

**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
HANCOCK COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Hancock County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Hancock County Fiscal Court.

Financial Condition:

The Hancock County Fiscal Court had total receipts of \$7,777,472 and disbursements of \$8,338,110 in fiscal year 2015. This resulted in a total ending fund balance of \$3,439,971, which is a decrease of \$333,951 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Does Not Have Adequate Controls Over Disbursements And Credit Card Transactions
- 2015-002 The Fiscal Court Did Not Advertise For And Properly Award Bids And Did Not Ensure Items Were Paid Per Bid Award
- 2015-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, And Payroll
- 2015-004 The EOC Director Did Not Reconcile Monthly Ambulance Runs Billed By Contractor
- 2015-005 The Fiscal Court Did Not Have Adequate Controls Over Decentralized Receipts
- 2015-006 The Fiscal Court Is Not Following Personnel Policies And Procedures
- 2015-007 The Payroll Revolving Account Was Not Properly Reconciled To Zero After Considering All Payroll Liabilities
- 2015-008 The Fiscal Court Did Not Properly Pay Emergency Management Technicians For Overtime Worked
- 2015-009 The Fiscal Court Did Not Properly Budget And Record Purchase Of Mack Truck

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Hancock County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Hancock County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Hancock County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Hancock County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Hancock County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The accompanying budgetary comparison schedules and capital asset schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the financial statement as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016 on our consideration of Hancock County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hancock County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Fiscal Court Does Not Have Adequate Controls Over Disbursements And Credit Card Transactions
- 2015-002 The Fiscal Court Did Not Advertise For And Properly Award Bids And Did Not Ensure Items Were Paid Per Bid Award
- 2015-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, And Payroll
- 2015-004 The EOC Director Did Not Reconcile Monthly Ambulance Runs Billed By Contractor
- 2015-005 The Fiscal Court Did Not Have Adequate Controls Over Decentralized Receipts
- 2015-006 The Fiscal Court Is Not Following Personnel Policies And Procedures
- 2015-007 The Payroll Revolving Account Was Not Properly Reconciled To Zero After Considering All Payroll Liabilities
- 2015-008 The Fiscal Court Did Not Properly Pay Emergency Management Technicians For Overtime Worked
- 2015-009 The Fiscal Court Did Not Properly Budget And Record Purchase Of Mack Truck

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 12, 2016

HANCOCK COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Jack B. McCaslin	County Judge/Executive
John M. Gray	Magistrate
James W. Hodskins	Magistrate
Johnny W. Roberts, Jr.	Magistrate
Larry G. Sosh	Magistrate

Other Elected Officials:

Paul Madden, Jr.	County Attorney
Roger D. Estes	Jailer
Trina M. Ogle	County Clerk
Noel Quinn	Circuit Court Clerk
Ralph D. Bozarth	Sheriff
Karen Keown	Property Valuation Administrator
David C. Gibson	Coroner

Appointed Personnel:

Melissa J. Baker	County Treasurer
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**HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2015

HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 3,881,486	\$	\$
In Lieu Tax Payments	10,171		
Excess Fees	134,660		
Licenses and Permits	24,905		
Intergovernmental	341,836	1,289,237	
Charges for Services	280,726		105,856
Miscellaneous	423,840	214,666	
Interest	1,837	372	
Total Receipts	<u>5,099,461</u>	<u>1,504,275</u>	<u>105,856</u>
DISBURSEMENTS			
General Government	1,390,021		
Protection to Persons and Property	1,092,480		199,785
General Health and Sanitation	179,148		
Social Services	220,258		
Recreation and Culture	338,763		
Roads	718	1,882,734	
Airports	10,136		
Debt Service	35,107	160,370	
Capital Projects		192,168	
Administration	1,416,057		14,947
Total Disbursements	<u>4,682,688</u>	<u>2,235,272</u>	<u>214,732</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>416,773</u>	<u>(730,997)</u>	<u>(108,876)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money		231,790	
Change in Payroll Revolving Account	(5,103)		
Transfers From Other Funds		502,700	110,000
Transfers To Other Funds	(612,700)		
Total Other Adjustments to Cash (Uses)	<u>(617,803)</u>	<u>734,490</u>	<u>110,000</u>
Net Change in Fund Balance	(201,030)	3,493	1,124
Fund Balance - Beginning (Restated)	2,763,663	176,305	9,047
Fund Balance - Ending	<u>\$ 2,562,633</u>	<u>\$ 179,798</u>	<u>\$ 10,171</u>
Composition of Fund Balance			
Bank Balance	\$ 2,551,372	\$ 179,798	\$ 43,339
Payroll Revolving Account Reconciled Balance	21,861		
Less: Outstanding Checks	(10,600)		(33,168)
Fund Balance - Ending	<u>\$ 2,562,633</u>	<u>\$ 179,798</u>	<u>\$ 10,171</u>

The accompanying notes are an integral part of the financial statement.

HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	
<u>Local Government Economic Assistance Fund</u>	<u>E911 Fund</u>	<u>Public Improvement Corporation Fund</u>	<u>Total Funds</u>
\$	\$ 30,062	\$	\$ 3,911,548
			10,171
			134,660
			24,905
88,613	95,429	850,966	2,666,081
			386,582
1,856			640,362
575	378	1	3,163
<u>91,044</u>	<u>125,869</u>	<u>850,967</u>	<u>7,777,472</u>
1,049			1,391,070
	181,300		1,473,565
540			179,688
10,550			230,808
4,026			342,789
			1,883,452
156,987			167,123
		850,466	1,045,943
			192,168
		500	1,431,504
<u>173,152</u>	<u>181,300</u>	<u>850,966</u>	<u>8,338,110</u>
(82,108)	(55,431)	1	(560,638)
			231,790
			(5,103)
			612,700
			(612,700)
			<u>226,687</u>
(82,108)	(55,431)	1	(333,951)
489,083	335,707	117	3,773,922
<u>\$ 406,975</u>	<u>\$ 280,276</u>	<u>\$ 118</u>	<u>\$ 3,439,971</u>
\$ 406,975	\$ 281,576	\$ 118	\$ 3,463,178
			21,861
	(1,300)		(45,068)
<u>\$ 406,975</u>	<u>\$ 280,276</u>	<u>\$ 118</u>	<u>\$ 3,439,971</u>

The accompanying notes are an integral part of the financial statement.

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HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Hancock County includes all budgeted and unbudgeted funds under the control of the Hancock County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The Fiscal Court reports the following budgeted funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

E911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Public Improvement Corporation Fund - The primary purpose of this fund is to account for debt service requirements of lease revenue bonds that were issued to fund the construction of the Judicial Center. The Department for Local Government does not require the fiscal court to report or budget this fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Improvement Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Hancock County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Hancock County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Total Transfers In
Road Fund	\$ 502,700	502,700
Jail Fund	110,000	110,000
Total Transfers Out	<u>\$ 612,700</u>	<u>\$ 612,700</u>

Reason for transfers:

To move resources from the general fund and other funds, for budgetary purposes, to the funds that will expend them.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Asset Held For Resale

Asset held for resale activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Asset Held for Resale:				
Vehicle	\$ 128,853	\$ 131,790	\$ 128,853	\$ 131,790
Total	<u>\$ 128,853</u>	<u>\$ 131,790</u>	<u>\$ 128,853</u>	<u>\$ 131,790</u>

Note 5. Long-term Debt

A. Hancock County Public Improvement Corporation Lease Revenue Bonds (Judicial Center Project), Series 2009

Hancock County Fiscal Court issued Lease Revenue Bonds (Judicial Center Project), Series 2009 for \$11,625,000 for the purpose of acquiring, construction, and furnishing a new Judicial Center. The bonds require yearly principal payments due August 1 and interest payment due February 1 and August 1 with a variable interest rate. The bonds will mature on August 1, 2028. As of June 30, 2015, the principal balance was \$9,180,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 520,000	\$ 328,229
2017	535,000	314,373
2018	550,000	298,766
2019	570,000	281,610
2020	585,000	262,466
2021-2025	3,285,000	966,176
2026-2029	<u>3,135,000</u>	<u>263,653</u>
Totals	<u>\$ 9,180,000</u>	<u>\$ 2,715,273</u>

B. Ambulance

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of an ambulance. Terms of the agreement stipulate a five year repayment schedule with a variable interest rate. The fiscal court is in substantial compliance of the terms of the agreement. As of June 30, 2015, the principal balance was \$0.

