



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Hancock County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Hancock County Fiscal Court for the fiscal year ended June 30, 2015. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in fund balances of the Hancock County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court'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 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on non-compliance 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 fiscal court does not have adequate controls over disbursements and credit card transactions.** The Hancock County Fiscal Court does not have adequate internal controls over disbursements and credit card transactions. The following disbursement and credit card transaction deficiencies were noted:

- Two credit card transactions did not have adequate supporting documentation (itemized invoices).
- Seven hotel bills paid via credit card transactions included state tax payments.
- Three invoices were not paid within 30 working days.

- One claim was not presented to the fiscal court prior to payment.

These deficiencies over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. By failing to maintain adequate documentation, the fiscal court is increasing their risk of paying invoices for goods or services that were not provided to the county. In addition, by not paying invoices within 30 days, the fiscal court could be assessed penalties.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained, including any additional supporting documentation, and agreed to the corresponding purchase order and reports. Also, KRS 65.140 states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

We recommend that the county develop internal procedures to ensure disbursements and credit card transactions are properly supported and disbursements are paid within 30 working days.

*County Judge/Executive's Response: Due to timing between the 2014 and 2015 audits, policies and procedures have already been implemented to correct these issues.*

**The fiscal court did not advertise for and properly award bids and did not ensure items were paid per bid award.** The Hancock County Fiscal Court did not advertise for and properly award bids. The fiscal court also did not ensure that items were paid per the bid award. We noted the following bidding deficiencies:

- The fiscal court purchased a 2015 X5H F-550 Super C Truck and a 2016 Chevrolet Impala based on the state contract price, but they did not maintain the appropriate documentation to support what the state contract price should have been. Therefore, they cannot ensure that these items were purchased for the correct amount.
- The purchase price paid on three invoices did not agree to the price that was bid.
- Bid was awarded to Truck Centers Inc. for the purchase of a 2015 Freightliner 108SD; however, the invoice does not show the specifications of the truck to ensure the county received all of the specifications that were listed on the bid.
- One invoice from Scotty's Contracting & Stone, LLC did not include details such as the item purchased or the per unit price. Consequently, the county could not ensure that the price paid agreed to the bid price.

These errors were due to a lack of oversight over bids and items purchased. We noted that there was no review of invoices and supporting documentation to ensure that the county was paying the correct amount. The failure to properly bid and maintain documentation for the 2015 X5H F-550 Super C Truck caused the county to be in violation of KRS 424.260. Lack of controls also results in the fiscal court paying the incorrect amount on multiple invoices and uncertainty that items purchased agreed to items that were bid.

KRS 424.260 states, “Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” Also, good internal controls dictate that the fiscal court ensure they are paying the awarded bid prices.

We recommend the fiscal court comply with KRS 424.260 and properly advertise and award bids for all purchases over twenty thousand dollars or purchase items from state contract vendors and maintain the proper documentation of the state contract price. Likewise, the fiscal court should implement controls to ensure they are paying the correct amount per bid awards.

*County Judge/Executive’s Response: We have already changed procedures in our office to correct this matter, but we will do our best to properly advertise and award bids and maintain the proper documentation needed.*

**The fiscal court lacks adequate segregation of duties over cash, receipts, and payroll.** The Hancock County Fiscal Court lacks adequate segregation of duties over the cash, receipts, and payroll functions. The county treasurer’s assistant prepares deposits and posts transactions into the accounting system. The county treasurer prepares reports for submission to the Department for Local Government, makes cash transfers between funds, and performs the bank reconciliations for all bank accounts. The county treasurer also processes all payroll transactions and prepares all payroll related reports. There were no documented compensating controls to offset the lack of segregation of duties to reduce the deficiency to a less than significant level.

Due to the small size and budget restrictions, the fiscal court has limited options for establishing segregation of duties. A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected irregularities. Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

We recommend the county divide the responsibilities for cash, receipts, and payroll among the county treasurer and other employees of the county in order to achieve an appropriate level of segregation of duties, or implement compensating controls over these areas.

*County Judge/Executive’s Response: This issue has been addressed and we continue to try to implement procedures to improve internal controls.*

**The EOC director did not reconcile monthly ambulance runs billed by contractor.** The Hancock County Fiscal Court has contracted with a corporation to bill for the Hancock County Ambulance Service. Ambulance runs are entered into an iPad system and submitted to the contractor after runs are made. Com-Care, Inc. then prepares a bill and either bill insurance or individuals accordingly. Payments are remitted directly to the contractor, or in some instances

payments are made electronically into the fiscal court's bank account. When funds are received by the contractor, it makes deposits into the fiscal court's bank account. The Emergency Operations Center (EOC) Director prepares a monthly report that contains all ambulance runs. The contractor also generates a monthly report containing all the ambulance runs for the Hancock County Ambulance Service. However, there is no documented reconciliation between the ambulance runs billed by the contractor and ambulance runs per the EOC Director.

Ambulance charges are overseen by persons other than the financial staff of the county. By not reconciling ambulance runs, the fiscal court does not know if the correct amount of ambulance runs has been billed by the contractor. Good internal controls dictate that these should be reconciled to ensure that all ambulance runs are being billed correctly on behalf of the Hancock County Ambulance Service.

We recommend that ambulance runs billed by the contractor be reconciled to the Hancock County Ambulance Service's records and the reconciliation be documented.

