



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, 2019. 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 Hancock County Fiscal Court did not properly account for the rescue squad: The Hancock County Fiscal Court failed to account for the activities of the rescue squad, which is under the direction of the EMA director and the county judge/executive. For Fiscal Year 2019, the rescue squad bank beginning balance was \$55,252, they collected receipts of \$16,044, disbursed \$12,759 and had an ending balance of \$58,537. Receipts of the rescue squad were not posted on a daily basis. Also, during testing of disbursements the following issues were noted:

- Twenty nine out of 105 disbursements were not approved by the board meeting
- Eighteen out of 105 disbursements did not have supporting documentation

- Five out of 105 disbursements were paid finance charges

The lack of internal controls over the operations of the board exposes its assets to the risk of misappropriation. Additionally, failure to maintain minimum accounting records means the county was not in compliance with KRS 68.210. According to county personnel, the county was unsure of its responsibilities towards to the rescue squad due to the nature of its operations.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states the minimum requirements for handling public funds should include books of original entry for receipts and expenditures such as receipts and disbursements ledgers. In addition, good internal controls dictate that all funds handling financial obligations of the county be accounted for properly and reviewed on a regular basis.

We recommend the fiscal court require the rescue squad submit all revenues and remit all bills to the fiscal court in order for rescue squad activities to be properly included in the fiscal court's financial information. We also recommend the county implement internal controls over the rescue squad's operations in order to protect its assets from misappropriation.

County Judge/Executive's Response: This has been corrected as of 2/28/2020. The Hancock County Fiscal Court has taken control of the Rescue Squad's finances and all Rescue Squad activities will now be treated as an entity of the Hancock County Fiscal Court.

The Hancock County Fiscal Court did not properly account for the dive team's financial activities: The Hancock County Fiscal Court failed to account for the activities of the dive team, which is under the direction of the EMA and county judge/executive. For Fiscal Year 2019, the dive team bank beginning balance was \$275, collected receipts of \$385, disbursed \$291, and had an ending balance of \$369. Proper receipts and disbursements ledgers were not maintained by the dive team.

According to county personnel, the county was unsure of its responsibilities towards to the dive team due to the nature of its operations. This lack of internal controls over the operations of the board exposes its assets to the risk of misappropriation. Additionally, failure to maintain minimum accounting records means the county was 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. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* states the minimum requirements for handling public funds should include books of original entry for receipts and expenditures such as receipts and disbursements ledgers. In addition, good internal controls dictate that all funds handling financial obligations of the county be accounted for properly and reviewed on a regular basis.

We recommend the fiscal court require the dive team submit all revenues and remit all bills to the fiscal court in order for dive team activities to be properly included in the fiscal court's financial information. We also recommend the county implement internal controls over the dive team's operations in order to protect its assets from misappropriation.

County Judge/Executive's Response: We are currently looking into this matter.

The Hancock County Fiscal Court failed to properly account for the Public Facilities Construction Corporation Fund: The treasurer failed to maintain any types of ledgers for the financial activity, or reconcile the accounts of the Public Facilities Construction Corporation Fund (PFCC). There was no financial statement prepared for the PFCC.

Failure to maintain proper records for these funds occurred due to lack of internal controls over bank accounts and a lack of understanding about the Public Facilities Construction Corporation Fund accounting requirements. The lack of accounting records and related financial statements resulted in noncompliance with the Department for Local Government (DLG) reporting requirements. By not having adequate controls over bank accounts and reconciliations, the fiscal court cannot ensure that county funds are properly safeguarded and available for county use.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of account. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* states the minimum requirements for handling public funds include monthly bank reconciliations and books of original entry for receipts and expenditures. In addition, good internal controls dictate that all funds handling financial obligations of the county be accounted for properly and reviewed on a regular basis. This would include receipts and disbursements ledgers, an accurate bank reconciliation, as well a financial statement for the PFCC fund.

We recommend the fiscal court prepare and maintain ledgers for receipts and disbursements of the PFCC Fund. We also recommend the fiscal court require the preparation of accurate year-end financial statements for the PFCC fund in order to ensure compliance with DLG requirements and also to ensure fiscal debt responsibilities will be met. We also recommend that a bank reconciliation be performed for all bank accounts owned or managed by the fiscal court. This reconciliation should include a comparison of ledger amounts recorded to the figures presented by the bank. We recommend that all bank reconciliations should be checked for accuracy and outstanding checks should be followed up on in a timely manner.

County Judge/Executive's Response: The County Treasurer is working on getting ALL bank statements and information sent to her directly so this can be resolved.

Debt balances do not agree to the long-term liabilities on the fourth quarter report: The Hancock County Fiscal Court's liabilities schedule presented to Department for Local Government (DLG) was materially misstated. The fiscal court did not report all debt of the county. Judicial Center Project Revenue Bonds, Series 2009 were overstated by \$6,705,119. Also, the Hancock County Lease Revenue Bonds, Series 2017 of \$5,585,119 were omitted from the liability schedule.

According to the county treasurer the long-term liabilities on the fourth quarter report are not being updated as the debt activity occurs.

By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, the county is not providing a complete overview of their debt by overstating principal and interest.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the DLG's *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 dictates proper recording of transactions and financial reporting.

We recommend the county ensure all debt has been disclosed and the balances are accurate when reporting the county's liabilities on the fourth quarter report submitted to DLG.

County Judge/Executive's Response: This is due to the Treasurer not receiving the correct information to update some of the debt. Actions are being taken to correct this matter.

The Hancock County Fiscal Court overstated transfers for the general fund: The treasurer overstated transfers to the general fund by \$2,011,854 and transfers-out by \$2,061,152. Failure to properly account for transfers in and out on the financial statement will cause inaccurate financial statement reporting. Internal controls failed to catch these errors on the financial report, resulting in transfers-in being overstated by \$2,011,854 and transfers-out being overstated by \$2,061,152.

Good internal controls promote good business practices providing reasonable assurance that financial records and reports are accurate. The lack of effective internal controls increases the risk that errors and fraud are detected late or possibly remain undetected.

We recommend the county treasurer ensure all transfers are accounted for properly and fiscal court properly review of the reports for any errors.

County Judge/Executive's Response: This finding was 2-parts: 1st part - there were funds deposited into incorrect accounts by the state that had to be shown as "receipts" in those funds. When the issue was corrected with the State, the monies has to be moved to the CORRECT funds/accounts; so an interfund transfer was done to make the corrections. 2nd part was an error – it was done by an interfund transfer and should have been a cash transfer.

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

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