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Harmon Releases Audit of Casey County Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Casey County Clerk Casey Davis. 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 Casey 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 Casey County Clerk did not present his annual settlement to the fiscal court for approval: On March 5, 2018, the Casey County Fiscal Court accepted the Casey County Clerk's pre-audit excess fees. Only the excess fees check was included in the fiscal court orders, no annual settlement or copy of the fourth quarter financial report was included. The county clerk did not present his annual settlement to the fiscal court for approval. This annual settlement should be presented to the fiscal court for approval at the time the county clerk submits his excess fees.

No annual settlement was approved by the fiscal court due to an oversight by the county clerk. Without a complete statement of receipts and disbursements, the fiscal court cannot be sure that correct excess fees have been remitted.

KRS 64.152(1) states, “[i]n counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.”

We recommend the county clerk present his annual settlement to the fiscal court along with his excess fees by March 15 following the end of the calendar year in accordance with KRS 64.152.

County Clerk’s Response: The official did not respond.

The Casey County Clerk’s Office lacks adequate segregation of duties over disbursements:

This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Casey County Clerk’s Office lacks adequate segregation of duties over disbursements. The county clerk prepares and signs all checks that are written out of his office and posts all disbursements to the disbursements ledger. Although the county clerk has implemented some compensating controls, such as dual signatures on disbursements, it does not appear these controls mitigate the increased risk caused by lack of segregation of duties.

The county clerk stated the county clerk’s office is a small office with limited funds which restricts the number of employees the county clerk can hire or delegate duties to, and prevents a proper segregation of duties.

The lack of adequate segregation of duties can result in undetected misappropriation of assets and incorrect reporting. Also, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to a lack of oversight and internal controls over disbursements, the usage tax account had a negative reconciled balance of (\$1,469) at December 31, 2017.

Segregation of duties over disbursements or implementation of compensating controls, when needed due to limited staff, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent undetected misappropriation of assets and incorrect reporting. Effective internal controls dictate that essential duties should be separated.

In an effort to strengthen internal controls, we recommend the county clerk delegate disbursements duties to other employees within the office. If this is not feasible due to lack of staff, the county clerk could implement the following compensating controls to offset the lack of segregation of duties:

- The county clerk could examine checks prepared by another employee and compare them to invoices or monthly reports to taxing districts. The county clerk’s review should be documented by initials and date on the invoices and monthly reports.
- An employee independent of the disbursements ledger preparation could compare the disbursements ledger to source documents, such as monthly reports, to ensure accurate recordings. The employee’s review should be documented by initials on the monthly disbursements ledger.

- The usage tax account should be properly reconciled to prevent balance deficits. Each month someone should verify what was deposited and disbursed, ensuring both are accurate.

County Clerk's Response: The official did not respond.

The Casey County Clerk's fourth quarter financial report was materially inaccurate: The Casey County Clerk's fourth quarter financial report was inaccurate. Audit adjustments totaling \$160,078 were recommended to correct the fourth quarter financial report. This was necessary to agree the disbursements ledger total to the disbursements per the bank. The adjustment total is considered a material amount. A majority of the adjustments were made due to the fact that the fourth quarter financial report did not include any outstanding liabilities, which were disbursements made subsequent to December 31, 2017, resulting in the fourth quarter financial report disbursements being understated by \$160,078.

Good internal controls dictate that accurate financial reporting is essential to ensure all receipts and disbursements are accounted for, posted properly, and posted in the correct period.

We recommend the county clerk ensure the fourth quarter financial report is accurate by including all receipts and disbursements for the calendar year, including those transactions occurring after December 31. If the fourth quarter financial report is prepared prior to all liabilities being prepared and posted, the county clerk should prepare an amended fourth quarter financial report.

County Clerk's Response: The official did not respond.

