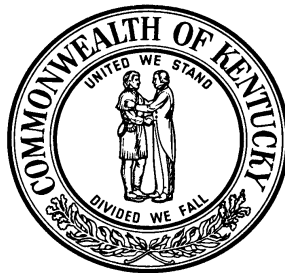


**REPORT OF THE AUDIT OF THE  
BALLARD COUNTY  
CLERK**

**For The Year Ended  
December 31, 2015**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**BALLARD COUNTY CLERK**

**For The Year Ended**  
**December 31, 2015**

The Auditor of Public Accounts has completed the Ballard County Clerk's audit for the year ended December 31, 2015. Based upon the audit work performed, the financial statement presents fairly in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$39,170 from the prior year, resulting in excess fees of \$39,152 as of December 31, 2015. Receipts increased by \$5,646 from the prior year and disbursements increased by \$44,816.

**Report Comments:**

- 2015-001 The Ballard County Clerk's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Ballard County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers
- 2015-003 The Ballard County Clerk's Office Has Internal Control Deficiencies And Non-Compliances Over Timekeeping

**Deposits:**

The county clerk's deposits as of April 6, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured      \$120,614

The county clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Vickie Viniard, Ballard County Judge/Executive  
The Honorable Lynn Lane, Ballard County Clerk  
Members of the Ballard County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Ballard County, Kentucky, for the year ended December 31, 2015, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Vickie Viniard, Ballard County Judge/Executive  
The Honorable Lynn Lane, Ballard County Clerk  
Members of the Ballard County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Ballard County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Ballard County Clerk, as of December 31, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Ballard County Clerk for the year ended December 31, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 on our consideration of the Ballard County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



The Honorable Vickie Viniard, Ballard County Judge/Executive  
The Honorable Lynn Lane, Ballard County Clerk  
Members of the Ballard County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2015-001 The Ballard County Clerk's Office Lacks Adequate Segregation Of Duties
- 2015-002 The Ballard County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers
- 2015-003 The Ballard County Clerk's Office Has Internal Control Deficiencies And Non-Compliances Over Timekeeping

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H.", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

September 23, 2016

BALLARD COUNTY  
LYNN LANE, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2015

Receipts

State Grants	\$	20,250	
HB 537 Revenue Supplement		65,767	
State Fees For Services		3,505	
Fiscal Court		13,929	

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 358,935	
Usage Tax	949,028	
Tangible Personal Property Tax	940,205	
Notary Fees	1,788	
Lien Releases	5,356	

Other-

Fish and Game Licenses	22,820	
Marriage Licenses	1,917	
Occupational Licenses	1,015	
Deed Transfer Tax	18,613	
Delinquent Tax	<u>73,265</u>	2,372,942

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	8,064	
Real Estate Mortgages	12,154	
Chattel Mortgages and Financing Statements	28,322	
Powers of Attorney	1,062	
All Other Recordings	12,344	

Charges for Other Services-

Copywork	3,844	
Postage	<u>1,866</u>	67,656

The accompanying notes are an integral part of this financial statement.

BALLARD COUNTY  
 LYNN LANE, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2015  
 (Continued)

Receipts (Continued)

Other:

Web Renewals	\$	102	
Refunds		2,290	
Miscellaneous		<u>3,988</u>	\$ 6,380

Interest Earned			<u>512</u>
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Total Receipts			2,550,941
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	269,595	
Usage Tax		919,641	
Tangible Personal Property Tax		338,780	

Licenses, Taxes, and Fees-

Fish and Game Licenses		22,675	
Marriage Licenses		675	
Delinquent Tax		6,875	
Legal Process Tax		7,956	
Affordable Housing Trust		<u>9,192</u>	1,575,389

Payments to Fiscal Court:

Tangible Personal Property Tax		137,005	
Delinquent Tax		10,865	
Deed Transfer Tax		17,682	
Occupational Licenses		<u>650</u>	166,202

Payments to Other Districts:

Tangible Personal Property Tax		426,389	
Delinquent Tax		<u>32,690</u>	459,079

Payments to Sheriff			6,162
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BALLARD COUNTY  
 LYNN LANE, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2015  
 (Continued)

Disbursements (Continued)

Payments to County Attorney		\$ 10,075	
Operating Disbursements and Capital Outlay:			
Personnel Services-			
Deputies' Salaries	\$ 95,478		
Part-Time Salaries	26,328		
Contracted Services-			
Local Records Grant	20,250		
Other Charges-			
Refunds	4,260		
Miscellaneous	54,922		
Capital Outlay-			
Office Equipment	9,262	210,500	
Total Disbursements			\$ 2,427,407
Net Receipts			123,534
Less: Statutory Maximum			76,841
Excess Fees			46,693
Less: Expense Allowance	3,600		
Training Incentive Benefit	3,941	7,541	
Excess Fees Due County for 2015			39,152
Payment to Fiscal Court - February 16, 2016			39,152
Balance Due Fiscal Court at Completion of Audit			\$ 0

The accompanying notes are an integral part of this financial statement.

