



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, 2018. 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 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 fiscal court failed to make continuing financial disclosures required by bond agreements: The fiscal court failed to make the continuing financial disclosures that were required by Hancock County’s bond issuances in the fiscal year ended June 30, 2017. As a result, the fiscal court is not in compliance with debt covenants included in Hancock County’s bond issuances.

This noncompliance could cause the fiscal court’s bond rating to be affected. Additionally, bondholders could seek legal action to require the submission of required financial information.

Hancock County's Judicial Center Bonds state that the annual financial information will be provided to the Municipal Securities Rulemaking Board (MSRB) within 210 days after the last day of the county's fiscal year.

We recommend the fiscal court provide annual financial information to the MSRB as required by bond agreements.

Current County Judge/Executive's Response: The Fiscal Court will correct this and provide annual financial information to the MSRB as required by the bond agreements.

The fiscal court does not have adequate controls over credit card transactions: One out of 14 credit card transactions reviewed was missing the supporting receipt and eight out of 14 credit card transactions reviewed did not have an itemized receipt. Due to a lack of controls over credit card transactions, the fiscal court did not ensure all transactions had an itemized invoice. This deficiency over credit card disbursements occurred because of the fiscal court's lack of internal controls and oversight. Good internal controls dictate that adequate supporting documentation be maintained. We recommend the county develop internal control procedures to ensure all employees know to turn in an itemized invoice when paying with a credit card.

Current County Judge/Executive's Response: This issue has been addressed in the past; but will be re-addressed and enforced in the in the future. Anyone NOT having the supporting/required documentation will be personally responsible for reimbursing the County!!!!

The fiscal court lacks segregation of duties over cash, receipts, and payroll: The county treasurer prepares reports for submission to the Department for Local Government (DLG), 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. The county has compensating controls in place over payroll. The treasurer's assistant reviews all timesheets and prepares payroll. The treasurer reviews the payroll and prepares the payroll reports and contacts the bank to initiate the direct deposit of payroll.

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.

The lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as DLG. In addition, too much control by one individual without oversight can lead to undetected irregularities.

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.

Current County Judge/Executive's Response: The County Treasurer's office currently consists of 2 employees-the Treasurer and the Treasurer's Assistant. With the small department size and

limited budget, it is difficult to segregate duties. We have compensating controls in place to help with this and continue to add controls to help. This has been a finding for Hancock County for years and will continue to be even with compensating controls in place until the budget allows us to add employees to the Treasurer's Office! That being said, the Treasurer does everything in her power to ensure that correct records are maintained and procedures are followed as required by the law since the County Treasurer is the SOLE Officer bonded to ensure this!!!

The fiscal court does not perform a reconciliation between third-party vendor and internal documents for ambulance collections: During the audit, we asked the new EMS Director if he performs a reconciliation between the number of ambulance runs recorded in his log books compared to the billings from the third-party vendor to ensure that the correct amounts are being billed, collected and remitted to the county treasurer. The EMS Director stated that he was unaware that he needed to perform this reconciliation.

Due to a lack of desk procedures for the EMS Director, the new EMS Director was not aware that this reconciliation needed to be performed. In addition, there was a lack of controls to ensure that this reconciliation was performed.

When there is not a proper desk instruction for a given position, a new employee will not know all of the procedures required of him or her to completely satisfy all of the responsibilities of that position. In addition, when there are no internal controls in effect, some tasks, if not performed, will go unnoticed.

Proper internal controls states there should be desk instructions for all key employees and detective controls to make sure that all tasks required to be performed are being completed timely and properly.

We recommend the fiscal court require all key positions to write desk instructions on their duties and tasks and to put detective controls in place to ensure key tasks are being performed timely and correctly.

Current County Judge/Executive's Response: The County had a change in personnel. The new director was not made aware of this responsibility; but has since been informed and the proper reconciliations and reports will be performed.

The fiscal court does not have written loan documentation for the loan made to the airport board: During the review of the fiscal court minutes, it was noted that the fiscal court approved to loan the airport board \$24,217 for legal fees due to the runway extension. Upon the request of the loan documents, we were informed that the fiscal court does not have a written loan document for this \$24,217 loan.

Due to a lack of controls over this loan, there were no written documents drafted to state the requirements of this loan.

When there are no written documents to state the requirements of the loan, it makes it difficult for the county treasurer to know and track when the principal and interest payments are due.

Proper internal controls states there should be tracking of the loan as far as when the principal and interest payments are due and the amount of these payments. To be able to know this information, written loan documentation is required.

We recommend the county prepare written loan documentation on any loans made and to maintain a proper tracking system of the principal and interest payments due.

Current County Judge/Executive's Response: The fiscal court will make sure that formal documents that state the requirements of any loan between the fiscal court and any entity will be prepared.

The fiscal court does not maintain an updated capital asset listing: During our review of the fiscal court's capital asset listing we noted the following issues.

- Two additions were not included on the capital asset listing
 - Radio Equipment for Emergency Management
 - 2018 Mack Truck
- One deletion was still included on the capital asset listing
 - Food Pantry - HELP Office #2
- In reviewing the insurance addition and deletion requests, we noted 7 changes to the insurance that we could not trace to the fiscal court minutes and were not reflected on the capital asset listing.
 - Additions to Insurance
 - 2010 Kubota Zero Turn Mower
 - 2017 Dodge Ram 1500
 - 2004 Wacker 20kw Generator
 - Deletions from Insurance
 - 1980 Chevy Pumper
 - 2018 Mack Truck – error on insurance request, should have been an addition
 - 2000 Kubota F3060
 - 2004 Case 590 SM

The fiscal court does not have controls in place to ensure the capital asset listing is updated on a timely basis when there are changes to the fiscal court's assets. When the capital asset listing is not properly maintained, there could be misuse or theft of an asset and the fiscal court would not realize that this activity has happened. Also, the fiscal court could be reporting the improper amount of assets in its financial statement. In addition, the fiscal courts assets may not be properly insured or the fiscal court may be insuring an asset that is no long owned by the county.

Good internal controls dictate that a capital asset listing be maintain and updated when changes occur.

We recommend the county develop internal control procedures to ensure that the capital asset listing is maintained when there are changes to the county's assets.

Current County Judge/Executive's Response: Procedures will be put in place to ensure that this finding is corrected.

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

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