

**REPORT OF THE AUDIT OF THE  
HART COUNTY  
CLERK**

**For The Year Ended  
December 31, 2016**



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

The Honorable Terry Martin, Hart County Judge/Executive  
The Honorable Lisa Hensley Sanders, Hart County Clerk  
Members of the Hart 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 Hart County, Kentucky, for the year ended December 31, 2016, 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 and budget laws. 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 Terry Martin, Hart County Judge/Executive  
The Honorable Lisa Hensley Sanders, Hart County Clerk  
Members of the Hart 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 Hart 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 Hart County Clerk, as of December 31, 2016, 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 Hart County Clerk for the year ended December 31, 2016, 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 August 15, 2017, on our consideration of the Hart County Clerk’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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

- 2016-001 The Hart County Clerk’s Office Lacks Sufficient Internal Controls Over Receipts
- 2016-002 The Hart County Clerk’s Office Did Not Have Adequate Internal Controls Over Cash Back Transactions And Daily Checkout Procedures

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

August 15, 2017

HART COUNTY  
LISA HENSLEY SANDERS, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2016

Receipts

State Grant - Libraries and Archives	\$	20,600	
State Revenue Supplement		65,777	
State Fees For Services		4,769	
Fiscal Court		27,605	
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	614,192	
Usage Tax		692,289	
Tangible Personal Property Tax		1,159,924	
Notary Fees		9,130	
Miscellaneous		1,071	
Other-			
Marriage Licenses		4,615	
Deed Transfer Tax		46,726	
Delinquent Tax		208,801	2,736,748
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		12,591	
Real Estate Mortgages		27,509	
Chattel Mortgages and Financing Statements		56,444	
Powers of Attorney		2,283	
Affordable Housing Trust		18,798	
All Other Recordings		14,715	
Charges for Other Services-			
Candidate Filing Fees		1,220	
Copywork		226	
Postage		5,954	139,740
Other:			
Refunds/Overpayments		888	
Outstanding Accounts Receivable		279	1,167
Interest Earned			82
Total Receipts			2,996,488

The accompanying notes are an integral part of the financial statements.

HART COUNTY  
 LISA HENSLEY SANDERS, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 429,938	
Usage Tax	671,520	
Tangible Personal Property Tax	440,455	
Licenses, Taxes, and Fees-		
Delinquent Tax	16,156	
Legal Process Tax	18,259	
Affordable Housing Trust	18,798	
Miscellaneous	4,056	\$ 1,599,182

Payments to Fiscal Court:

Tangible Personal Property Tax	101,905	
Delinquent Tax	18,482	
Deed Transfer Tax	44,389	164,776

Payments to Other Districts:

Tangible Personal Property Tax	571,093	
Delinquent Tax	112,521	683,614

Payments to Sheriff 17,815

Payments to County Attorney 25,790

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 230,998

Employee Benefits-

Employer's Share Social Security 22,454

Employer's Paid Health Insurance 42,414

Contracted Services-

Microfilming and Indexing Records 210

Advertising 8,185

Materials and Supplies-

Office Supplies 12,802



HART COUNTY  
 LISA HENSLEY SANDERS, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2016  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	345	
Dues		2,713	
Postage		5,282	
Bank Charges		260	
Refunds		2,266	
Insurance and Bonds		652	
Miscellaneous		205	
Election Expense		1,582	
Libraries and Archives		20,600	
Uncollected NSF Checks		3,033	
Capital Outlay-			
Office Equipment		<u>3,552</u>	\$ 357,553
Debt Service:			
Lease Purchases			<u>40,205</u>
Total Disbursements			<u>\$ 2,888,935</u>
Net Receipts			107,553
Less: Statutory Maximum			<u>83,356</u>
Excess Fees			24,197
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,969</u>	<u>7,569</u>
Excess Fees Due County for 2016			16,628
Payment to Fiscal Court - February 22, 2017			<u>15,901</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 727</u></u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2016

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 2016 services
- Reimbursements for 2016 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2016

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).

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

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is 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.

HART COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

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

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 17.06 percent for the first six months and 18.68 percent for the last six months.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, 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. Nonhazardous members contribute five percent 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 nonhazardous member's account is credited with a four percent 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%

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.

HART COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2016  
 (Continued)

Note 3. Deposits

The Hart 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 Hart 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 6, 2016, 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      \$41,781

Note 4. Grant

The Hart County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$20,600. Funds totaling \$20,600 were expended during the year. The grant was fully expended in calendar year 2016 and had a zero balance as of December 31, 2016.

Note 5. Lease Agreements

The Hart County Clerk's office was committed to the following lease agreements as of December 31, 2016:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2016
Computer Hardware	\$ 1,201	60 months	9/30/2018	\$ 25,221
Computer Software	2,159	60 months	9/30/2018	45,339
	<u>\$ 3,360</u>			<u>\$ 70,560</u>

HART COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2016  
(Continued)

Note 6. Escrow Account

The Hart County Clerk's office maintains an escrow account for an unclaimed refund check. The balance on January 1, 2016 was \$1,369. During calendar year 2016, the account had \$5 in receipts for a bank error from a previous year and no disbursements. The ending balance at December 31, 2016, was \$1,374.

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110.

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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 Terry Martin, Hart County Judge/Executive  
The Honorable Lisa Hensley Sanders, Hart County Clerk  
Members of the Hart 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 Hart County Clerk for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated August 15, 2017. The Hart 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 Hart 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 Hart County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hart County Clerk's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Schedule of Findings and Responses as items 2016-001 and 2016-002 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)

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Hart 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 Schedule of Findings and Responses as item 2016-002.

