



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of McCracken County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the McCracken County Fiscal Court for the fiscal year ended June 30, 2022. 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 McCracken 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 116 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 comment:

The McCracken County Fiscal Court failed to implement internal controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The McCracken County Fiscal Court failed to implement internal controls over disbursements. During our testing of the disbursements of the McCracken County Fiscal Court, we noted the following issues:

- Forty-seven out of 69 disbursements did not have purchase orders.
- Departments of the county utilize fleet cards for fuel purchases. Department heads are instructed to submit approved invoices to the county treasurer and keep the individual fuel

receipts on file. However, some departments did not properly document authorization of fuel purchases.

- Lump sum cell phone stipend payments were paid to seven employees. The cell phone stipend payments totaled \$3,240.
- The county did not follow its own administrative code when reimbursing an employee for a meal. Rather than being paid a per diem for a meal, an employee received a meal reimbursement for the actual price of the meal.
- Two out of 69 disbursements could not be tested for approval by the fiscal court because the voucher claims register was missing.
- One reimbursement was not adequately supported by an itemized receipt.

According to staff, purchase orders are not issued for disbursements less than \$100. Also, purchase orders are not issued for purchases or amounts paid on contracts that have been separately approved by court orders. Furthermore, purchase orders are not issued for medical disbursements because it is not feasible to issue purchase orders for those types of disbursements. Also, according to staff, individuals sometimes make purchases prior to requesting purchase orders. In these instances, the fiscal court will issue payment requests when invoices are received.

According to staff, fuel card disbursements are not reviewed by anyone in the finance office because the fiscal court relies on the individual departments to review the transactions. Also, according to staff, the cell phone stipend is paid to employees who are required to use their personal cell phones for county business. Additionally, the meal was reimbursed to the employee for the actual price of the meal because the employee does not charge the county mileage when traveling in a personal vehicle. The other findings occurred due to oversight.

The issues noted above could result in line-items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for counties' handling of public funds, including required purchasing procedures for counties.

According to a memorandum from DLG dated August 4, 2016, "[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county's budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*." Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims.

KRS 64.710 states, "[n]o public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expenses, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly."

According to the McCracken County Administrative Code, “[w]hen a County vehicle is unavailable, use of personal vehicles will be reimbursed at as per the Kentucky Finance and Administration Cabinet-State Employee Travel Guidelines. Such payment shall be deemed to cover all personal vehicle repairs, depreciation, gas, oil, and other out-of-pocket expenses, except parking and toll fees. The County will reimburse for meals using these same guidelines.” The Kentucky Finance and Administration Cabinet- State Employee Travel Guidelines states the following: “Meal reimbursement rates for non-high rate areas shall be as follows: a. Breakfast: eight (8) dollars b. Lunch: ten (10) dollars c. Dinner: eighteen (18) dollars.” Furthermore, the state of Kentucky reimburses meals on a per diem system, rather than based on receipts presented.

Strong internal controls require purchase orders to be requested, approved, and issued prior to items being ordered and expenses being incurred. Also, strong internal controls dictate that fuel purchases be properly authorized. Furthermore, strong internal controls dictate that disbursements be adequately supported by itemized receipts or invoices and be coded to the proper accounts.

We recommend the McCracken County Fiscal Court strengthen internal controls over disbursements by ensuring that purchase orders are issued prior to all purchases being made. We recommend the fiscal court review fuel card transactions and document each review. We also recommend the fiscal court stop the practice of paying employees a cell phone stipend. We further recommend that the fiscal court adhere to its administrative code for meal reimbursements. Lastly, we recommend the fiscal court ensure that all disbursements are adequately supported by itemized receipts or invoices and be recorded in the proper account codes.

County Judge/Executive’s Response:

The county does not feel that all of the items noted for no PO’s were correct.

- 1.) McCracken County does not issue PO’s for any amount of less \$100.00*
- 2.) McCracken County does not issue PO’s for any accounts approved by DLG per Standing Order.*
- 3.) McCracken County does not issue PO’s for purchases that have been separately approved by court orders.*
- 4.) McCracken County does not issue PO’s for amounts paid on contracts that have been separately approved by court orders.*
- 5.) McCracken County does not issue PO’s where Kentucky Statue mandates these payments.*
- 6.) McCracken County does not issue PO’s for reimbursing petty cash funds.*
- 7.) McCracken County does not issue PO’s for travel reimbursement.*
- 8.) McCracken County does not issue PO’s for jail medical expenses due to the nature of such expenses.*

The finance office supplies each department with a copy of the [fuel vendor name redacted] invoice for review. Each department is asked to return those copies, stating they have reviewed and approve the monthly fuel purchases. The Jail was the only department who did not return those copies, all others did.

McCracken County pays eight employees \$40.00 per month as partial reimbursement for business use of their personal cell phone. This is a savings to the county and the county does not view these payments as lump sum payments.

The treasurer will ensure the administrative code is followed when reimbursing employees for travel expenses.

The Fiscal Court approves vouchers claims register every meeting. The original claims register is housed with the County Clerk along with the original minutes. Obviously, there was a misfiling as the minutes of each meeting reflect these approvals. The treasurer maintains a copy of the claims register with her board packets and could have provided this copy to the auditor.

The treasurer will ensure that itemized receipts are attached to all travel reimbursements.

Auditor's Reply: McCracken County's Administrative code does not authorize the exceptions for issuing purchase orders for any of the reasons listed in the County Judge Executive's response. The administrative code states "All claims for payment from the County shall be filed in writing with the County Judge. Each claim shall be recorded by date, receipt, and purchase order number and presented to the Fiscal Court at its next meeting."

Additionally, the McCracken County's Administrative Code calls the payment a stipend and states, "The stipend rate is as follows: \$40 per month Stipend (for standard employee cell phones with voice/data plan). This rate is based on what the County would pay if the phones were issued through the County's provider." Since the stipend is not a reimbursement of what the employee paid, it is a lump sum payment.

KRS 67.100 states, "(1) The fiscal court is a court of record. Minutes of the proceedings of each meeting shall be prepared and submitted for approval at the next succeeding meeting. (2) Every official action of the fiscal court shall be made a part of the permanent records of the county." Claims registers maintained by the county treasurer are not an official part of the fiscal court proceedings. Only items documented in the fiscal court meeting minutes are considered permanent records of the county.

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

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