the 2021 audit in October, 2022. We worked with our software vendor to incorporate the changes to conform to the Auditor's recommendations.

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](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

