



Auditor of Public Accounts
Mike Harmon

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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, 2016. 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 internal controls over credit card transactions. The Hancock County Fiscal Court does not have adequate internal controls over credit card transactions. The following disbursement deficiency was noted:

- Eight hotel bills paid via credit card transactions included state tax payments when the county is a tax-exempt organization.

This deficiency over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. The fiscal court paid sales tax when the county is a tax-exempt organization. We recommend the county develop internal control procedures to ensure all employees know the county is exempt from paying state sales tax.

County Judge/Executive's response: When we received hotel invoices that have sales tax included, we do contact the hotel and try to get that refunded. All employees are well aware that they should be presenting the tax-exempt letter at the time of check-in. They have now been told to go to the desk and check-out and look to make sure there is no sales tax on the invoice. We will try to implement better controls to ensure this does not occur in the future.

The payroll revolving account was not properly reconciled and zeroed out after considering all payroll liabilities. The county treasurer reconciles the payroll account each month, but is unable to reconcile it to zero after considering all payroll liabilities. There were no internal controls in place to determine the payroll account balance. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. Since the payroll account has not been reconciled to zero or to a minimal carrying balance there could be monies in the payroll account which belong to other funds of the fiscal court. The lack of controls over payroll could cause misappropriation of county assets. We recommend the payroll account be properly reconciled and that the fiscal court establish internal controls 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 lacks adequate segregation of duties over cash, receipts, and payroll. The county treasurer prepares reports for submission to the Department of 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 less than a significant level. 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. 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 errors and fraud.

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

The fiscal court did not maintain documentation for employment packages. The Hancock County Fiscal Court did not have documentation to support the employment package for the EMS Director. The EMS Director is receiving multiple benefits as part of his employment

package, including the use of a county vehicle and employee plus spouse insurance coverage. There was no documentation to support the EMS Director's employment package because of a lack of oversight by the county judge/executive. By not maintaining documentation of employment packages, employees could be receiving payments of benefits that they are not entitled to receive. Good internal controls dictate that all employment packages be in writing and all documentation be maintained by the fiscal court to ensure that all employees are receiving the appropriate benefits. We recommend the fiscal court obtain all employment packages in writing and that the documentation be maintained.

County Judge/Executive's response: This issue is in the process of being corrected in FY 2017.

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

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