C. Dump Truck

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of a dump truck on February 9, 2011. Terms of the agreement stipulate a four year repayment schedule with a 2.44% interest rate. The fiscal court is in substantial compliance of the terms of the agreement. As of June 30, 2015, the principal balance was \$0.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

D. Mack Dump Truck

Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a Mack dump truck on October 3, 2013. The lease is for \$128,853 at a variable interest rate. Interest payments are due by the 20th of each month. As of June 30, 2015, the principal balance was \$0.

E. Ambulance

Hancock County Fiscal Court borrowed \$60,000 from Green River Area Development District for the purchase of an ambulance effective December 26, 2013. Terms of the agreement stipulate a four year repayment schedule with an interest rate of 2.44%. As of June 30, 2015, the principal balance was \$44,648. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 14,837	\$ 1,089
2017	15,199	727
2018	14,612	357
Totals	<u>\$ 44,648</u>	<u>\$ 2,173</u>

F. 2014 Mack Truck Lease

Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a Mack dump truck on October 20, 2014. The lease is for \$131,790 at a 3.75% interest rate. Interest payments are due by the 20th of each month. As of June 30, 2015, the principal balance was \$131,790. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	<u>\$ 131,790</u>	<u>\$ 4,118</u>
Totals	<u>\$ 131,790</u>	<u>\$ 4,118</u>

G. Loader

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of a loader effective December 3, 2014. Terms of the agreement stipulate a four year repayment schedule with an interest rate of 2.44%. As of June 30, 2015, the principal balance was \$100,000. Future principal and interest requirements are:

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

G. Loader (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 25,106	\$ 1,437
2017	24,716	1,827
2018	25,319	1,224
2019	24,859	607
Totals	<u>\$ 100,000</u>	<u>\$ 5,095</u>

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 9,690,000	\$	\$ 510,000	\$ 9,180,000	\$ 520,000
Financing Obligations	231,938	231,790	187,290	276,438	171,733
Total Long-term Debt	<u>\$ 9,921,938</u>	<u>\$ 231,790</u>	<u>\$ 697,290</u>	<u>\$ 9,456,438</u>	<u>\$ 691,733</u>

Note 6. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous and hazardous duty positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

A. Plan Description (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$417,089, FY 2014 was \$420,473, and FY 2015 was \$396,239.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Hancock County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	<u>\$ 3,574,000</u>	<u>\$ 3,159,000</u>
Totals	<u>\$ 3,574,000</u>	<u>\$ 3,159,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 7. Deferred Compensation

The Hancock County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Health Reimbursement Account

The Hancock Fiscal Court, established a health reimbursement account to provide employees an additional health benefit. The county has contracted with BMS, LLC. Inc., a third-party administrator, to administer the plan. The plan provides \$3,000 each year to go toward the employee's deductible. Employees must pay \$2,000 of their deductible first and once this has been done they can request reimbursement up to the \$3,000. In order to receive the reimbursement of \$3,000 the employee must provide the county treasurer with documentation that the \$2,000 has been paid and sign a form requesting reimbursement.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2015, Hancock County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Landfill Closure and Post-closure Costs

The Hancock County Landfill was closed on June 20, 1995. The fiscal court must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated final date for maintenance and monitoring is 2028. Estimated post-closure care costs total \$212,676 as of June 30, 2015, or \$16,360 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that post-closure costs will be paid out of the general fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

Note 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2014 was \$26,964. The reconciled balance as of June 30, 2015 was \$21,861. Therefore, the net change of (\$5,103) will be included in the general fund for financial reporting purposes.

Note 12. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Hancock County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