The Casey County Clerk issued payroll checks prior to the end of the pay period: The Casey County Clerk issued payroll checks prior to the end of the pay period and also issued checks to himself up to a month early. The following exceptions were noted:

The Casey County Clerk issued payroll checks prior to the end of the pay period for the week of October 1-15, 2017. The pay period ended on Saturday, October 14, 2017. The payroll disbursements for the pay period were issued on October 13, 2017. Therefore, the deputies who were scheduled to work on Saturday, October 14 received pay for time not earned yet. In addition, the payroll disbursement to the county treasurer for withholdings and one deputies' payroll disbursement were dated October 13, 2017, but cleared the bank on October 12, 2017.

A payroll disbursement (check no. 3701) to the county clerk was dated November 14, 2017, for the pay period November 1-15, 2017, but cleared the bank on October 13, 2017. A November expense allowance disbursement (check no. 3709) to the county clerk was dated November 14, 2017, but cleared the bank on October 27, 2017. A payroll disbursement (check no. 3728) to the county clerk for pay period November 16-30, 2017, was dated November 30, 2017, but cleared the bank on October 24, 2017. These checks were not issued in numerical sequence when the county clerk paid himself early, see below:

<u>Check No.</u>	<u>Check Date</u>	<u>Cleared Date</u>	<u>Explanation</u>
3660	10/30/2017	10/31/2017	Usage Tax
3700	11/16/2017	11/16/2017	Usage Tax
3701	11/14/2017	10/13/2017	County Clerk's November 1-15, 2017 payroll check
3702	11/14/2017	11/7/2017	Deputy Clerk's November 1-15, 2017 payroll check
3703	11/14/2017	11/15/2017	Deputy Clerk's November 1-15, 2017 payroll check
3704	11/14/2017	11/15/2017	Deputy Clerk's November 1-15, 2017 payroll check
3705	11/14/2017	11/14/2017	Deputy Clerk's November 1-15, 2017 payroll check
3706	11/14/2017	11/14/2017	Deputy Clerk's November 1-15, 2017 payroll check
3709	11/14/2017	10/27/2017	County Clerk's November Expense Allowance
3728	11/30/2017	10/24/2017	County Clerk's November 16-30, 2017 payroll check

The practice of issuing payroll checks early allowed the county clerk to receive more than 1/12 of his salary in a given month as required by KRS 64.535.

This occurred because the county clerk considers his deputy clerks to be salaried employees and their pay each pay period is for 72.5 hours regardless of the hours worked. In addition, he distributes payroll checks ahead of the scheduled pay date. The county clerk's administrative code states that each deputy will be paid on or about the 15th and 30th of each month.

By receiving payroll checks prior to the end of the pay period, deputies and the county clerk are being paid for time not yet earned, thus the county clerk is pre-paying for services, which is prohibited.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* includes a section, Handling Public Funds Minimum Requirements Pursuant to KRS 68.210 For All Local Government Officials (And Employees) that states, "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)".

KRS 64.535 states "[t]he county judge/executive, clerk, jailer who operates a full service jail, and sheriff shall each receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275."

We recommend the county clerk refrain from issuing payroll disbursements prior to the end of the pay period. Furthermore, the county clerk should put proper controls in place to ensure compliance with DLG's requirements and state laws.

County Clerk's Response: The official did not respond.

The Casey County Clerk does not have adequate controls in place over payroll resulting in inaccurate timesheets and noncompliance with his administrative code and applicable statutes: Due to lack of adequate controls in the Casey County Clerk's office, the following matters were noted regarding payroll.

The Casey County Clerk either did not compute compensatory time accurately or employees did not receive compensatory time earned for the pay period tested of October 1-15, 2017. The following exceptions were noted:

