



Auditor of Public Accounts
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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, 2017. 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Hopkins County Fiscal Court off-site locations lack adequate controls over receipts and deposits are not made daily: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Hopkins County Fiscal Court sanitation department and occupational tax collections lack adequate controls over receipts. Testing of decentralized receipts yielded the following issues and exceptions.

Sanitation department:

- One employee gathers receipts, batches receipts, and locks batched receipts in a lockbox.

- Receipts for the sanitation department are not deposited daily. They are deposited monthly; however, during testing, auditors noted one deposit included three months.
- Customers were allowed to charge dumping fees.
- There is no documentation maintained of when a customer paid accounts receivable or of the total receivables due to the fiscal court. Receipts issued to customers were marked charge and labeled with a description of what was being dumped.

Occupational and net profit tax:

- The tax administrator collects receipts, enters them into an excel spreadsheet, and batches receipts to be deposited by the county treasurer. However, there is no documented reconciliation performed by different employees to ensure the excel spreadsheet is accurate.
- The deposits are batched for deposit as they are processed, but the batches are not deposited daily.
- Delinquents are not being recorded in a timely manner and delinquent fees according to the ordinance are not being assessed. Companies that do not pay on or before the due date are marked delinquent in excel when the occupational tax administrator has time, not as soon as they become delinquent.
- One taxpayer paid estimated taxes of \$1,000 during the tax year and submitted their tax return on October 16, 2017, showing a \$1,000 overpayment. On January 3, 2018, the occupational tax administrator was marking companies as delinquent and noticed that the overpayment had not been recorded or paid back to the taxpayer.
- From the sample of ten companies tested, the auditor determined the county was underpaid \$1,426, due to taxpayers not sending in correct tax amounts.
- One of the ten net profit returns tested did not file a net profit tax return.
- One of the ten net profit returns tested was stamped received after it had been deposited.

According to the county treasurer, 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. Also, the occupational tax administrator stated that companies that send in incorrect tax amounts do so because their system prints the checks and will not allow them to change what is printed. The treasurer also stated that they do not collect fees on occupational tax because the ordinance was worded incorrectly and she believes that she has the final say on whether or not to assess the fees.

The lack of proper internal controls and failure to make daily deposits create the opportunity for undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate that duties over the various accounting functions such as preparation of deposits, checkout sheet preparation, and collection of cash should be segregated in order to decrease the risk of undetected misappropriation of assets and inaccurate financial reporting. Good internal controls also dictate that accurate and sufficient records be maintained in order to ensure all fees collected are deposited by the county treasurer. This would include adequate records to support all accounts receivable transactions. Also, per KRS 68.210, the state local finance officer shall prescribe minimum accounting standards, which include performing daily check-out

procedures and making daily deposits intact to a federally insured banking institution. Finally, regarding delinquent taxpayers the occupational tax ordinance states, “[i]n addition to the penalties prescribed in this section, any business entity or employer shall pay, as part of the fee, an amount equal to twelve percent (12%) per annum simple interest on the fee shown due, but not previously paid, from the time the fee was due until the fee is paid to the county. A fraction of a month is counted as an entire month.”

We recommend the sanitation department and the occupational tax administrator implement internal controls over daily transactions and fees collected. We also recommend the occupational tax administrator begin making deposits daily, marking delinquents timely, and assessing the correct fees according to the ordinance in place. Furthermore, we recommend the county contact the county attorney to discuss whether or not to pursue companies when incorrect amounts are paid. Additionally, the fiscal court should institute policies, procedures, and internal controls over any type of accounts receivable.

County Judge/Executive’s Response: Due to the timing of the previous audit much of these issues could not be corrected until the current year and have been addressed. 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. The Fiscal Court feels that it is not cost effective to hire additional staff and would be a waste of taxpayer money.

The Hopkins County Fiscal Court’s capital asset schedule was inaccurate: During the fiscal year ending June 30, 2017, the fiscal court purchased five vehicles for the sheriff’s office and three pieces of equipment for the road department totaling \$514,535 that were not added to the county’s capital asset schedule. According to the treasurer, this error was due to an oversight when preparing the capital asset schedule. Good internal controls dictate oversight of the record keeping process for capital assets. Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property placement. Due to the county’s lack of internal controls, the county’s capital assets were reported inaccurately. We recommend the fiscal court maintain up to date capital asset records and ensure that these records are accurate.

County Judge/Executive’s Response: The Treasurer was unsure of how some of the assets should be listed on the Capital Asset Schedule and left these assets off until she could consult with Auditors.

The Hopkins County Fiscal Court failed to follow bidding requirements for drainage pipe and stone: The fiscal court failed to follow bidding requirements by accepting all bids for drainage pipe and stone. The fiscal court was unaware that the fiscal court could not accept all bids for drainage pipe and stone. By accepting all bids for drainage pipe and stone, the fiscal court is not

compliance with KRS 178.140. KRS 178.140(2) states, “[t]he contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county.” We recommend the fiscal court advertise for bids and award bids in accordance with KRS 178.140. If there are geographical restrictions, that information should be included in the bid advertisement.

County Judge/Executive’s Response: The Fiscal Court did follow bidding requirements, but failed to adequately explain why it chose to accept all bidders. Some bidders bid lower on one item and higher on another, so the choice was to accept all bidders and pay the lower price on each item. The explanation will be may clear on future bidding.

Auditor’s Reply: KRS 178.140(2) states, “[t]he contract shall be awarded to the lowest and best bidder[.]” There is no statutory authority to accept multiple bids or partial bids.

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

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