Note 13. Prior Period Adjustment

	<u>General Fund</u>
Ending Cash Balance Prior Year	\$ 2,763,685
Adjustments:	
Prior Year Payroll Error	(21)
Rounding	(1)
Beginning Cash Balance Restated	<u>\$ 2,763,663</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 3,029,646	\$ 3,071,146	\$ 3,881,486	\$ 810,340
In Lieu Tax Payments	10,200	10,200	10,171	(29)
Excess Fees	141,520	141,520	134,660	(6,860)
Licenses and Permits	15,650	15,650	24,905	9,255
Intergovernmental	497,859	497,859	341,836	(156,023)
Charges for Services	302,750	302,750	280,726	(22,024)
Miscellaneous	277,930	284,830	423,840	139,010
Interest	4,550	4,550	1,837	(2,713)
Total Receipts	<u>4,280,105</u>	<u>4,328,505</u>	<u>5,099,461</u>	<u>770,956</u>
DISBURSEMENTS				
General Government	1,540,063	1,579,898	1,390,021	189,877
Protection to Persons and Property	1,018,269	1,153,852	1,092,480	61,372
General Health and Sanitation	191,618	215,045	179,148	35,897
Social Services	245,091	249,426	220,258	29,168
Recreation and Culture	322,516	378,689	338,763	39,926
Roads		718	718	
Airports	7,500	10,136	10,136	
Debt Service		35,107	35,107	
Administration	2,148,791	2,819,377	1,416,057	1,403,320
Total Disbursements	<u>5,473,848</u>	<u>6,442,248</u>	<u>4,682,688</u>	<u>1,759,560</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,193,743)</u>	<u>(2,113,743)</u>	<u>416,773</u>	<u>2,530,516</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(621,000)</u>	<u>(621,000)</u>	<u>(612,700)</u>	<u>8,300</u>
Total Other Adjustments to Cash (Uses)	<u>(621,000)</u>	<u>(621,000)</u>	<u>(612,700)</u>	<u>8,300</u>
Net Change in Fund Balance	<u>(1,814,743)</u>	<u>(2,734,743)</u>	<u>(195,927)</u>	<u>2,538,816</u>
Fund Balance Beginning (Restated)	<u>1,814,743</u>	<u>2,734,743</u>	<u>2,736,699</u>	<u>1,956</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,540,772</u>	<u>\$ 2,540,772</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,258,244	\$ 1,605,244	\$ 1,289,237	\$ (316,007)
Miscellaneous	143,100	83,100	214,666	131,566
Interest	1,100	1,100	372	(728)
Total Receipts	<u>1,402,444</u>	<u>1,689,444</u>	<u>1,504,275</u>	<u>(185,169)</u>
DISBURSEMENTS				
Roads	1,407,899	1,853,491	1,882,734	(29,243)
Debt Service	166,252	167,212	160,370	6,842
Administration	453,793	394,241	192,168	202,073
Total Disbursements	<u>2,027,944</u>	<u>2,414,944</u>	<u>2,235,272</u>	<u>179,672</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(625,500)</u>	<u>(725,500)</u>	<u>(730,997)</u>	<u>(5,497)</u>
Other Adjustments to Cash (Uses)				
Borrowed Money		100,000	231,790	131,790
Transfers From Other Funds	450,000	450,000	502,700	52,700
Total Other Adjustments to Cash (Uses)	<u>450,000</u>	<u>550,000</u>	<u>734,490</u>	<u>184,490</u>
Net Change in Fund Balance	(175,500)	(175,500)	3,493	178,993
Fund Balance Beginning	<u>175,500</u>	<u>175,500</u>	<u>176,305</u>	<u>805</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 179,798</u>	<u>\$ 179,798</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 104,000	\$ 104,000	\$ 105,856	\$ 1,856
Miscellaneous	1,000	1,000		(1,000)
Total Receipts	<u>105,000</u>	<u>105,000</u>	<u>105,856</u>	<u>856</u>
DISBURSEMENTS				
Protection to Persons and Property	246,259	246,259	199,785	46,474
Administration	32,741	38,741	14,947	23,794
Total Disbursements	<u>279,000</u>	<u>285,000</u>	<u>214,732</u>	<u>70,268</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(174,000)</u>	<u>(180,000)</u>	<u>(108,876)</u>	<u>71,124</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	171,000	171,000	110,000	(61,000)
Total Other Adjustments to Cash (Uses)	<u>171,000</u>	<u>171,000</u>	<u>110,000</u>	<u>(61,000)</u>
Net Change in Fund Balance	(3,000)	(9,000)	1,124	10,124
Fund Balance Beginning	3,000	9,000	9,047	47
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,171</u>	<u>\$ 10,171</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 138,100	\$ 138,100	\$ 88,613	\$ (49,487)
Miscellaneous	100	100	1,856	1,756
Interest	500	500	575	75
Total Receipts	<u>138,700</u>	<u>138,700</u>	<u>91,044</u>	<u>(47,656)</u>
DISBURSEMENTS				
General Government	5,000	5,000	1,049	3,951
General Health and Sanitation	3,300	3,300	540	2,760
Social Services	21,750	21,651	10,550	11,101
Recreation and Culture	4,550	4,649	4,026	623
Roads	334,100	584,100	156,987	427,113
Total Disbursements	<u>368,700</u>	<u>618,700</u>	<u>173,152</u>	<u>445,548</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(230,000)</u>	<u>(480,000)</u>	<u>(82,108)</u>	<u>397,892</u>
Net Change in Fund Balance	(230,000)	(480,000)	(82,108)	397,892
Fund Balance Beginning	230,000	480,000	489,083	9,083
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 406,975</u>	<u>\$ 406,975</u>

