



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Hart County Clerk Lisa Hensley Sanders. 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 Hart 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The Hart County Clerk's Office lacks adequate segregation of duties over receipts, disbursements, and reconciliations: Deputies who handle cash also prepare daily checkout sheets, deposits, and record receipts. The bookkeeper is responsible for preparing and signing checks and recording disbursements. The bookkeeper also calculates payroll manually and reports and pays all taxes to the appropriate tax agency. In addition, the bookkeeper prepares weekly, monthly, and quarterly reports and performs the monthly bank reconciliations.

According to the county clerk, the limited budget places restrictions on the number of employees the county clerk can hire and delegate duties to. The lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Furthermore, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the county clerk strengthen internal controls by segregating these duties over receipts, disbursements, and the reconciliation process. If segregation of duties is not possible, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation and ensure it is accurate.

County Clerk's Response: I don't have enough employees to do what is recommended by the auditors or money to hire anymore employees.

The Hart County Clerk's Office did not have adequate internal controls over refunds and daily checkout procedures: This is a repeat finding that was included in the prior year audit report as Finding 2017-001. The Hart County Clerk's Office issues cash back for overpayments received by check instead of issuing a refund check. Cash refunds totaling \$7 were issued to customers who paid by check in the recording department on two out of the six days tested. In addition, the county clerk's procedures allow for title lien fees of \$22, or \$24 if late, to be refunded in cash when collected on the same check at the time of the vehicle transfer. The cash is then taken to the recording department across the hall to process in a different computer system. By entering the correct amount of the check, cash and checks per daily checkout sheets agree to the deposit tickets.

The county clerk allows cash back for overpayments made by check of less than \$5. In addition, the county clerk's office procedures require cash to be issued back when monies for title liens are included on the same check in order for the transaction to be processed in the recording department.

Allowing cash refunds could result in undetected misappropriation of assets and inaccurate financial reporting. In addition, if the check received is returned to the county clerk's office for non-sufficient funds, the county clerk's office may not recover those funds.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[d]isbursements by check only." Good internal controls dictate refunds for overpayments should be issued in the form it was originally received.

We recommend the county clerk's office issue checks for all overpayments to ensure proper documentation and authorization and refrain from issuing cash for overpayments received by check. We also recommend the county clerk develop internal control procedures for processing title liens which would not require cash back from a check payment in order to process in the recording computer system.

County Clerk's Response: As soon as I can figure out something that will work for us. We are writing checks for refunds when a check is written for more than the amount is.

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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