



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Ballard County Clerk's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Ballard County Clerk Lynn Lane. 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 Ballard 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 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 receives cash, prepares and signs checks, posts to receipt and disbursements ledgers, prepares monthly bank reconciliations, and also prepares quarterly reports. This is a repeat finding and was included in the prior year audit report as Finding 2015-001.

According to the clerk, 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 lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud.

Good internal controls dictate a proper segregation of duties over the accounting and reporting functions or the implementation of compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the county clerk separate the duties involved in writing checks, posting to the receipts and disbursements ledgers, preparing monthly bank reconciliations, and preparing quarterly reports. If this is not feasible, cross-checking procedures could be implemented and documented by the individual performing the procedure.

*County Clerk's Response: Because of our limited staff and budget we must perform a multitude of duties. As clerk, I am ultimately responsible for all monies collected and disbursed to various entities; state, county, special taxing districts. I take responsibility very seriously and perform these duties myself. The monthly and quarterly reports and checks are reviewed and initialed by another employee in my office.*

Auditor's Reply: There was no documented review of checks written, receipt and disbursement ledger postings, or quarterly financial reports, and bank reconciliations by anyone independent of the preparation process.

**The Ballard County Clerk did not properly account for customer charges:** The Ballard County Clerk did not properly account for accounts receivable. The county clerk allows certain customers to charge business, but does not maintain a subsidiary ledger for these accounts receivable. According to the clerk, it is office practice that each day the charges are posted to the receipts ledger as shortages, and when payment is received, the collections are posted as overages. However, the county clerk occasionally has actual overages and shortages related to her daily deposits. Since customer charges are treated as overages and shortages, they are combined with the true overages/shortages on the receipts ledger. The county clerk could not document or account for the amount of accounts receivables outstanding at year-end because she did not separate customer charges from overages/shortages.

If customer charges are not accounted for properly, there is an increased risk that customers could have received services without paying for them. There is also an increased risk that accounts receivables could be misappropriated.

Strong internal controls dictate that customer charges are accounted for properly to ensure that assets are protected against misappropriation. Separating accounts receivable from overages and shortages also allows the county clerk to identify trends and common sources of errors.

We recommend the Ballard County Clerk account for customer charges separately from overages and shortages to properly document accounts receivable and also to help protect assets from misappropriation.

*County Clerk's Response: We very carefully monitor occasional charges. These are kept in a separate folder and when they are paid the documentation is attached to the daily sheet. Charges are paid promptly and those that may be late are contacted and arrangements made for collection. Most*

*charges are from dealers who fail to send enough money for a transaction. The dealer is contacted by us to make arrangement for payment before we process the transaction.*

Auditor's Reply: The county clerk was unable to provide documentation for all accounts receivable transactions.

**The Ballard County Clerk failed to maintain complete and accurate timesheets for employees:**

This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The county clerk failed to maintain accurate timesheets for her full-time salaried employees for calendar year 2016. According to the clerk, it is an office practice that the timesheets for those employees do not show a breakdown of hours worked each day. Instead, the timesheets only show the total number of regular hours worked during the pay period. The timesheets also do not show overtime hours worked. It is also an office practice that the clerk keeps track of employees' overtime hours separately from their timesheets.

Because complete and accurate timesheets are not maintained, there is an increased risk that employees will not be properly compensated. Also, because the clerk failed to maintain complete and accurate timesheets, she is not in compliance with KRS 337.320(1).

KRS 337.320(1) states, "[e]very employer shall keep 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."

Strong internal controls dictate that complete and accurate timesheets are maintained to ensure that employees are properly compensated. Therefore, we recommend the Ballard County Clerk maintain complete and accurate timesheets for all employees. The timesheets should show the total hours, including overtime, worked each day and each week by each employee.

*County Clerk's Response: Timesheets are kept and signed each pay period by each employee.*

**Employees were improperly paid a one-time payment for accumulated overtime:** This is a repeat finding and was included in the prior year audit report Finding 2015-003. In calendar year 2016, employees were improperly paid accumulated overtime wages in a lump sum at the end of the year. According to the clerk, in January 2016, employees signed an agreement stating that they agreed to have their overtime wages paid to them in one check in December 2016. The county clerk kept track of each employee's accumulated overtime hours and, in December 2016, issued each employee a check for their overtime wages earned during the year. Because employees received their overtime wages for the year in a lump sum at the end of the year, the county clerk is not in compliance with KRS 337.020.

KRS 337.020 states, "[e]very employer doing business in this state shall, as often as semimonthly, pay to each of its employees all wages or salary earned to a day not more than eighteen (18) days prior to the date of that payment. Any employee who is absent at the time fixed for payment, or who, for any other reason, is not paid at that time, shall be paid thereafter at any time upon six (6) days' demand. No employer subject to this shall, by any means, secure exemption from it. Every such employee shall have a right of action against any such employer for the full amount of his

wages due on each regular pay day. The provisions of this section do not apply to those individuals defined in KRS 337.010(2)(a)2.”

We recommend the Ballard County Clerk comply with KRS 337.020 by paying her employees their overtime wages throughout the year as earned.

*County Clerk’s Response: This has been corrected - next audit will reveal this corrective action.*

**The Ballard County Clerk did not have a written collateral security agreement with the bank:** When the county clerk opened her 2016 fee account with a new bank in December 2015, she failed to obtain a written collateral security agreement from the bank. The county clerk obtained a written collateral security agreement from the bank in October 2016, however the date of the highest bank balance was April 12, 2016.

Because the county clerk did not have a written collateral security agreement with the bank, the bank did not provide pledges or collateral to protect the clerk’s deposits. Therefore, on April 12, 2016, \$146,907 of the county clerk’s deposits of public funds in depository institutions were uninsured and unsecured. Also, because the county clerk did not have a written agreement with the bank, she is not in compliance with KRS 41.240.

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.

We recommend the county clerk obtain written collateral security agreements anytime accounts are opened at a bank where the county clerk does not have already have such an agreement in place. Additionally, the county clerk should monitor her deposits throughout the year and require the bank to pledge or provide sufficient collateral to protect the amount of public funds on deposit at all times.

*County Clerk’s Response: This has been corrected by the bank.*

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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