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	E911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,700	\$ 26,700	\$ 30,062	\$ 3,362
Intergovernmental	70,000	70,000	95,429	25,429
Interest	500	500	378	(122)
Total Receipts	<u>97,200</u>	<u>97,200</u>	<u>125,869</u>	<u>28,669</u>
DISBURSEMENTS				
Protection to Persons and Property	347,400	432,400	181,300	251,100
Total Disbursements	<u>347,400</u>	<u>432,400</u>	<u>181,300</u>	<u>251,100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(250,200)</u>	<u>(335,200)</u>	<u>(55,431)</u>	<u>279,769</u>
Net Change in Fund Balance	(250,200)	(335,200)	(55,431)	279,769
Fund Balance - Beginning	250,200	335,200	335,707	507
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 280,276</u>	<u>\$ 280,276</u>

HANCOCK COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (612,700)
To adjust for change in Payroll Account	<u>(5,103)</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (617,803)</u>
Ending Balances - Budgetary Basis	\$ 2,540,772
To adjust for Payroll Account	<u>21,861</u>
Total Ending Balance - Regulatory Basis	<u>\$ 2,562,633</u>

Note 3. Excess of Disbursements Over Appropriations

Roads disbursements in the road fund exceeded budgeted appropriations by \$29,243.

HANCOCK COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

HANCOCK COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 878,102	\$	\$	\$ 878,102
Buildings	14,898,660			14,898,660
Vehicles	2,503,417	250,430	14,075	2,739,772
Other Equipment	2,407,726	173,009		2,580,735
Infrastructure	3,379,995	829,654		4,209,649
 Total Capital Assets	 <u>\$ 24,067,900</u>	 <u>\$ 1,253,093</u>	 <u>\$ 14,075</u>	 <u>\$25,306,918</u>

HANCOCK COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2015

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings	\$ 10,000	10-40
Other Equipment	\$ 5,000	5-10
Vehicles	\$ 7,500	5-10
Infrastructure - Roads	\$ 10,000	10-25
Infrastructure - Bridges	\$ 5,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hancock County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Hancock County Fiscal Court's financial statement and have issued our report thereon dated May 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Hancock County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Hancock County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hancock County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, and 2015-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2015-007 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hancock County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-005, 2015-008, and 2015-009.

County Judge/Executive's Responses to Findings

The Hancock County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Hancock County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 12, 2016

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Fiscal Court Does Not Have Adequate Controls Over Disbursements And Credit Card Transactions

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

- Two credit card transactions did not have adequate supporting documentation (itemized invoices).
- Seven hotel bills paid via credit card transactions included state tax payments.
- Three invoices were not paid within 30 working days.
- One claim was not presented to the fiscal court prior to payment.

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 their risk of paying invoices for goods or services that were not provided to the county. In addition, by not paying invoices within 30 days, the fiscal court could be assessed penalties.

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. Also, KRS 65.140 states, in part, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

We recommend that the county develop internal procedures to ensure disbursements and credit card transactions are properly supported and disbursements are paid within 30 working days.

County Judge/Executive's Response: Due to timing between the 2014 and 2015 audits, policies and procedures have already been implemented to correct these issues.

2015-002 The Fiscal Court Did Not Advertise For And Properly Award Bids And Did Not Ensure Items Were Paid Per Bid Award

The Hancock County Fiscal Court did not advertise for and properly award bids. The fiscal court also did not ensure that items were paid per the bid award. We noted the following bidding deficiencies:

- The fiscal court purchased a 2015 X5H F-550 Super C Truck and a 2016 Chevrolet Impala based on the state contract price, but they did not maintain the appropriate documentation to support what the state contract price should have been; therefore, they cannot ensure that these items were purchased for the correct amount.
- The purchase price paid on three invoices did not agree to the price that was bid.
- Bid was awarded to Truck Centers Inc. for the purchase of a 2015 Freightliner 108SD; however, the invoice does not show the specifications of the truck to ensure the county received all of the specifications that were listed on the bid.
- One invoice from Scotty's Contracting & Stone, LLC did not include details such as the item purchased or the per unit price. Consequently, the county could not ensure that the price paid agreed to the bid price.

