



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former 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 former Ballard County Clerk in accordance with accounting principles generally accepted in the United States of America. The former clerk's financial statement did not follow this format. However, the former 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 former Ballard County Clerk's Office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. In 2017, the former Ballard County Clerk's Office lacked adequate segregation of duties over the accounting and reporting functions of the clerk's office. Due to limited staff size, the former county clerk was responsible for preparing daily deposits, preparing and signing checks, posting to receipts and disbursements ledgers, preparing monthly bank reconciliations, and also preparing financial reports.

According to the former county clerk, this condition was the result of a limited budget, which restricted the number of employees the county clerk could hire or delegate duties to. A lack of

segregation of duties or strong oversight increases the risk of undetected errors or fraud. 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.

The former Ballard County Clerk should have separated the duties involved in preparing deposits, writing checks, posting to the ledgers, preparing monthly bank reconciliations, and preparing financial reports. If this is not feasible due to a limited budget, cross-checking procedures should have been implemented and documented by the individual performing the procedure. We recommend the clerk's office segregate incompatible duties.

Former County Clerk's Response: We are a small office with a limited staff. We have implemented certain compensating controls, such as: one deputy counts the money and prepares the deposit. Another deputy prepares the daily check out sheet and the two compare the totals each day. These duties are delegated to another deputy when someone is out of the office - so several can competently complete these responsibilities. The bank deposit is compared to the daily check out sheet before the deposit is taken to the bank - this is compared by the clerk. Another deputy takes it to the bank that has not performed either of these other duties. Deposit is checked and initialed by two employees (one usually the clerk) when the deposit slip is brought back to the office.

Auditor's Reply: No evidence of documented compensating controls was found. Any compensating controls should be documented.

The former Ballard County Clerk did not properly account for customer charges: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The former Ballard County Clerk did not properly account for customer charges. The former county clerk allowed certain customers to charge for services; however, the former county clerk did not maintain a subsidiary ledger for these charges. To account for customer charges each day, the former county clerk posted the charges as shortages, and when payment was received, she posted the collections as overages. On occasion, the county clerk's office had actual overages and shortages regarding daily deposits. Because customer charges were treated as overages and shortages, the true balance of outstanding accounts and overages/shortages could not be determined.

According to the former county clerk, it was office practice that customer charges be treated as overages and shortages each day and combined with the true overages and shortages on the receipts ledger.

Because the former county clerk did not separate customer charges from overages/shortages, the former county clerk was not able to determine the amount of accounts receivables outstanding at year-end. As a result, the auditor was not able to determine if any outstanding receivables were subsequently collected. Because customer charges were not accounted for properly, there is an increased risk that customers could have received services without paying for them. Also, there is an increased risk that accounts receivable could be used to cover up misappropriation of assets.

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

The former Ballard County Clerk should have accounted for customer charges separately from overages and shortages to help with reconciliation purposes and also to help protect assets from misappropriation. We recommend the county clerk's office properly account for customer charges.

Former County Clerk's Response: Charges are reviewed on a regular basis and are kept in a separate folder. When POS charges are paid, they are accounted for on the daily sheet with proper documentation attached to the daily sheet. We even had a separated folder for all paid charges for 2017 - with the charge and the paid receipt attached together. Again, I would like to emphasize that charges are reviewed on a regular basis and if not paid on a timely basis, the customer is contacted until the charge is paid. There are not great number of charges and these are mostly from dealers (car) and the amounts are small - \$6 (Title) maybe \$22 (TLS), not large amounts. Recording charges are separate from automobile transactions but they also are constantly reviewed and collected on a timely basis. This matter is taken very seriously by me and my staff.

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

The former 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 2016-003. In calendar year 2017, the county clerk failed to maintain accurate timesheets for her full-time employees. The timesheets for those employees did not show a breakdown of hours worked each day. Timesheets also did not indicate if an employee took vacation or sick leave. Instead the timesheets only showed the total number of regular hours worked during the pay period. Also timesheets did not show overtime hours worked. According to the clerk, it is an office practice that only the total regular hours worked each period are documented on the timesheets. Because complete and accurate timesheets were not maintained, there is an increased risk that employees were not properly compensated. Also, because the county clerk failed to maintain complete and accurate timesheets, she was not in compliance with KRS 337.320(1).

KRS 337.320(1) states:

Every 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.

Good internal controls dictate that complete and accurate timesheets are maintained to ensure that employees are properly compensated.

The former Ballard County Clerk should have maintained complete and accurate timesheets for all employees. The timesheets should have shown the total hours worked each day, including

overtime hours and vacation or sick leave used by each employee. We recommend the county clerk's office maintain complete and accurate timesheets.

Former County Clerk's Response: Timesheets were kept and signed by the employees. Vacations were noted in a daily notebook kept by me, the clerk. Sick days were kept separately in the daily book also.

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](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