### **Views of Responsible Official and Planned Corrective Action**

The Hart County Clerk's views and planned corrective action to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The 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

August 15, 2017

SCHEDULE OF FINDINGS AND RESPONSES



HART COUNTY  
LISA HENSLEY SANDERS, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES

For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS:

2016-001 The Hart County Clerk's Office Lacks Sufficient Internal Controls Over Receipts

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The clerk's office deputies are responsible for counting their own cash drawer at the end of each day and comparing the total to the register recap. The clerk's office policy is the change fund in each deputy's cash drawer should be \$40 and the deputies are accountable for coming up with their \$40 change fund at any time. However, the change fund is not verified when cash drawers are counted down at the end of the day. After each deputy counts their own drawer, the net drawer totals are combined at the end of the day into one deposit and taken to the bookkeeper to be kept locked overnight until reviewed and deposited the next morning. Sometimes the combined drawer totals are short when comparing to the daily register recap report at the end of the day. If the clerk's office does not know the reason for the shortage, each deputy has to split what is short.

In addition, the county clerk's office lacks adequate segregation of duties over receipts. The deputy clerks collect payments from customers and prepare daily reconciliation reports for AVIS. The bookkeeper collects payments from customers, prepares daily deposit printouts, and posts to the ledgers. In addition, the bookkeeper prepares weekly, monthly, and quarterly reports, reconciles reports to receipts and disbursements, and prepares the monthly bank reconciliations. However, to offset the lack of segregation of duties, the county clerk has implemented compensating controls, such as the county clerk will review daily, weekly, and monthly reports, bank reconciliations, and ledgers. Another deputy clerk reviews the daily reconciliation report to AVIS by initialing the daily report. Although compensating controls have been implemented, these controls were not sufficient to detect errors or misappropriation of assets. See finding 2016-002.

Because the deputies are not held accountable for their \$40 change fund each day, no one would know a deputy had extra money in their drawer by overcharging a customer. The lack of sufficient internal controls over receipts occurred because the county clerk failed to segregate incompatible duties and compensating controls were not effective.

The lack of segregation of duties and effective compensating controls could lead to inaccurate record keeping and reporting or provide an opportunity for undetected misappropriation of assets.

A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. To mitigate the effects of this deficiency, compensating controls should operate at a level of precision that would provide prevention or detection of a material misstatement to the financial statements. The Hart County Clerk's employee manual under Internal Control Procedures states, "8. Every person is responsible for their drawer; any shortage will be required to make up the shortage."

We recommend the county clerk strengthen internal controls over receipts by requiring deputies to count one another's cash drawers daily. In addition, each deputy could initial one another's register recap to verify the change fund is intact. We also recommend the county clerk adequately segregate duties over receipts. If segregation of duties is not possible, we recommend the county clerk implement and document effective compensating controls to prevent misappropriation of assets, errors, and inaccurate financial reporting. One such compensating control is the county clerk could periodically perform surprise cash counts of cash drawers.

*County Clerk's Response: We have started looking at the recaps to see the amount of cash from each deputy clerk.*

HART COUNTY  
LISA HENSLEY SANDERS, COUNTY CLERK  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended December 31, 2016

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Hart County Clerk's Office Did Not Have Adequate Internal Controls Over Cash Back Transactions And Daily Checkout Procedures

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The Hart County Clerk's office had \$30,326 in cash back credits processed during calendar year 2016. Weekly receipts testing during the week of October 3, 2016 through October 8, 2016, revealed \$770 of cash back credits processed on the daily checkout sheets. Cash and checks per daily checkout sheets agreed to the cash and checks on the deposit tickets. However, due to the large amount of cash back on the daily checkout sheets for one deputy, expanded testing was performed.

One deputy clerk processed \$14,291 cash back credits in 2016. Auditors reviewed \$3,242 of this deputy's cash back credits. We confirmed with customers that \$1,717 was not given as cash back. In addition, the county clerk contacted a customer regarding a cash back transaction in 2017 and informed auditors that this individual did not receive cash back. Furthermore, explanations given by the deputy clerk to auditors for some of the cash credit transactions tested did not agree with customer statements.

This deputy has been employed at the clerk's office full-time from 2013 to 2017. Review of cash back credits for the deputy clerk totaled \$1,655 in 2013, \$1,925 in 2014, \$4,438 in 2015, and \$3,343 from January 1, 2017 to June 15, 2017. Because of the process the county clerk's office uses to account for real property recording fees, the total cash back credit amount on the report will include some proper transactions.

The lack of adequate segregation of duties over receipts as noted in finding 2016-001 and lack of adequate review of daily checkout sheets resulted in the county clerk's office not noticing the cash back credits on the deputy's cash register report. In addition, the county clerk's office procedure allows for cash back transactions to process real property recording fee transactions.

The county clerk's practice of allowing cash refunds resulted in an increased risk of undetected asset misappropriation.

Adequate segregation of duties with sufficient management oversight would prevent the same person from being able to process transactions incorrectly and prevent fraud from occurring. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[d]isbursements by check only."

We recommend the Hart County Clerk implement adequate internal control procedures over the daily cash drawer process and daily checkout procedures. This finding will be referred to the Office of the Attorney General and the Kentucky State Police.

*County Clerk's Response: We are checking the recaps of each deputy clerk to see the amounts of cash that was given back each day before we write our revenue check. The deputies now when receiving a check that they will be giving back cash the amount of cash back will be written on receipt and signed by customer. Then the deputy will scan the receipt to be in the system.*

Auditor's Reply:

We strongly advise the clerk to stop the practice of allowing cash refunds when payments are made by check.