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-002 The Fiscal Court Did Not Advertise For And Properly Award Bids And Did Not Ensure Items Were Paid Per Bid Award (Continued)

These errors were due to a lack of oversight over bids and items purchased. We noted that there was no review of invoices and supporting documentation to ensure that the county was paying the correct amount. The failure to properly bid and maintain documentation for the 2015 X5H F-550 Super C Truck caused the county to be in violation of KRS 424.260. Lack of controls also results in the fiscal court paying the incorrect amount on multiple invoices and uncertainty that items purchased agreed to items that were bid.

KRS 424.260 states, "Except 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 twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." Also, good internal controls dictate that the fiscal court ensure they are paying the awarded bid prices.

We recommend the fiscal court comply with KRS 424.260 and properly advertise and award bids for all purchases over twenty thousand dollars or purchase items from state contract vendors and maintain the proper documentation of the state contract price. Likewise, the fiscal court should implement controls to ensure they are paying the correct amount per bid awards.

County Judge/Executive's Response: We have already changed procedures in our office to correct this matter, but we will do our best to properly advertise and award bids and maintain the proper documentation needed.

2015-003 The Fiscal Court Lacks Adequate Segregation Of Duties Over Cash, Receipts, And Payroll

The Hancock County Fiscal Court lacks adequate segregation of duties over the cash, receipts, and payroll functions. The county treasurer's assistant prepares deposits and posts transactions into the accounting system. The county treasurer prepares reports for submission to the Department for 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 a less than significant level.

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 irregularities. 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.

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.

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

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-004 The EOC Director Did Not Reconcile Monthly Ambulance Runs Billed By Contractor

The Hancock County Fiscal Court has contracted with a corporation to bill for the Hancock County Ambulance Service. Ambulance runs are entered into an iPad system and submitted to the contractor after runs are made. The contractor then prepares a bill and either bills insurance or individuals accordingly. Payments are remitted directly to the contractor, or in some instances payments are made electronically into the fiscal court's bank account. When funds are received by the contractor, it makes deposits into the fiscal court's bank account. The Emergency Operations Center (EOC) Director prepares a monthly report that contains all ambulance runs. The contractor also generates a monthly report containing all the ambulance runs for the Hancock County Ambulance Service. However, there is no documented reconciliation between the ambulance runs billed by the contractor and ambulance runs per the EOC Director.

Ambulance charges are overseen by persons other than the financial staff of the county. By not reconciling ambulance runs, the fiscal court does not know if the correct amount of ambulance runs has been billed by the contractor. Good internal controls dictate that these should be reconciled to ensure that all ambulance runs are being billed correctly on behalf of the Hancock County Ambulance Service.

We recommend that ambulance runs billed by the contractor be reconciled to the Hancock County Ambulance Service's records and the reconciliation be documented.

County Judge/Executive's Response: The EOC Director has been notified of these issues and made aware this needs to be done.

2015-005 The Fiscal Court Did Not Have Adequate Controls Over Decentralized Receipts

The Hancock County Fiscal Court did not issue receipts for monies received at archives prior to September 2015. Since receipts were not being issued, daily check-out sheets including receipt numbers were also not being utilized by archives. Decentralized locations (Archives) are managed by persons other than the financial staff of the county. The fiscal court cannot verify the amount of funds collected each day, since they are not issuing receipts or keeping other documentation to support the collection of all funds received.

By not requiring a receipt for each payment or preparation of a daily check-out sheet, the opportunity for theft or fraudulent recording is increased. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires all government officials handling public funds to issue a three part pre-numbered receipt. KRS 64.840(2) states, "One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." Also, good internal controls dictate that receipts be batched daily and that daily check-out sheets be prepared.

We recommend the fiscal court require receipts per KRS 64.840(2) and receipts be batched daily and check-out sheets be prepared by archives.

County Judge/Executive's Response: Due to the timing between the 2014 and 2015 audits, this issue has been addressed and triplicate receipts and daily checkouts are now required from these departments.

