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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the calendar year 2014 financial statement of Powell County Clerk Rhonda A. Barnett. 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 revenues, expenditures and excess fees of the Powell 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 non-compliance 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 county clerk failed to maintain adequate controls over payroll processing to ensure accuracy. The clerk's office lacked strong internal controls over the processing of timesheets. Review procedures were in place; however, they were not adequately performed to eliminate or reduce errors. Not all employees were required to submit timesheets, and one employee was paid outside the payroll system without deductions taken from the employee's paycheck. The lack of adequate review over payroll records and compliance with applicable laws led to multiple issues.

As a result of inadequate controls in place, the auditor noted the following:

- One employee was paid as a contractor but did not receive a 1099, nor were any deductions taken from the employee's check. However, the employee is essentially part-time and should have received a W-2.
- Time calculated by the auditor did not agree to timesheet for one employee
- The auditor noted that overtime was not paid for three employees on one pay period. However, a separate check was cut outside of the payroll system that did pay them for the overtime, but no deductions were taken.
- One employee did not turn in a timecard but was paid for 40 hours and considered "salary." (See Finding 2014-002).

KRS 141.335 states that employers who are required to deduct and withhold taxes under KRS 141.310 or 141.315, shall furnish employees with a written statement that includes the total amount of wages and deductions withheld.

KRS 337.320 requires that all employers 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." The statute also requires these records to be kept on file for at least one year.

KRS 337.285 states, "(1) No 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."

The clerk should strengthen controls over payroll and ensure compliance with applicable statutes and regulations. All employees should be required to submit timesheets detailing hours worked per day. Any employee working over 40 hours should be paid overtime, and it should be processed with regular payroll. The clerk should prepare a W-2 for all employees, and the clerk should ensure that all monies paid are included on the form. During review of timesheets, the clerk should check the accuracy of hours documented for pay.

County clerk's response: The clerk has four employees who work as salaried employees and two who work hourly and are paid as such. None of the employees work 40 hours per week in the execution of regular job duties. In the past the clerk has paid employees contract labor on occasion for work performed after hours that was not in their general job duties. Should the situation arise in the future, clerk will follow KRS 337.285. The part-time employee who received a flat rate hourly check with no deductions has been moved to the general payroll line.

The county clerk did not ensure all timesheets reflect actual hours worked. The clerk has an employee that is paid full-time in her office, and the employee is also compensated as a full-time employee at another place of employment. The clerk does not require this person to submit a timesheet documenting actual hours worked, but the employee is paid as a full-time salary employee of the office. Auditors questioned the validity of these payments.

Improper maintenance and approval of timesheets could lead to inappropriate payments to employees for work provided. KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee.

To ensure compliance with KRS 337.320, all employees, other than elected officials, must complete a timesheet. We recommend the clerk review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts. The approved timesheets should be submitted to fiscal court for processing of payroll.

County clerk's response: The clerk will comply with KRS 337.320 for all employees. The employee noted does work two jobs that qualify as full time positions. Neither of the jobs are for 40 hours per week which makes the scheduling manageable. These employers are not in the same system.

The county clerk failed to maintain adequate controls regarding oversight and review of daily functions. The clerk failed to maintain adequate oversight and review of daily office functions during calendar year 2014 to ensure accuracy. Timely review and reconciliation was not performed resulting in multiple issues, such as overdrawn account, late bills, and various inaccuracies in financial reporting.

As a result of inadequate review and reconciliation, the clerk's usage tax account was overdrawn 22 times during the calendar year resulting in $638 in overdraft charges. There were extra monies transferred twice from the fee account to cover the overdrafts totaling $8,000, four ACH usage tax payments to the state were submitted twice for a total of $12,551 and a deposit in the amount of $6,661 was submitted twice resulting in the monies coming out of the fee account twice. The auditor also noted three months where a lease payment was not made on a Xerox copier, and other months there were multiple payments.

Good internal controls dictate that strong supervisor review and oversight can reduce the risk of misstatement and uncorrected errors.

We recommend the clerk strengthen controls over daily work by providing a strong oversight and review process. This review should include reviewing daily work, payment of daily expenditures on time, review of bank statements/bank reconciliations, and providing a strong presence within the office.

County clerk's response: The clerk has strengthened controls in overseeing the usage tax account. Reconciliation of all other accounts was completed in a timely manner and verified by clerk. The clerk leases two Xerox copiers, therefore, there would be more than one payment within a typical month. The clerk acknowledges oversight in 2014 was not always on a daily basis due to health issues and hospitalization twice during that time.

The county clerk failed to ensure adequate controls were in place over disbursements to ensure accuracy and compliance. The clerk did not have adequate controls over disbursements to ensure they were fully supported, valid expenses for the office, and adhere to guidelines established by the Department for Local Government (DLG). As a result, the clerk failed to ensure supporting documentation for disbursements was maintained, that all disbursements were paid by check, and that disbursements were allowable for the office.

As a result, the auditor noted the following:

- Five instances where an original invoice was not on file for a disbursement, and the clerk had to obtain a copy from the vendor.
- Six instances where the supporting documentation was not properly cancelled to prevent duplicate payment.
- One instance where the invoice had disallowed disbursements: clerk obtained a room for longer than the date of the conference, including telephone and room service charges all totaling $646.
- One instance where an invoice was finally located in the clerk's office and not in the disbursements binder.
- Various disbursements were noted from a petty cash account maintained by the clerk instead of by check. See Finding 2014-003.

Per the Department for Local Government (DLG) Budget Manual – Handling Public Funds Minimum Requirements Pursuant to KRS 68.210 For All Local Government Officials, disbursements should be made by check only. Making purchases from the petty cash account does not comply with this requirement.

Good internal controls dictate that disbursements be fully supported and supporting documentation be maintained.

The clerk should ensure compliance with DLG regulations by paying all disbursements by check and ensuring adequate supporting documentation is maintained. Furthermore, we recommend the clerk ensure all purchases are allowable and necessary for the office.

County clerk's response: The clerk acknowledges the stated invoices were not in the binder. However, all were accounted for and were for disbursements allowable for the office except one. That reimbursement has been made.

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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