- A deputy clerk was scheduled to work 34 hours the week of October 8-14, 2017. However, the deputy clerk worked 42.5 hours. The deputy clerk received 8.5 hours of compensatory time. According to the county clerk's administrative code, on the short weeks (34 hours), up to 40 hours is paid straight compensatory time and hours over 40 is paid at time and a half. Therefore, the deputy should have received 9.75 hours compensatory time (6 hours straight compensatory time and 2.5 hours at time and a half).
- A deputy clerk was scheduled to work 34 hours the week of October 8-14, 2017. However, the deputy clerk worked 38.5 hours. The deputy clerk did not receive any compensatory time. According to the county clerk's administrative code on the short weeks (34 hours), up to 40 hours is paid straight compensatory time. Therefore, the deputy should have received 4.5 hours compensatory time.
- A deputy clerk worked a total of 73.1 hours for the pay period October 1-15, 2017, and was paid for 72.5 hours. The deputy clerk did not receive compensatory time for hours worked beyond 72.5 in this period. According to the county clerk's administrative code, one week will consist of 34 hours while the other will consist of 38.5 hours with a total of 72.5 hours.
- A deputy was hired in August 2016. The deputy clerk's timesheet reflected that on January 1, 2017, she received a week's vacation. According to the county clerk's administrative code, deputies are not eligible to receive vacation time until they have completed one year of service. Therefore, the deputy clerk was not eligible to receive vacation leave until August 2017.

The deputies in the Casey County Clerk's office keep monthly timesheets, however, the timesheets are not an accurate record of hours worked. For example:

- A deputy's timesheet reflects for the week of June 11-17, 2017, that the deputy worked 38.5 hours, used 34 hours annual leave, plus earned 34 hours compensatory time. The timesheet should have reflected that the deputy was either working or on vacation.
- A deputy's timesheet reflects for the week October 8-15, 2017, that the deputy worked 34 hours and earned 8.5 compensatory time. The timesheet should have reflected the deputy worked 42.5 hours.
- A deputy's timesheet reflects for the week October 8-15, 2017 that the deputy worked 37 hours and used 2 hours sick leave. The deputy only worked 4.5 hours on October 11, 2017, and used 2 hours sick leave, but the timesheet reflected he worked 6.5 hours and used 2 hours sick leave for a total of 8.5 hours. The deputy is only required to work 6.5 hour days.

The county clerk does not have adequate controls in place to ensure calculations and time reported are accurate.

According to the county clerk, the compensatory time miscalculations were errors on his part and the vacation time given to the ineligible deputy was an oversight. The county clerk stated that the

deputy did not use any of the vacation leave until after August 2017 although the timesheet reflected the vacation time in January.

According to the county clerk, the deputy clerks are paid for 72.5 hours each pay period, no matter the hours worked. Timesheets may not always be accurate because each deputy clerk has a weekly scheduled day off that always appears on their timesheet. If their schedule varies that week, the timesheet may not reflect the actual hours worked. The clerk stated that one deputy worked and did not take her vacation time. The vacation time was rolled over into compensatory time and she was paid at the end of the year. Therefore, her timesheet reflected she worked, used annual leave, and earned compensatory time.

The above exceptions resulted in deputy clerks receiving inaccurate compensatory time hours and a deputy receiving vacation leave she was not eligible for. In addition, the inaccurate timesheets resulted in noncompliance with the county clerk's administrative code.

The county clerk's administrative code and Employee Handbook Personnel Policies and Procedures states, "[t]he deputy clerks in the Casey County Clerks [sic] Office are considered to be full time employees by working a total of 72.50 hrs. per pay period. One week will consist of 34.00 hours while the other will consist of 38.5 hours with a total of 72.50 hours." It states further, "[c]ompensatory time will be given per hour on the short week of work after 34 hours up to 40 hours and everything over 40 hours will be at time and a half. On the long weeks of work comp time will begin after 38.5 hours at the rate of hour per hour and continue at time and a half over 40 hours." Regarding vacation leave, the policy states, "[a]fter one year of service at the Casey County Clerks [sic] Office each employee will receive one weeks [sic] vacation." In addition, it states further, "[e]ach deputy will be responsible for keeping an accurate record of their time worked."

KRS 337.320 states, in part, "(1) Every employer shall keep a record of. . .(b) The hours worked each day and each week by each employee[.]"

We recommend the county clerk abide by his administrative code when calculating compensatory time and granting vacation leave, thus ensuring deputies are receiving the accurate benefits they are entitled to. The county clerk should ensure that timesheets prepared by deputies are an accurate reflection of hours worked. Also, the county clerk should put proper controls in place to ensure compliance with his administrative code and applicable statutes.

County Clerk's Response: The official did not respond.

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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