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-006 The Fiscal Court Is Not Following Personnel Policies And Procedures

The Hancock County Fiscal Court is not following personnel policies and procedures set forth in the administrative code. The following exceptions were noted:

- Per the personnel policies “Any sick leave accumulated at time of termination or departure shall be null and void and will not be paid.” However, one employee took three months of sick leave prior to retirement in order to use all sick leave accumulated.
- Employees are using leave time interchangeably even though personnel policies give specific reasons employees can use for sick leave. For example, one employee recorded two vacation days on his timesheet, but when the county treasurer processed payroll she noticed that the employee did not have enough vacation leave remaining for both days. Therefore, the county treasurer used one sick day instead of a vacation day when processing payroll.
- Accumulated comp time is not being maintained by the judge/executive and the county treasurer as stated in the personnel policies.
- The personnel policies state that exempt employees earn “comp” time and that non-exempt employees receive overtime payment at the rate of one and one-half times the regular amount of actual hours worked. However, Hancock County is not following this policy. At this time, all Park employees are earning “comp” time for overtime worked. The sheriff’s road deputies and road department employees are paid time and one-half for overtime hours worked over eight (8) hours per day. The treasurer’s office and judge/executive’s assistants are receiving both “comp” time and overtime payment for hours worked over forty (40) hours per week. They vary from pay period to pay period as to whether they receive “comp” time or are paid time and one-half.

This lack of compliance with policies and procedures is due to a lack of oversight by the fiscal court. By not following policies and procedures related to leave time, the fiscal court could pay an employee for leave time that the employee has not accumulated. Good internal controls dictate that the fiscal court have sufficient policies and procedures and that all policies and procedures set forth in the administrative code are followed by all employees.

We recommend the fiscal court follow policies and procedures set forth by the administrative code or update the policies.

County Judge/Executive’s Response: The Fiscal Court will begin reviewing and updating the County’s Administrative Code and purchase policy and ensure that it is followed.

2015-007 The Payroll Revolving Account Was Not Properly Reconciled To Zero After Considering All Payroll Liabilities

The county treasurer performs monthly reconciliations of the payroll account; however, she is unable to reconcile the June 30, 2015 balance to zero after considering all payroll liabilities. At this time there are no procedures in place to determine what funds make up the payroll account balance. Since the payroll revolving account has not been properly reconciled there could be monies in the payroll account which belong to other funds of the fiscal court. This could cause a misappropriation of county assets. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. We recommend the Hancock County Fiscal Court properly reconcile the payroll account and establish procedures 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.

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (CONTINUED)

2015-008 The Fiscal Court Did Not Properly Pay Emergency Management Technicians For Overtime Worked

Three Emergency Management Technicians (EMTs) were not properly paid for overtime hours worked. Two EMTs worked 168 hours in a pay period, and one EMT worked 48 hours in a week. All three of the EMTs were not compensated at time and one-half for the hours worked over 40 per week. The county thought that since they had gone to a “Hard Station” in 2008 they were not required to pay EMT’s time and one-half compensation for hours worked over 40 in a week. As a result of this error EMT’s have been underpaid for hours worked over 40 in a week. KRS 337.285(1) states, “No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed.” We recommend that EMTs be paid time and one-half for all hours worked over 40 in a week.

County Judge/Executive’s Response: This matter has since been corrected with the exception of the retirement portion that is very time consuming and the County Treasurer wants to be certain it is correct at submittal to KRS.

2015-009 The Fiscal Court Did Not Properly Budget And Record Purchase Of Mack Truck

The fiscal court did not properly budget for the lease proceeds or the purchase of a 2014 Mack Truck in the amount of \$131,790. Lease proceeds for \$131,790 were paid directly to the vendor for this purchase, and they were not included in the county financial statements as budgeted disbursements for the fiscal year ended June 30, 2015. The county treasurer was not aware that she needed to budget for or record these activities since she did not directly receive these funds.

By not properly budgeting these items the fiscal court overspent the “Roads” line item by \$29,243 in the road fund. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government’s *County Budget Preparation and State Local Finance Officer Policy Manual* states all borrowed money received and repaid must be reflected in the county budget. The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

We recommend the fiscal court properly budget and record all borrowed money and any related purchases.

County Judge/Executive’s Response: This matter will be corrected in the 2016/2017 Budget; due to timing issues between the 2014 and 2015 audits, this could not be corrected for the 2016 audit.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HANCOCK COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Hancock County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

