



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Taylor County Clerk Mark Carney. 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 Taylor 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 Taylor County Clerk's Office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The deputy who prepares the daily checkout sheet also collects money, prepares the daily deposit, and posts to the ledger. The county clerk also performs these duties. Another deputy and the county clerk jointly prepare the quarterly financial reports. The county clerk prepares, signs, and posts all disbursements. The county clerk performs bank reconciliations. No reviews of any records, ledgers, or reports were documented.

The lack of segregation of duties occurred because the county clerk failed to segregate incompatible duties. The county clerk states that he cannot hire additional employees to allow

segregation of duties due to budget limitations. The limited number of employees restricts how the county clerk can delegate duties. This deficiency increases the risk of misappropriation of assets, errors and inaccurate financial reporting.

Adequate segregation of duties over receipts, disbursements, and the reconciliation process would prevent the same person from having a significant role in these incompatible functions. The county clerk can implement oversight when duties cannot be segregated.

We recommend the county clerk segregate duties over receipts, disbursements, and reconciliations. If segregation of duties is not feasible due to lack of staff, we recommend the county clerk implement and document strong oversight over incompatible functions. The person providing this oversight should document his or her review by initialing all source documentation.

County Clerk's Response: Responded to in previous audits.

The Taylor County Clerk did not deposit funds intact daily: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. This finding has been included in the audit report since calendar year 2008. The Taylor County Clerk did not deposit all funds collected intact daily. The county clerk's daily checkout sheets show each day's cash on hand is different. This deficiency is allowed to occur because it is the county clerk's policy to only deposit larger cash bills and checks, leave all change and smaller cash bills for startup cash.

As a result of not depositing funds intact daily, the county clerk is not in compliance with guidelines set forth by the state local finance officer and increases the risk of possible theft. For the week tested, the following was noted:

- Receipts of \$166 were not deposited on February 3, 2020.
- Receipts of \$58 were not deposited on February 4, 2020.
- Receipts of \$190 were not deposited on February 5, 2020.
- Receipts of \$74 were not deposited on February 6, 2020.
- Additional receipts of \$282 were deposited on February 7, 2020.
- Additional receipts of \$73 were deposited on February 8, 2020.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* recommends the minimum requirements for handling public funds pursuant to KRS 68.210. The manual requires "daily deposits intact into a federally insured banking institution". Good internal controls dictate the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn is increased.

We recommend the county clerk make daily deposits intact and leave a set amount in each of the cash drawers as startup monies each day.

County Clerk's Response: Responded to in previous audits.

The Taylor County Clerk did not require third-party purchaser's to make deposits and payments in accordance with 103 KAR 5:180: The Taylor County Clerk did not require purchasers to make deposits at the time of registration as required by 103 KAR 5:180 for priority tax bills and current tax bills. The county clerk stated he followed the tax sale registration and deposit process as required in 2019 and felt the extra steps of requiring deposits then refunding large unused portions negatively affected the tax sale. The county clerk stated he made a management decision in 2020 to only require purchasers to pay registration fees, but he did not collect any deposits.

Failure to collect deposits can result in the county clerk not being able to cover any additional costs and expenses associated with any purchaser who fails to make full payment at the time of the tax sale. Establishing procedures contrary to established regulations places the county clerk in noncompliance with the relevant laws.

KRS 134.128(2)(g) requires the Department of Revenue to “[e]stablish advance deposit requirements for registered participants based upon the maximum amount the registered participant may pay for desired certificates of delinquency[.]” Consequently, 103 KAR 5:180 requires third party purchasers make a deposit with county clerk for tax bills they wish to purchase at the tax sale. Purchasers are required to provide a deposit of 100% of tax bills listed on the purchaser's priority tax bill list and deposit 25% of the list of tax bills that the purchaser wishes to purchase at tax sale. The deposits made by the third party purchasers should be deposited to an official bank account when received. The deposits should be applied to the payment of the tax bills the purchaser purchases at the tax sale date and any balances refunded to the third party purchasers. The registration fee paid by the third party purchasers should be deposited to the fee account when received.

We recommend the county clerk require third party purchasers make deposits for tax bills they wish to purchase as required by 103 KAR 5:180.

County Clerk's Response: Responded to in previous audits.

The Taylor County Clerk did not have adequate controls over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2019-004. The Taylor County Clerk required full time deputies to maintain timesheets; however, the hours did not always reflect the actual hours worked by the employees for pay period tested. Additionally, the Taylor County Clerk's controls over payroll allowed employees to carry forward unused personal leave to subsequent years contrary to fiscal court policies.

