



Auditor of Public Accounts
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Harmon Releases Audit of McLean County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the McLean County Fiscal Court for the fiscal year ended June 30, 2020. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor’s letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the McLean 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 McLean County Fiscal Court failed to implement adequate internal controls to ensure complete and accurate accounting records were maintained: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. There were no functioning internal controls in place over the work performed by the county treasurer. The fiscal court failed to provide adequate oversight, allowing the county treasurer complete control over the accounting and reporting functions. The following deficiencies and errors were noted during the performance of the audit:

- The fourth quarter financial report was incomplete and inaccurate:

- The total budgeted amounts for receipts and disbursements per the approved budget did not agree to the amount reported as budgeted amounts per the fourth quarter report. Budgeted receipts and disbursements were understated by \$428,493 and \$533,389, respectively. The county treasurer failed to properly enter the amounts per the budget amendments.
- There were numerous classification errors noted within the funds, which required audit adjustments to correct.
- Certificates of deposit in the amount of \$59,952 were not properly reported on the fourth quarter report (see Finding 2020-002).
- Liabilities were misstated on the fourth quarter report by \$1,290,280 (see Finding 2020-003).
- The quarterly financial reports for the first, third, and fourth quarters were presented to fiscal court late.
- The county treasurer's financial reports were presented to the fiscal court late for July 2019 through April 2020.
- The county overspent the amount budgeted for transfers out for the following funds: ambulance, eastern state aid, and western fire department.
- The debt service line items in the general and road funds were overspent by \$70,155 and \$28,442 respectively.

Additional internal control issues noted were:

- An emergency was declared for the approval and adoption of the fiscal year 2019-2020 budget on June 28, 2019. An emergency budget amendment was declared because there was not time to publish and advertise before the end of the fiscal year. Time constraints and lack of proper planning do not meet the definition of a legitimate emergency.
- Seconded reading and adoption of budget amendment #20.220-4 was not reflected in the fiscal court orders.

The McLean County Fiscal Court failed to implement a strong internal control system or provide proper oversight to ensure complete and accurate accounting records were maintained, and instead relied on a single person without adequate oversight. Additionally, this was the county treasurer's first year serving as county treasurer; therefore, she was learning all accounting concepts and responsibilities.

Due to the lack of oversight of the treasurer's functions by the fiscal court and the treasurer's lack of full understanding of her duties as prescribed by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, the deficiencies, non-compliances, and undetected errors noted above pertaining to required record-keeping were allowed to occur. Additionally the fiscal court was unable to properly budget and plan for the following fiscal year due to inaccurate financial information being presented.

Strong internal controls over the reporting process are vital to ensure the fiscal court's financial reports accurately reflect the financial activity of the fiscal court, as well as, adherence to applicable laws and regulations.

KRS 65.905(2) states, “[t]he final quarterly report filed by a county within fifteen (15) days after the end of the last quarter of the fiscal year, in accordance with KRS 68.360(2), shall be deemed the uniform financial information report for that county for purposes of compliance with KRS 65.900 to 65.925.”

KRS 68.260(1) states, “[t]he proposed county budget, tentatively approved by the fiscal court and approved by the state local finance officer as to form and classification, shall be submitted to the fiscal court for adoption not later than July 1 of each year. The budget as presented and amended shall be adopted as of July 1. The county judge/executive shall cause a copy of the proposed budget to be posted in a conspicuous place in the courthouse near the front door, and be published pursuant to KRS Chapter 424, at least seven (7) days before final adoption by the fiscal court.”

KRS 68.020(4) states that county treasurer, “shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of account of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.”

KRS 68.110(1) forbids expenditures in excess of revenues and states, “[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose.”

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to “[p]repare a quarterly financial report for the State Local Finance Officer.” The manual also provide a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, and actual receipts and disbursements and totals available in each line item. The manual goes on to state, “[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280.” It further states, “[a]ny amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency much accompany the budget amendment pursuant to KRS 68.280.”

In addition, KRS 68.360(1) states, “[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation.”

We recommend the McLean County Fiscal Court strengthen oversight and internal controls in order to ensure complete and accurate accounting records are maintained and that no one individual

has control over the accounting functions without establishing checks and balances to verify amounts recorded and reported are accurate.

County Judge/Executive's Response: Officials and staff of the McLean County Fiscal Court are aware and have changed our procedures in regards to record retention and the implementation of internal controls to accomplish such goals.

