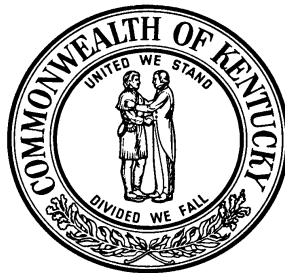


**REPORT OF THE AUDIT OF THE  
HART COUNTY  
CLERK**

**For The Year Ended  
December 31, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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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, 2017, 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, 2017, 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, 2017, 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 June 7, 2018, 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 Hart County Clerk’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 comment:

2017-001 The Hart County Clerk Did Not Have Adequate Internal Controls Over Cash Back Transactions And Daily Checkout Procedures

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

June 7, 2018

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

For The Year Ended December 31, 2017

Receipts

State Revenue Supplement		\$ 66,599	
State Fees For Services			6,623
Fiscal Court			30,789
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$ 697,385		
Usage Tax	2,210,160		
Tangible Personal Property Tax	1,259,085		
Lien Release Fees	10,122		
Child Victim Fund	65		
Miscellaneous Income	2,505		
Other-			
Marriage Licenses	4,473		
Deed Transfer Tax	58,064		
Delinquent Tax	232,979		4,474,838
Fees Collected for Services:			
Recordings-			
Bail Bonds	550		
Chattel Mortgages and Financing Statements	50,740		
Deeds, Easements and Contracts	13,307		
Leases	255		
Liens & Lis Pendens	3,157		
Powers of Attorney	1,809		
Releases	7,979		
Real Estate Mortgages	31,485		
Wills & Estate Settlements	856		
Affordable Housing Trust	20,562		
All Other Recordings	3,764		
Charges for Other Services-			
Candidate Filing Fees	1,000		
Copywork	7,054		
Postage	662		143,180

The accompanying notes are an integral part of this financial statement.

HART COUNTY  
 LISA HENSLEY SANDERS, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Receipts (Continued)

Other:

Refunds/Overpayments	\$ 13,788	
Miscellaneous	<u>2,993</u>	\$ 16,781

Interest Earned		<u>113</u>
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Total Receipts		4,738,923
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Disbursements

Payments to State:

Motor Vehicle-		
Licenses and Transfers	\$ 463,285	
Usage Tax	2,143,810	
Tangible Personal Property Tax	483,899	
Licenses, Taxes, and Fees-		
Delinquent Tax	17,712	
Legal Process Tax	17,890	
Affordable Housing Trust	<u>20,562</u>	3,147,158

Payments to Fiscal Court:

Tangible Personal Property Tax	110,178	
Delinquent Tax	17,470	
Deed Transfer Tax	<u>55,161</u>	182,809

Payments to Other Districts:

Tangible Personal Property Tax	614,650	
Delinquent Tax	<u>125,157</u>	739,807

Payments to Sheriff		19,326
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Payments to County Attorney		30,966
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Tax Bill Preparation		4,036
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HART COUNTY  
 LISA HENSLEY SANDERS, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2017  
 (Continued)

Disbursements (Continued)

Operating Disbursements:

Personnel Services-		
Deputies' Salaries	\$ 234,125	
Employee Benefits-		
Employer's Share Social Security	25,005	
Employer's Paid Health Insurance	38,852	
Contracted Services-		
Lease	39,492	
Office Equipment and Agreements	2,858	
Materials and Supplies-		
Office Supplies	15,640	
Other Charges-		
Advertising	5,101	
Conventions and Travel	641	
Dues	4,217	
Postage	4,321	
Bank Charges	190	
Refunds	16,177	
Insurance and Bonds	1,022	
Election Expense	1,336	
Miscellaneous	500	
Uncollected Returned Checks	1,607	\$ 391,084
	<u>          </u>	
Total Disbursements		<u>\$ 4,515,186</u>
Net Receipts		223,737
Less: Statutory Maximum		<u>85,085</u>
Excess Fees		138,652
Less: Expense Allowance	3,600	
Training Incentive Benefit	4,052	<u>7,652</u>
Excess Fees Due County for 2017		131,000
Payment to Fiscal Court - February 28, 2018		<u>131,000</u>
Balance Due Fiscal Court at Completion of Audit		<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

HART COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2017

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 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2017

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, 2017  
 (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 be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for nonhazardous employees was 18.68 percent for the first six months and 19.18 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.

Health Insurance Coverage

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.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. 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, 2017  
 (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, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 3, 2017, 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 \$70,902

Note 4. Lease Agreement

The Hart County Clerk's office was committed to the following lease agreements as of December 31, 2017:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2017
Computer Hardware	\$ 1,201	60 months	9/30/2018	\$ 10,809
Computer Software	2,090	60 months	9/30/2018	18,810
	<u>\$ 3,291</u>			<u>\$ 29,619</u>

Note 5. Escrow Account

The Hart County Clerk's office maintains an escrow account for an unclaimed refund check. The balance on January 1, 2017, was \$1,374. During calendar year 2017, there was no activity. The ending balance at December 31, 2017, 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.

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*

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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

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, 2017, and the related notes to the financial statement and have issued our report thereon dated June 7, 2018. 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.

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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*  
(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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The Hart County Clerk's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hart County Clerk's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**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

June 7, 2018



## SCHEDULE OF FINDINGS AND RESPONSES

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

For The Year Ended December 31, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The Hart County Clerk Did Not Have Adequate Internal Controls Over Cash Back Transactions And Daily Checkout Procedures

---

This is a repeat finding that was included in the prior year audit report as finding 2016-002. The Hart County Clerk's office processed \$21,999 in cash credits during calendar year 2017. Cash credits on the county clerk's software system result from cash refunds for overpayments received by check. The county clerk's office issues cash back from checks for overpayments instead of issuing a refund check.

Some cash credits are valid as a result of the county clerk's procedures. The county clerk requires 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 to process. By entering the correct amount of the check, cash and checks per daily checkout sheets agree to the deposit tickets.

Weekly receipts testing during the week of December 4, 2017 through December 9, 2017 revealed \$332 in cash credits processed on the daily checkout sheets. Of this amount, \$18 was for overpayments that lacked documentation of being returned to the customer, \$106 was an overpayment which was documented by a signed receipt, and \$208 appeared to be for title liens. Documentation was verified for all title lien transactions except two, which totaled \$46.

The lack of adequate review of daily checkout sheets resulted in the county clerk's office not verifying the cash back credits on the deputies' cash register reports. In addition, the county clerk's office procedures allow 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. Prior year auditors found a former deputy clerk overcharged customers and personally took the overpayment instead of issuing a refund.

The Department for Local Government *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 implement adequate internal control procedures over the daily cash drawer process and daily checkout procedures. We also 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.

*County Clerk's Response: This was due to a former employee who took money from customers. Since finding this last year I have started checking the cash back daily and the deputies are balancing the drawers out different with each other balancing the other ones cash drawers.*

**Auditor's Reply:** We strongly advise the clerk to stop the practice of allowing cash refunds when payments are made by check.