- Full time employees' individual earnings records and pay check stubs show they received bonus payments indicated as “Election Bonus” above their established salaries.
- Full time employees did not record hours worked on their timesheets the day of the general election. They were paid their regular pay rate on the eight hours and also received \$100 listed on paycheck as “Election Bonus” for working the day of the general election. Time sheets for this pay period did not record complete and accurate record of hours worked, and could not support full pay or overtime due employees. Overtime was not calculated for this pay period.

- During pay periods tested, the county clerk paid two employees in advance of end of the pay periods during calendar year 2020. Employees were paid seven and 15 days in advance.
- The clerk allowed personal leave hours to be carried forward to subsequent years, contradicting fiscal court's policy of personal leave expiring annually.

These deficiencies occurred due to the county clerk not having a written policy stating his office hours and work schedule. Also these deficiencies occurred due to the county clerk not adhering to the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* and state statutes. As a result of inaccurate timesheets, employees could be paid for more or less hours than actually worked especially if overtime is worked during elections. Employees are granted leave benefits superior to other county employees as a result of personal leave carried forward to subsequent years.

Good internal controls dictate timesheets should be reviewed for accuracy by immediate supervisor and recalculated by someone other than the preparer after employees sign timesheets documenting hours worked. KRS 337.320(1) states, in part "[e]very employer shall keep a record of: ... (b) The hours worked each day and each week by each employee[.]" KRS 337.285(1) requires employers to pay employees for hours worked in excess of forty 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. In addition, the Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* requires, "employees should accurately record the time they begin and end their work" and non-exempt employees to "be paid at the rate of one and one-half their regular hourly rate of pay for all time worked in excess of 40 hours in any one workweek."

The Taylor County Fiscal Court's *Personnel Policies and Procedures Handbook* states, "Personal leave is not carried forward from year to year." The policies do not contain a leave banking system such as the county clerk has implemented for sick leave, but instead state that "[A] regular full-time employee will receive 48 hours of sick leave per year after their one year anniversary date" with no limitation on leave balance accrual limit.

KRS 45.340 states, in part, "[c]hecks shall be tendered to an officer or an 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..." In addition, the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* recommends the minimum requirements for handling public funds pursuant to KRS 68.210. The manual states "[n]o bonuses, no prepayment for goods or services, and no contributions. (Section 3, Kentucky Constitution)"

We recommend the following:

- All employees should prepare and sign a timesheet each period indicating the actual hours worked and any sick or vacation leave taken.
- The county clerk should adhere to fiscal court's policy or implement his own written policy including his office hours and work schedule.
- The county clerk should not pay bonuses to employees.
- The county clerk should not pay employees before end of pay period.

- The county clerk should separately account for the accrual, use, and available balances of leave types.

County Clerk's Response: Clerk feels as though payroll for the office does have adequate controls. Clerk provides yearly benefit statements to the employees. Employees do get to use all "days" they have accumulated by taking a certain number of days off each year or by banking days.

The Taylor County Clerk did not follow proper bid laws and regulations: The Taylor County Clerk did not properly bid a scanning and indexing service contract totaling \$94,646. Sufficient internal controls were not in place over the bidding process to ensure services were not purchased from vendors without first advertising or receiving bids on all contracts required to be bid. The services provided under the contract fail to meet the criteria of professional services exempted from bid requirements. According to the county clerk, when the expense was approved with his amended budget by fiscal court, he did not know he needed to bid this service contract.

By limiting competition or not receiving bids at all, the county clerk may not get the benefits of the best price available. Competitive bidding ensures the clerk procures equipment and services at the best price available.

KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids."

According to the fiscal court's administrative code, chapter 8.2-C, "Any expenditure or contract for materials, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than Thirty Thousand Dollars (\$30,000) shall be subject to competitive bidding. Except State Bid Pricing." Section 8.2-D instructs the official to "open all bids publicly at the time and place stated in the advertisements and shall select the lowest and/or best bid by qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be stated in writing."

KRS 45A.380 defines professional services as those provide by a "a licensed professional, such as attorney, physician, psychiatrist, psychologist, certified public accountant, registered nurse, or educational specialist; a technician such as a plumber, electrician, carpenter, or mechanic; or an artist such as a sculptor, aesthetic painter, or musician."

We recommend the county clerk comply with KRS 424.260 and the county administrative code by advertising for bids for purchases and services exceeding \$30,000 and by documenting selection of a winning bidder for each project or contract.

County Clerk's Response: No response.

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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