The McLean County Fiscal Court failed to implement adequate internal controls over cash processes and financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The McLean County Fiscal Court had internal control weaknesses and non-compliances regarding cash processes and financial reporting. The following findings were noted with McLean County Fiscal Court's cash processes and financial reporting:

- The county treasurer failed to record ending cash balances of certificates of deposit in the amount of \$59,952 as part of her ending cash balances on the financial cover sheet of her fourth quarter financial report, but rather included a supplemental sheet containing these balances. This amount includes \$1,359 of the road fund, \$15,017 of Local Government Economic Assistance (LGEA) fund, \$14,692 of central fire department fund, \$23,866 of western fire department fund, and \$5,018 of southern fire department fund. Additionally, she failed to include \$66,725 as prior year surplus.
- The county treasurer failed to record interest earned on certificates of deposit in the amount of \$749. This amount includes interest earned to the following: \$292 LGEA fund, \$43 central fire department fund, \$403 western fire department fund, and \$11 southern fire department fund.
- Additionally, the proceeds of two certificates of deposit in the amount of \$8,882 were not deposited into the bank when redeemed. This amount includes a certificate of deposit in the amount of \$1,359 of the road fund and \$7,523 of southern fire department fund. Instead a cashier's check was issued for both certificates of deposit, the county treasurer took the cashier's check for the road certificate of deposit and went to another financial institution and purchased another certificate of deposit. The cashier's check for southern fire department was used to pay on debt issued to the Sacramento Volunteer Fire Department.
- Lastly, a state aid receipt of \$11,000 was not properly deposited into the bank. Instead, the county treasurer took the check received from the state to the bank and directly purchased a certificate of deposit with it.

This was the county treasurer's first year serving as county treasurer, therefore, she was learning all accounting concepts and responsibilities. Due to this, the findings noted above occurred. Additionally, there were no internal controls implemented by the fiscal court to discover the aforementioned problems.

The failure to maintain accurate and detailed accounting information does not provide a true picture of the activities within the fiscal court's accounts and increases the risk that undetected misstatements due to error or fraud could occur. Furthermore, the McLean County Fiscal Court's lack of controls resulted in the road fund, LGEA fund, central fire department fund, western fire department fund, and southern fire department fund cash balances being understated by \$1,359, \$15,017, \$14,692, \$23,866 and \$5,018, respectively.

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 investments be included in “Section I: Summary and Reconciliation” of the financial statement, as well as, deposits be made intact on a daily basis into a federally insured banking institution. Additionally, strong internal controls over investments are vital in ensuring that cash balances have been accounted for properly. Strong internal controls are also important in safeguarding the county’s assets and those given the responsibility of accounting for them.

We make the following recommendations to address these findings:

- All investment balances should be properly disclosed on the financial statement.
- All interest earned on certificates of deposit should be recorded to the appropriate fund’s receipts ledger.
- All financial activity for all funds of the McLean County Fiscal Court should accurately be maintained by the county treasurer.
- All receipts should be deposited intact into a federally insured banking institution on a daily basis.

County Judge/Executive’s Response: Overdue prior audits of the McLean County Fiscal Court revealed substantial issues with internal controls with cash procedures and, have since, been addressed since the release of Fiscal Year 2018 and 2019 audits. Our process involves multiple inspections of receipts and the daily deposits of cash at a local financial institution. In addition, changes to the county administrative code, have reversed the executive decisions of prior Judge/Executives and, in turn, placed extra procedures which have been used to guarantee best-cost scenarios for the fiscal court. All of the procedures have been installed and are working as planned.

The McLean County Fiscal Court failed to implement adequate internal controls over debt and debt service: This is a repeat finding and was included in the prior year audit report as Finding 2019-003. Material internal control weaknesses existed over the reporting of debt and debt service of the McLean County Fiscal Court, and the following discrepancies were noted:

- The June 30, 2020 outstanding debt balances reported on the fourth quarter financial report were materially misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$3,184,919 as of June 30, 2020. This balance is overstated for nine debt issues, for a total misstatement of \$1,290,280.
- Interest balances were overstated by \$775,419.
- The McLean County Fiscal Court borrowed \$28,200 on July 1, 2019, for the purchase of a 2008 tractor with slope mower. The loan proceeds were paid directly to the vendor on behalf of the fiscal court for this purchase. Therefore, it was not included in the county’s financial statements as a budgeted disbursement for fiscal year ended June 30, 2020.
- The McLean County Fiscal Court used \$120,200 from their line of credit to pay off a loan previously entered into by McLean County Fiscal Court. The loan proceeds were paid directly to the bank on behalf of the fiscal court.

