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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 2016 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Hart County Clerk's Office lacks sufficient internal controls over receipts. 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.

The Hart County Clerk's Office did not have adequate internal controls over cash back transactions and daily checkout procedures. 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.

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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