BALLARD COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2015 services
- Reimbursements for 2015 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2015

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BALLARD COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2015  
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent for the first six months and 17.06 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2014, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

BALLARD COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2015  
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Ballard County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The Ballard County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 6, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$120,614

Note 4. Grant

The Ballard County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$20,250. All grant funds were expended during the year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Vickie Viniard, Ballard County Judge/Executive  
The Honorable Lynn Lane, Ballard County Clerk  
Members of the Ballard County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Ballard County Clerk for the year ended December 31, 2015, and the related notes to the financial statement and have issued our report thereon dated September 23, 2016. The Ballard County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Ballard County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Ballard County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ballard County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001 and 2015-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-003 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Ballard County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2015-003.

**County Clerk's Responses to Findings**

The Ballard County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Ballard County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

September 23, 2016

COMMENTS AND RECOMMENDATIONS



BALLARD COUNTY  
LYNN LANE, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Ballard County Clerk's Office Lacks Adequate Segregation Of Duties

---

The Ballard County Clerk's office lacks adequate segregation of duties over the accounting and reporting functions of the clerk's office. The county clerk is required to perform multiple tasks such as the collection of cash from customers, the daily bookkeeping function, preparation of weekly and monthly reports, bank reconciliations, and the preparation of checks for disbursements.

A lack of segregation of duties or strong oversight increases the risk that errors could occur and not be detected. This condition is the result of a limited budget, which restricts the number of employees the county clerk can hire or delegate duties to.

A proper segregation of duties over these tasks or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To offset this lack of segregation of duties, the county clerk has implemented some compensating controls such as the comparison of daily reports to the deposit and initialing the deposits, all of which are documented in the county clerk's records. Although these compensating controls are in place, they are not sufficient to fully offset the lack of segregation of duties. We recommend the county clerk segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated due to a limited number of staff, strong oversight should be provided to the employee or employees responsible for these duties.

*County Clerk's Response: We continue to work on improving this process, but it is difficult because of the number of employees. I do not work on front line as often as I used to, but when needed.*

2015-002 The Ballard County Clerk Did Not Maintain Accurate Receipts And Disbursements Ledgers

---

The Ballard County Clerk's receipts and disbursement ledgers were inaccurate and did not agree to the fourth quarterly financial statement. This is due to transactions being posted to the wrong account, not being recorded at all, or multiple checks being batched and posted as one transaction. Weaknesses, such as a lack of review of ledger postings and proper bank reconciliations, resulted in errors or misstatements on the county clerk's fourth quarterly financial statement and annual settlement of excess fees.

Maintaining accurate receipts and disbursements ledgers is needed in order to ensure accurate reporting of revenues and expenditures. Maintaining accurate receipts and disbursements ledgers also helps ensure that excess fees are properly paid over to the fiscal court.

We recommend that the county clerk maintain complete and accurate receipts and disbursements ledgers, and perform a thorough review of the quarterly report by comparing it to the ledgers. Also, reconciling bank receipts and disbursements to the ledgers will provide assurance that the receipts and disbursements ledgers are accurate.

*County Clerk's Response: Bank statements were reconciled monthly – credit card company credits my bank account making reconciling cumbersome. There were a few transactions posted incorrectly, but noted on ledgers – only "batched" transactions were those received after 12/30/15 these are documented but posted as 12/3/15 receipts and noted as such.*

BALLARD COUNTY  
LYNN LANE, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2015  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Ballard County Clerk's Office Has Internal Control Deficiencies And Non-Compliances Over Timekeeping

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The following items were noted with the county clerk's timekeeping function:

- Hours worked were not properly documented on timesheets; therefore, overtime hours could not be determined.
- Employees were paid a one-time payment for accumulated overtime hours. Because hours worked were not properly documented on the employees' timesheets, this payment had the appearance of a year-end bonus to employees.
- Leave balances were not properly maintained.

Pursuant to KRS 337.320(1)(b), every employer is required to keep a record of the hours worked each day and each week by each employee. Also, according to KRS 337.285, "[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." Additionally, under Section 3 of the Kentucky Constitution and the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, bonuses are not allowed.

Since the county clerk did not properly document hours worked by employees, she was not in compliance with KRS 337.320. This also resulted in the auditor's inability to determine if the county clerk was in compliance with KRS 337.285. Strong internal controls over the timekeeping function ensure that employees are being properly compensated for the hours actually worked. Maintaining leave balances is another important control that ensures employees are receiving the time that they are due and that they are using leave in accordance with county and office policies. Furthermore, the failure to properly document overtime and the failure to maintain leave balances renders the county clerk susceptible to disputes regarding payroll and compensated leave.

We recommend that the county clerk comply with KRS 337.320 and keep accurate timesheets for all employees. These timesheets should include all hours worked by the employee each day and should be signed by the employee and his/her supervisor. We also recommend that the county clerk use these timesheets to maintain leave balances for all employees.

*County Clerk's Response: All employees are required to take vacation time every year – no carry overs – these are documented on their "individual earnings sheet" in a ledger. Timesheets were kept on employees, overtime kept on daily calendar employees signed document authorizing to be paid for overtime in December. They asked for this.*