- The fiscal court failed to budget \$10,000 of debt service payments made by the City of Calhoun on behalf of the fiscal court.
- The fiscal court failed to notify the state local debt officer for multiple short term borrowings, including; \$120,200 borrowed on July 2, 2019, \$120,200 borrowed on July 18, 2019, and \$80,356 borrowed on July 18, 2019.

The county failed to implement a strong internal control system over debt and debt service, and instead relied on a single person without adequate oversight. Additionally, the county treasurer was not aware that she needed to budget for or record loan proceeds when they were paid directly by the lender to the vendor, since she did not directly receive these funds. Lastly, the county treasurer thought the state local debt officer had been notified for all short-term debt borrowings. However, she and the Department for Local Government (DLG) were unable to locate the notifications for the three short-term borrowings mentioned above.

This lack of internal controls resulted in the county's fourth quarter financial report being materially misstated. Additionally, by not properly budgeting these items or properly recording all transactions, the fiscal court overspent debt service line items of the general and road funds by \$70,155 and \$28,442, respectively.

Strong internal controls over outstanding debt and debt service are necessary to ensure accurate financial reporting. Also, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including outstanding debt and liabilities. It also requires 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.

In addition, KRS 65.117(1) states, “[n]o city, county, urban-county, consolidated local government, charter county, or special purpose governmental entity as defined in KRS 65A.010 shall enter into any financing obligation of any nature, whether evidenced by note pursuant to KRS 65.7701 to 65.7721 or otherwise, by lease pursuant to KRS 65.940 to 65.956, under which the lease price exceeds two hundred thousand dollars (\$200,000), by bond issuance pursuant to KRS Chapter 66, or any long-term debt obligation of any sort without first notifying the state local debt officer in writing.”

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding liability balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. The fiscal court should also, ensure that they properly budget and record all borrowed money and any related purchases. Lastly, the fiscal court should ensure that they properly notify the state local debt officer for all short-term borrowings. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

County Judge/Executive's Response: Finding #2020-003 has been addressed in FY 2018 and FY 2019 audits. These findings were a result of issues encountered with both prior software utilized by the McLean County Fiscal Court and errors made by personnel which are no longer employed by the McLean County Fiscal Court. The Fiscal Court purchased new accounting software in the spring of 2020 and has since transitioned to this new program.

The McLean County Fiscal Court failed to implement sufficient internal controls over their service organization's collection of ambulance receipts: This is a repeat finding and was included in the prior year audit report as Finding 2019-005. The fiscal court failed to oversee the ambulance billing service organization that handles all of the billing and receipt collections for the McLean County Ambulance Service. In the fiscal year ended June 30, 2020, the amount of ambulance receipts reported on the quarterly report was \$598,780. The following findings were noted with the collection of receipts at the service organization:

- The county does not review the service organization's billing and collections to ensure all the McLean County Ambulance Service runs and collections are accounted for properly. There was no documentation of the review of internal controls implemented at the service organization. The service organization did not have a Service Organization Report (SOC) Report. A SOC 1 report focuses on controls at the service organization that would be useful to user entities and their auditors for the purpose of planning a financial statement audit of the user entity and evaluating internal controls financial reporting at the user entity.
- The fiscal court has minimal oversight and control over the collection of ambulance receipts process. Although the service organization sent a month end report to the fiscal court that documented charges, credits, the accounts receivable balance, and daily deposit amounts, the fiscal court was not able to determine if all amounts intended for them were actually collected and deposited since the total amount of ambulance runs and corresponding charges were not presented to the fiscal court. Because of the lack of detail in the service organization reports, the fiscal court was unable to verify the amount of ambulance revenue due to them.

The findings listed above are due to the lack of effective internal controls. Because of the lack of adequate internal controls over service organization activities, the ambulance billing receipts were left vulnerable to misappropriation and loss.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

We recommend the McLean County Fiscal Court strengthen internal controls regarding the ambulance service's service organization.

County Judge/Executive's Response: FY 2018 and FY 2019 audits highlighted the deficiency related to ambulance billing receipts, but those results were not made available until after the

close-out of FY2020. Since that time, procedures have been instituted to address and provide a more robust review of ambulance receipts.

The McLean County Fiscal Court failed to implement adequate internal controls over the collection of receipts at off-site locations: This is a repeat finding and was included in the prior year audit report as Finding 2019-006. The McLean County Fiscal Court has poor internal controls over the collection of receipts at off-site locations. The following findings were noted with McLean County Fiscal Court's collection of receipts at off-site locations:

- Receipts were not issued for all applicable transactions as required by KRS 64.840. In addition, the senior citizens building burnt down in recent months along with all their records.
- Receipts collected at the road department, Myers Creek Park, and transfer site are not turned over to the county treasurer daily, as required by KRS 68.210.
- Copies of donation receipts at Central fire department were not provided by the fire department, resulting in \$1,240 of donations not having supporting documentation.