*County Judge/Executive's Response: The EOC Director has been notified of these issues and made aware this needs to be done.*

**The fiscal court did not have adequate controls over decentralized receipts.** The Hancock County Fiscal Court did not issue receipts for monies received at archives prior to September 2015. Since receipts were not being issued, daily check-out sheets including receipt numbers were also not being utilized by archives. Decentralized locations (Archives) are managed by persons other than the financial staff of the county. The fiscal court cannot verify the amount of funds collected each day, since they are not issuing receipts or keeping other documentation to support the collection of all funds received.

By not requiring a receipt for each payment or preparation of a daily check-out sheet, the opportunity for theft or fraudulent recording is increased. 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 Police Manual* requires all governmental officials handling public funds to issue a three part pre-numbered receipt. KRS 64.840(2) states, "One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." Also, good internal controls dictate that receipts be batched daily and that daily check-out sheets be prepared.

We recommend the fiscal court require receipts per KRS 64.840(2), and receipts be batched daily and check-out sheets be prepared by archives.

*County Judge/Executive's Response: Due to the timing between the 2014 and 2015 audits, this issue has been addressed and triplicate receipts and daily checkouts are now required from these departments.*

**The fiscal court is not following personnel policies and procedures.** The Hancock County Fiscal Court is not following personnel policies and procedures set forth in the administrative code. The following exceptions were noted:

- Per the personnel policies, “Any sick leave accumulated at time of termination or departure shall be null and void and will not be paid.” However, one employee took three months of sick leave prior to retirement in order to use all sick leave accumulated.
- Employees are using leave time interchangeably even though personnel policies give specific reasons employees can use for sick leave. For example, one employee recorded two vacation days on his timesheet, but when the county treasurer processed payroll she noticed that the employee did not have enough vacation leave remaining for both days. Therefore, the county treasurer used one sick day instead of a vacation day when processing payroll.
- Accumulated comp time is not being maintained by the judge/executive and the county treasurer as stated in the personnel policies.
- The personnel policies state that exempt employees earn “comp” time and that non-exempt employees receive overtime payment at the rate of one and one-half times the regular amount of actual hours worked. However, Hancock County is not following this policy. At this time, all Park employees are earning “comp” time for overtime worked. The sheriff’s road deputies and road department employees are paid time and one-half for overtime hours worked over eight (8) hours per day. The treasurer’s office and judge/executive’s assistants are receiving both “comp” time and overtime payment for hours worked over forty (40) hours per week. They vary from pay period to pay period as to whether they receive “comp” time or are paid time and one-half.

This lack of compliance with policies and procedures is due to a lack of oversight by the fiscal court. By not following policies and procedures related to leave time, the fiscal court could pay an employee for leave time that the employee has not accumulated. Good internal controls dictate that the fiscal court have sufficient policies and procedures and that all policies and procedures set forth in the administrative code are followed by all employees.

We recommend the fiscal court follow policies and procedures set forth by the administrative code or update the policies.

*County Judge/Executive’s Response: The Fiscal Court will begin reviewing and updating the County’s Administrative Code and purchase policy and ensure that it is followed.*

**The payroll revolving account was not properly reconciled to zero after considering all payroll liabilities.** The county treasurer performs monthly reconciliations of the payroll account; however, she is unable to reconcile the June 30, 2015 balance to zero after considering all payroll liabilities. At this time there are no procedures in place to determine what funds make up the payroll account balance. Since the payroll revolving account has not been properly reconciled, there could be monies in the payroll account which belong to other funds of the fiscal court. This could cause a misappropriation of county assets. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. We recommend the Hancock County Fiscal Court properly reconcile

the payroll account and establish procedures to determine that the account is being properly handled.

*County Judge/Executive's Response: The County Treasurer is in the process of correcting this matter.*

**The fiscal court did not properly pay emergency management technicians for overtime worked.** Three Emergency Management Technicians (EMTs) were not properly paid for overtime hours worked. Two EMTs worked 168 hours in a pay period, and one EMT worked 48 hours in a week. All three of the EMTs were not compensated at time and one-half for the hours worked over 40 per week. The county thought that since they had gone to a "Hard Station" in 2008 they were not required to pay EMTs time and one-half compensation for hours worked over 40 in a week. As a result of this error EMTs have been underpaid for hours worked over 40 in a week. KRS 337.285(1) states, "No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." We recommend that EMTs be paid time and one-half for all hours worked over 40 in a week.

*County Judge/Executive's Response: This matter has since been corrected with the exception of the retirement portion that is very time consuming and the County Treasurer wants to be certain it is correct at submittal to KRS.*

**The fiscal court did not properly budget and record purchase of Mack truck.** The fiscal court did not properly budget for the lease proceeds or the purchase of a 2014 Mack Truck in the amount of \$131,790. Lease proceeds for \$131,790 were paid directly to the vendor for this purchase, and they were not included in the county financial statements as budgeted disbursements for the fiscal year ended June 30, 2015. The county treasurer was not aware she needed to budget for or record these activities since she did not directly receive these funds.

By not properly budgeting these items the fiscal court overspent the "Roads" line item by \$29,243 in the road fund. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* states all borrowed money received and repaid must be reflected in the county budget. The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

We recommend the fiscal court properly budget and record all borrowed money and any related purchases.

*County Judge/Executive's Response: This matter will be corrected in the 2016/2017 Budget; due to timing issues between the 2014 and 2015 audits, this could not be corrected for the 2016 audit.*

The audit report can be found on the [auditor's website](#).

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