



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 statements of the Hancock County Fiscal Court for the fiscal year ended June 30, 2014. 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 cash and cash equivalents of the Hancock County Fiscal Court in accordance with accounting principles generally accepted in the United States. 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 non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

**Internal controls over disbursements/credit card transactions should be strengthened.** The following disbursements/credit card transaction deficiencies were noted:

- Four credit card transactions did not have adequate supporting documentation (itemized invoices).
- One credit card transaction did not have any supporting documentation.
- Four claims were not approved by Fiscal Court prior to payment.
- Three invoices were not paid within 30 working days.

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. KRS 65.140 states, in part, "...all bills for goods or services shall be paid within thirty (30) working days of receipt of the 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."

These deficiencies over disbursements and credit card transactions occurred because of the Fiscal Court's lack of internal controls and oversight. Also, the Fiscal Court Clerk did not record the complete claims list as part of the Fiscal Court Orders.

Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the County. Also, by not paying invoices within 30 days the Fiscal Court could be assessed penalties.

We recommend the County develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

*County Judge/Executive Jack B. McCaslin's response: We have tried to put in adequate internal procedures and will make the necessary changes to insure this in the future.*

**The Fiscal Court should advertise and properly award bids and ensure they are paying the correct amount per bid award.** The following bidding deficiencies were noted:

- Bids were not obtained for certain specific tires or diesel exhaust fluid.
- Bid was awarded for a petroleum product at \$319.55 per drum, but the Fiscal Court was billed at \$379.50 per drum.
- Bid was awarded for tires at \$313.60; however, the tires were purchased for \$338.97.
- The fuel bid had an exception to bid specification, which stated the prices will be from the daily Owensboro rack on respective day of delivery. This also included the markup based upon the gallons purchased. However, the vendor did not provide the Fiscal Court with documentation of the prices from the daily Owensboro rack; therefore, the Fiscal Court was unable to determine if they were being billed the correct amount for fuel purchases.
- Fiscal Court purchased a tractor and mower 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.

KRS 424.260(1) 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." Good internal controls dictate that the Fiscal Court ensure that they are paying the awarded bid prices.

The Judge/Executive explained that their bid forms were old and needed to be updated to include these newer items and it was just an oversight that they didn't have the appropriate documentation on the State Contract Price. He also stated that they didn't realize they should be receiving the daily Owensboro rack prices on fuel.

The Fiscal Court's failure to properly bid the items mentioned above caused the county to be in violation of KRS 424.260. Lack of controls also resulted in the Fiscal Court paying more than the bid award for some petroleum products and the uncertainty that the correct amount was being billed for fuel purchases.

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. Also, Fiscal Court should implement controls to ensure that they are paying the correct amount per bid awards.

*County Judge/Executive Jack B. McCaslin's response: We will definitely do our best to correct his matter in the future.*

**The Fiscal Court has a lack of segregation of duties over cash, receipts, and payroll.** 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 less than significant level.

Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

Due to the small size and budget restrictions, the Fiscal Court has limited options for establishing segregation of duties.

Lack of segregation of duties could result in undetected misappropriation of assets and/or 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 irregularities that go undetected.

We recommend that 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 Jack B. McCaslin's response: The Hancock County Fiscal Court and the County Treasurer continues to try to improve internal controls.*

**The payroll revolving account should be properly reconciled and zero out after considering all payroll liabilities.** The County Treasurer reconciles the payroll account each month but is unable to reconcile it to zero after considering all payroll liabilities. There were no internal controls in place to determine the payroll account balance. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance.

Since the payroll account has not been reconciled to zero or to a minimal carrying balance, there could be monies in the payroll account that belong to other funds of the Fiscal Court. The lack of controls over payroll could cause a misappropriation of county assets. We recommend the payroll account be properly reconciled and the Fiscal Court establish internal controls to determine that the account is being properly handled.

*County Judge Executive Jack B. McCaslin's response: The County Treasurer will begin to take the necessary measure to correct this.*

**The EOC director should reconcile monthly ambulance runs billed by the service provider.** The Hancock County Fiscal Court has contracted with a service provider to bill for the Hancock County Ambulance Service. Ambulance runs are entered into an iPad system and submitted to the service provider after runs are made. The service provider then prepares a bill and either bills the individual or their insurance provider accordingly. Payments are then remitted directly to the service provider, or in some instances payments are made electronically into the Fiscal Court's bank account. When funds are received by the service provider, they make deposits into the Fiscal Court's bank account. The Emergency Operations Center (EOC) Director prepares a monthly report that contains all ambulance runs. The service provider 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 service provider and ambulance runs per the EOC Director. 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.

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

*County Judge/Executive Jack B. McCaslin's response: The Hancock County Fiscal Court will inform the EMA/EOC Director and have him begin this in the future.*

**The Fiscal Court does 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. Daily check out sheets including receipts numbers were also not being utilized by all off site locations (Archives and Animal Shelter). Additionally, the animal shelter issued receipts out of sequential order for the test day June 3, 2014 and there was no documented explanation as to why receipts were issued out of sequential order. KRS 64.840(2) requires all governmental

officials handling public funds to issue a three-part receipt with “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 the Fiscal Court should monitor collections of all decentralized receipts.

Decentralized locations 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 that these receipts should be issued in sequential order, the opportunity for theft of funds or fraudulent recording is increased.

We recommend that the Fiscal Court require receipts as per KRS 64.840(2) for all offsite collections and daily check out sheets be used so that the numerical sequence of receipts can be accounted for and properly maintained.

*County Judge/Executive Jack B. McCaslin’s response: The County Judge and County Treasurer will work on implementing more adequate controls for this.*

**Overtime was not properly paid to an Emergency Management Technician.** An Emergency Management Technician (EMT) worked three 24-hour shifts in a pay period and was not compensated at time and one-half for the hours worked over 40 for that 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. 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.” EMT’s have been underpaid for hours worked over 40 in a week. We recommend that EMT’s be paid time and one-half for all hours worked over 40 in a week.

*County Judge/Executive Jack B. McCaslin’s response: The County Judge, County Treasurer, County Attorney, and EMA Director have already taken the necessary steps to correct this.*

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

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