The findings listed above are due to the lack of effective internal controls. Because of the aforementioned findings, receipts were left vulnerable to misappropriation and loss. Also, the McLean County Fiscal Court failed to issue and maintain required documentation as prescribed by state statutes.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 64.840(1) states, in part "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

KRS 64.840(2) states, "[o]ne (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, KRS 68.210 states, in part, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe...a system of uniform accounts for all counties and county officials[.]"

We make the following recommendations to address these findings:

- Pre-Numbered, triplicate receipts should be issued for all applicable transactions according to KRS 64.840.
- All receipts collected at off-site locations should be turned over to the county treasurer daily to be deposited according to KRS 68.210.

- All off-site locations should keep a receipts ledger to document all types of receipts, dates received, and amounts collected.

County Judge/Executive's Response: FY 2018 and FY 2019 audits highlighted the deficiency related to adequate internal controls over the collection of receipts at off-site locations, but those results were not made available until after the close-out of FY2020. Additionally, the fiscal court and Judge/Executive have since changed procedures, staffing hours and cash handling procedures to accomplish a more efficient and effective collection of off-site receipts.

The McLean County Fiscal Court does not have adequate internal controls over payroll processing: This is a repeat finding and was included in the prior year audit report as Finding 2019-007. The McLean County Fiscal Court failed to implement adequate internal control over the payroll and timekeeping processes. The following findings were noted during testing of McLean County Fiscal Court's payroll:

- Employee salary schedule was not approved by the fiscal court for Fiscal Year 2020.
- Three employees' hours worked per time sheet did not agree to individual earnings reports.
- One employee's timesheet was not approved by supervisor.
- Six employees did not have the current withholding forms in their personnel file.

Based on county records there was a lack of segregation of duties over payroll preparation and no independent review of payroll items before processing and disbursing payroll. Due to the lack of internal controls over payroll processing, the above findings occurred. Additionally, the three employees' actual hours worked were not reported on their individual earnings report, since fiscal court considered them to be salaried employees. Due to the lack of internal controls over payroll, payments for payroll were not properly supported.

Strong internal controls over payroll and timekeeping are vital in ensuring the payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 64.530(1) states, "[e]xcept as provided in subsections (5) and (6) of this section, the fiscal court of each county shall fix the reasonable compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer. The fiscal court may provide a salary for the county attorney." Additionally, the McLean County Administrative Code Section 5.16 (B.) states, in part, "...[f]iscal Court shall approve all salaries or appropriate salary schedules."

We make the following recommendations to address these findings:

- An individual independent of the payroll process should review payroll calculations, withholding amounts, etc., to verify that all amounts have been calculated properly and that they are properly supported.
- Documentation of each employee of the county, including the appropriate hourly rate for hourly employees and monthly or yearly amounts for all salaried employees should be presented to the fiscal court for approval and included in the fiscal court minutes as a matter of public record.

- Each employee's individual earnings report should be supported by actual hours worked per employee's timesheet.
- Fiscal court should strengthen controls over the payroll process by requiring all timesheets be signed by employees and his or her supervisor.
- Personnel files should be updated regularly.

County Judge/Executive's Response: FY 2018 and FY 2019 audits highlighted the deficiency related to adequate internal controls over payroll processing, but those results were not made available until after the close-out of FY 2020. Additionally, the fiscal court and Judge/Executive have since changed procedures, personnel procedures and also plan to hire additional staff to accomplish a more efficient and effective administration of payroll processing.

The McLean County Treasurer failed to reconcile the payroll revolving account: This is a repeat finding and was included in the prior year audit report as Finding 2019-008. The McLean County Fiscal Court uses a clearing bank account for payroll processing. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance. Deposits are made into the bank account from the county's operating accounts to pay for salaries, taxes, matching portion of taxes, retirement, health insurance, and other payments to benefit vendors. The county treasurer did not prepare monthly reconciliations on the payroll revolving account for Fiscal Year 2020. We determined that as of June 30, 2020, a balance of \$20,100 existed in the account.

The county treasurer neglected her duty to reconcile the payroll revolving bank account monthly as described in the *County Budget Preparation and State Local Finance Officer Policy Manual*. There were no internal controls in place to ensure the payroll account was properly reconciled each month.

