



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Hopkins 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 Hopkins 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 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:

**Two of Hopkins County Fiscal Court's off-site locations lack adequate internal controls over receipts.** The Hopkins County Fiscal Court sanitation department and occupational tax collections lack adequate controls over receipts. The sanitation department has one employee gather receipts, batch receipts, and lock batched receipts in a lockbox. Receipts for the sanitation department are deposited monthly; however, during testing our auditors noted one deposit included two months. There is no documentation maintained in order for employees to reconcile what is received to what is deposited.

The occupational tax administrator collects receipts, enters them into an excel spreadsheet, and batches receipts to be deposited by the county treasurer. While the treasurer does review the

excel spreadsheet prepared by the occupational tax administrator, this review and reconciliation is not documented. Also, due to a lack of review of the tax roll and area businesses, the tax roll may not be complete. Through our review of a sample of area businesses, we found seven businesses that were not on the county's tax roll listing; however, there may be more businesses missing from the tax roll.

The county indicated this lack of internal controls is a result of a limited budget, which restricts the number of qualified employees the fiscal court can hire for accounting functions. Without the proper internal controls the fiscal court creates the opportunity for undetected misappropriation of assets and inaccurate financial reporting to occur. Good internal controls dictate that duties over the various accounting functions such as deposit preparation, checkout sheet preparation, and collection of cash should be segregated in order to reduce the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained to ensure all fees collected are deposited by the county treasurer.

We recommend the sanitation department and the occupational tax administrator implement internal controls over daily transactions and fees collected. We also recommend that the occupational tax administrator review the tax roll listing for completeness.

*County Judge/Executive's response: The Sanitation Department has already started making daily deposits if there are funds to be deposited. The Fiscal Court Finance Committee will be addressing the lack of controls and will recommend procedures to reduce the probability of inaccurate reporting.*

*The Treasurer does review the Excel spreadsheet that is kept for the occupational and net profit taxes. However, this is not the official record of taxes collected. That is kept on the financial software that the County uses. The Treasurer posts the revenue received to this software and it is reconciled to the spreadsheet by the Tax Administrator. The Tax Administrator does not have the time for tax collection and enforcement and there is no way to determine if there may be businesses out in the County that may not have gotten a business license. However, the Fiscal Court will be informed of this issue and will address it.*

**The Hopkins County Fiscal Court does not have adequate internal controls over credit card disbursements.** The following control deficiencies were noted:

- Three credit transactions did not have adequate supporting documentation (itemized invoices).
- Three transactions had a missing invoice.
- Twelve hotel bills included state tax payments when the county should receive a government rate and be sales tax exempt.

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 the risk of paying invoices for goods or services that are unallowable or that were not provided to the county. 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. We recommend the fiscal court develop procedures to ensure that credit card transactions are properly supported.

*County Judge/Executive's response: This Fiscal Court will be developing a Credit Card Policy that will create controls over credit card purchases.*

**Two of Hopkins County Fiscal Court off-site locations are not making daily deposits.** The Hopkins County Fiscal Court did not make daily deposits for sanitation or occupational tax collections. The deposits for occupational tax are being batched for deposit as they are processed, but the payments are not deposited daily. The sanitation department batches deposits and makes deposits directly in the bank monthly. The fiscal court is not making daily deposits of occupational tax because they feel they do not have enough staff to record, batch, and deposit all receipts each day. The sanitation department is not making daily deposits because they have very few receipts and the director believed they could batch and deposit the receipts monthly. By not depositing the receipts into the bank daily, the fiscal court is creating the opportunity for undetected misappropriation of assets to occur.

Pursuant to KRS 68.210, the State Local Finance Officer has prescribed minimum accounting standards, which include performing daily check-out procedures and making daily deposits intact to a federally insured banking institution. We recommend the sanitation department and the occupational tax administrator deposit all receipts collected into the bank daily or turn them over to the county treasurer daily to be deposited.

*County Judge/Executive's response: Deposit of Sanitation receipts is addressed in 2016-001 comment. The Tax Administrator will prepare daily deposits if time allows for her to properly process the checks received that day. The Fiscal Court feels that rushing to process checks in order to get them to the bank on the day received will create more errors and cost more taxpayer money than waiting for them to be properly processed and credited to the correct account. The volume of checks that are received on some days is too great to process in one day regardless of how many employees are assigned to that task.*

Auditor's Reply: The response from the County Judge/Executive appears to accept that a noncompliance with the State Local Finance Officer requirements to deposit daily may be inevitable due to timing constraints. We suggest the county implement procedures to ensure that deposits are made daily to reduce the risks caused by having un-deposited payments retained on the premises, which could include procedures such as implementing cut-off times for payments or arranging for night or after-hour deposits.

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

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