



Auditor of Public Accounts
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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, 2020. 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:

Debt balances do not agree to the long-term liabilities on the fourth quarter report: This is a repeat finding and was included in the prior year audit report as Finding 2019-004. During Fiscal Year 2020, the Hancock County Fiscal Court did not properly account for the following debt activities:

- The Judicial Center Project Revenue Bond, Series 2009, is overstated by \$7,290,119 in principal and 1,253,070 in interest.
- The Hancock County Lease Revenue Bond, Series 2017, was not reported, resulting in an understatement of \$5,585,119 of principal and \$689,480 of interest.

- The 2019 Mack Truck Lease was understated by \$482 in interest.

These errors resulted in a total misstatement of \$1,705,000 in principal. According to the county treasurer, the debt liability schedule is misstated because the wrong schedule was submitted to the Department for Local Government (DLG).

Because debt amounts were not reported accurately, the county did not provide a complete overview of its debt. Therefore, the county is not in compliance with KRS 68.210.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per DLG *County Budget Preparation and State Local Finance Officer Policy Manual*, all county money is to be reported on the financial statement whether it is included in the budget or not. Documentation of the county's liabilities must be submitted to the state local finance officer. Also, good internal controls dictate proper recording of transactions and financial reporting.

We recommend the Hancock County Fiscal Court ensure that all debt is properly disclosed and that debt balances are accurately reported on the fourth quarter report that is submitted to DLG.

County Judge/Executive's Response: The County Treasurer is working to rectify this oversight.

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

- Two instances were noted in which supporting documentation for the transactions did not exist.
- Six disbursements were not properly recorded.
- Two transactions included the payment of sales tax, one included a service charge.
- Six invoices were not paid within 30 days.
- Twenty-seven disbursements were noted in which the purchase orders were not issued until after the expenses had been incurred.
- Four instances were noted in which a purchase order was not issued and approved.
- Two instances were noted in which the individual itemized receipts were not maintained to support the credit card invoices.

The fiscal court failed to establish appropriate internal controls over disbursements and credit card disbursements.

The fiscal court's failure to establish effective internal controls over disbursements resulted in the aforementioned findings. These control deficiencies could also result in line-items being over budget, disbursements being paid that are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets. By paying sales tax, the county is reducing funds for operating expenses. By failing to properly use the purchase order system, the fiscal court is at risk of overspending the budget for individual line items, and not being in compliance with the purchase

order guidelines established by the Department for Local Government (DLG). Also, the county is not in compliance with state statutes.

Good internal controls dictate that the purchase order system be used correctly to ensure there is sufficient budgeted funds available for all purchases. In addition, KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for counties' handling of public funds, including required purchasing procedures for counties. These requirements prescribe that appropriate supporting documentation be maintained for all operating disbursements.

We recommend the Hancock County Fiscal Court strengthen internal controls over disbursements by ensuring that sufficient supporting documentation is maintained for all disbursements. We also recommend that purchase orders be obtained prior to all purchases being made. We further recommend that disbursements be reviewed for unallowable charges such as late fees before approval and payment. Department heads should approve purchases only if there are sufficient appropriations available within the amount of line items in the fiscal court's budget. In addition, we recommend the fiscal court ensure that sales tax is not paid on disbursements.

County Judge/Executive's Response: Several of these were due to a timing issue and have been corrected. The others will be observed and corrected.

The Hancock County Fiscal Court does not have adequate controls over the bid process: The Hancock County Fiscal Court lacks adequate controls over bidding procedures. The following control deficiencies were noted:

- The accepted bid price per unit of asphalt was \$77. However, the fiscal court paid \$78 per unit. Therefore, the paving company was overpaid \$5,454.
- The fiscal court did not properly accept the bid winner or maintain the state contract pricing list for a crew cab truck.
- The fiscal court did not follow proper bidding procedures for the purchase of a 4x4 truck.
- The fiscal court did not follow proper bidding procedures for the purchase of a 2019 ambulance.

According to county staff, the overpayment to the paving company was an oversight. Additionally, the bid winner for the crew cab truck was not properly accepted because the fiscal court was not aware that it needed to specify which bid was accepted. Also, the supporting documentation of the state contract price was misplaced.

The fiscal court did not bid out the 4x4 truck because the purchase price of the vehicle was less than the bid threshold of \$30,000. County staff stated that the fiscal court was not aware that the additional equipment options for the vehicle needed to be included in the total purchase price when determining if the purchase amount exceeded the bid threshold. In regards to the 2019 ambulance, the fiscal court bid out a 2018 ambulance, and it was believed that the original bid included an option to purchase a second ambulance at the original bid price.

By not monitoring the bid specifications as the invoices came in, the county overpaid for asphalt. Additionally, because the fiscal court did not follow proper bidding procedures, properly accept a bid winner, or maintain bid documentation, it is possible the county did not get the lowest bid for the two trucks or the ambulance. Furthermore, the Hancock County Fiscal Court is not in compliance with KRS 424.260.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws and to keep good records of all bid transactions. KRS 424.260(1) states, “[e]xcept 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 thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.” Also, according to the Hancock County Administration Code section 4.2 (C.), “[w]hen an expenditure exceeds \$30,000.00 in cost, the Judge/Executive and/or designee shall place an advertisement in the newspaper of largest circulation in the county at least once, not less than seven, nor more than twenty-one days, before bid opening.”

We recommend the Hancock County Fiscal Court ensure that bidding procedures are followed for all purchases that exceed \$30,000. We also recommend the fiscal court ensure the price paid for an item agrees to the bid specifications. We further recommend that all supporting documentation be maintained for the bid transaction.

County Judge/Executive’s Response: Changes and procedures will be implemented to ensure the bidding procedures are correctly followed.

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

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