The payroll revolving account should zero out at the end of the year or reconcile to a minimal carrying balance. However, because the account had not been reconciled, the payroll revolving account had an ending balance of \$20,100 as of June 30, 2020. Funds held in a clearing account when they are not needed to pay liabilities removes those funds from accounts where they could be used in the regular operations of the county. Additionally, a lack of payroll reconciliation to the ledgers on a regular basis increases risk of misstatement in the financial statements, and can result in errors or fraud going undetected.

Good internal controls require timely, accurate reconciliations for bank accounts and all other reports concerning payroll, to ensure all funds are properly accounted for and to prevent misappropriation of funds and inaccurate financial reporting. Due to the nature of revolving accounts, only the funds necessary to pay employees and government agencies are transferred from other funds. Therefore, the reconciled balance each month of the payroll revolving account should be zero. Also, 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 monthly bank reconciliations.

We recommend the payroll revolving account be properly reconciled on a monthly basis. Because the payroll revolving account is a clearing account, this account should reconcile to a zero ending cash balance or a minimal carrying balance at the end of each month.

County Judge/Executive's Response: FY 2018 and FY 2019 audits highlighted the deficiency related to the reconciliation of the revolving payroll account, but those results were not made available until after the close-out of FY 2020. Additionally, the fiscal court and Judge/Executive have since purchased a more robust accounting system to help the county treasurer accomplish these tasks. The current county treasurer has faced a monumental task of achieving clarity regarding the mishandled records of the McLean County Fiscal Court by previous staff and has performed exceptionally well under the circumstances. In addition, the court plans to hire additional staff to create a review system for payroll records and funds.

The McLean County Judge/Executive failed to require encumbrances to be properly reported on the fourth quarter financial report: This is a repeat finding and was included in the prior year audit report as Finding 2019-010. McLean County's encumbrances at year-end were not properly reported on the fourth quarter financial report. Upon further examination, auditor also determined that a list of encumbrances had not been maintained as of June 30, 2020.

The county judge/executive failed to require encumbrances be properly reported on the fourth quarter financial report. By not properly reporting encumbrances, the fiscal court is not in compliance with reporting requirements per the Department for Local Government (DLG). In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

KRS 68.360(2) states, in part, "[t]he county judge/executive shall within (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund[.]" Furthermore, the *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarter financial report. Good internal controls dictate the fiscal court monitor line items to ensure that there is ample cash and budget prior to approving payment of bills.

We recommend the county maintain an encumbrance listing and properly report encumbrances on the fourth quarter financial report in order to accurately disclose unencumbered fund balances.

County Judge/Executive's Response: FY 2018 and FY 2019 audits highlighted the deficiency related to reporting of 4th quarter encumbrances, but those results were not made available until after the close-out of FY 2020. Additionally, the current Judge/Executive has changed reporting standards and purchase order procedures that were not addressed by prior Judge/Executives, in order to reduce the number of encumbrances carried from one fiscal year to another. Also, the fiscal court has realized significant reporting benefits that have been provided by the adoption of a new accounting software system at the start of FY 2021.

The McLean County Fiscal Court did not have adequate controls over disbursements and credit card transactions: This is a repeat finding and was included in the prior year audit report as Finding 2019-011. During our review and testing of disbursements and credit cards we noted the following:

- Five instances where purchase orders were not issued for an expenditure.
- Eight of the 131 transactions tested on the fuel credit card were missing the supporting itemized receipt.
- Finance charges in the amount of \$39 were paid on the credit card.

The McLean County Fiscal Court failed to implement internal controls over disbursements to ensure proper handling and compliance with applicable laws. The lack of controls increases the risk of errors or fraud going undetected. By failing to maintain adequate documentation, the fiscal court is increasing the risk of paying invoices for goods or services that were not provided to the fiscal court. In addition, paying finance charges is not a good use of taxpayer funds.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts as outlined in the Department for Local Government's (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual* (DLG budget manual). Page 57, outlines minimal procurement guidance which includes (a) Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head, (b) Purchase requests shall indicate the proper appropriation account number to which the claim will be posted, (c) Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made and d) Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the department head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

We recommend the fiscal court implement internal control procedures to ensure that all disbursements are properly supported.

County Judge/Executive's Response: A number of historically lax policies have been addressed by the current administration regarding both ineffective accounting procedures and policies which, at the time, left the McLean County Fiscal Court financially vulnerable. Since completing overdue fiscal year audits for 2018 and 2019, the current Judge/Executive has reversed, reduced and implemented controls to address issues with purchase orders and credit card transactions.

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

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