



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Lee County Clerk Kim Noe. 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 Lee 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 county clerk's office lacks adequate segregation of duties: The Lee County Clerk's Office lacks adequate segregation of duties. This is a repeat finding and was included in the prior year audit report as Finding 2016-001.

According to the county clerk, due to the entity's diversity of official operations, small size, and budget restrictions, the Lee County Clerk has limited options for establishing an adequate segregation of duties. The county clerk employs a part-time bookkeeper that completes all bookkeeping functions such as all posting to the ledgers, preparing the compilation of daily checkouts, preparing the daily deposits, preparing all checks, preparing all reports except the weekly reports for usage and license, reconciling the bank statements, and preparing the financial statements. The county clerk prepares the weekly reports for usage and license. She does agree

each report to his ledgers but does not initial the supporting documentation. The county clerk does not have an independent individual review reports, checks, or the disbursements ledger. This could result in misappropriation of assets and inaccurate financial reporting to external agencies. Good internal controls dictate one employee should not have control over all of these duties.

In order to improve controls, we recommend the county clerk implement the following:

- The county clerk should require the deputy clerks to count each other's cash drawers.
- The county clerk should reconcile monthly reports to the ledgers for receipts and disbursements. This can be documented by initialing the ledgers and the monthly reports.
- The county clerk should review the bank reconciliation and agree it to the ledgers. This can be documented by initialing the bank reconciliation.
- The county clerk should review the financial statements and agree them to the ledgers and bank reconciliations. This can be documented by initialing the financial statements.

County Clerk's Response: Small office staff is cross trained on all. Hard to segregate duties with small office staff.

The county clerk did not properly handle disbursements and had disallowed disbursements in the amount of \$59: The clerk's office lacks controls over disbursements. Auditors noted the following deficiencies:

- One invoice included candy and other disallowed items totaling \$59.
- Six invoices were not paid within 30 days of receipt.
- Sixteen invoices dated 2015 and 2016 were paid in 2017 with 2017 fee monies.

The county clerk does not have internal controls in place to ensure that invoices are paid timely and that they are allowable disbursements of the fee account. Failure to review disbursements could result in overpayments to vendors and disallowed expenditures. Failure to pay invoices timely could result in late fees and penalties which the clerk could be personally responsible for.

KRS 65.140(2) states, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

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 deposit personal funds of \$59 to reimburse the 2017 fee account for these disallowed disbursements. The Lee County Clerk should ensure all invoices are paid within 30 days. Additionally, the clerk should carefully review invoices and disbursements before payment to determine that they are accurate and that they are necessary expenses of the clerk's office.

County Clerk's Response: Check will be written for fiscal court for \$59 for Halloween candy. All bills will be paid on time and invoices will be put in envelope for audit.

The county clerk failed to implement strong internal controls over payroll: The county clerk's office lacked adequate internal controls over payroll. We noted several deficiencies in the documentation, preparation, and presentation of payroll. The county clerk considers all employees to be salaried employees and does not accurately record hours worked, sick and vacation leave time, or overtime on timesheets. Because overtime is not recorded, employees have not been paid time and a half for overtime worked. The clerk's bookkeeper maintains a spreadsheet that contains time worked and wage amounts per pay period. However, this is printed out every six months for the employee to sign for audit reasons. The clerk does not approve individual timesheets before each pay period.

The county clerk does not have controls in place to ensure that payroll is handled properly. The following can happen as a result of the deficiencies noted:

- Employees could be overpaid or underpaid since hours worked are not tracked.
- Without accurate tracking of leave balances, there is an increased risk employees could be paid for sick and vacation time not earned.

KRS 337.320(1) requires, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) Such other information as the commissioner requires." KRS 337.285(1) states, "[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." This statute also allows for certain exemptions or the granting of compensatory time for hours worked in excess of 40 hours per week.

We recommend the county clerk strengthen internal controls over the payroll process to ensure timesheets are accurately prepared and signed by all employees for each pay period, are reviewed, approved, and signed by the county clerk, and leave balances are accurately monitored. Additionally, we recommend the county clerk contact the Kentucky Labor Cabinet Division of Wages and Hours to determine if additional pay is due to employees for hours worked in excess of 40 hours per week.

County Clerk's Response: Will start using time on Monday August 20, 2018 and have employee to sign and me to sign.

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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