



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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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, 2021. 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 approve all cash transfers:** The McLean County Fiscal Court failed to approve all cash transfers made by the county treasurer. We tested 21 cash transfers totaling \$1,934,555. Three cash transfers totaling \$419,633 were not approved by the fiscal court. On December 23, 2020, the treasurer transferred \$145,705 and \$167,755 to the general and ambulance funds, respectively, from the federal grants fund for Coronavirus Relief Fund (CRF) monies. On June 7, 2021, \$106,173 was transferred from the federal grants fund to the ambulance fund for additional CRF monies received by the fiscal court.

The treasurer did not realize monies being transferred from the federal grants fund to the general and ambulance funds for CRF monies needed fiscal court approval. She thought since these were

reimbursements for payroll that had been previously paid out of these funds, she could return the money to those funds once the reimbursement was received. By not having fiscal court approval for cash transfers, the risks for misappropriation increases and limits the controls to ensure financial records are accurate.

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* states, “[a]ll transfers require a court order.” Additionally, good internal controls dictate that all transfers be approved by fiscal court prior to being made by the county treasurer.

We recommend all cash transfers be approved by fiscal court prior to being made by the county treasurer.

*County Judge/Executive’s Response: Officials are continuing to provide professional development and training regarding the proper details required in both court minutes and also how to present cash transfers for approval to the fiscal court.*

**The McLean County Treasurer failed to properly reconcile the payroll revolving account:**

This is a repeat finding and was included in the prior year audit report as Finding 2020-007. 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 properly prepare the June 30, 2021 monthly reconciliation on the payroll revolving account. She failed to include all of the payroll liabilities for the June 30 payroll. When the treasurer accounted for all liabilities, the payroll account had a negative reconciled balance of \$27,193 as of June 30, 2021.

The county treasurer did not realize she needed to include all payroll liabilities when preparing her monthly reconciliation. Also, there were no internal controls in place to ensure the payroll account was being properly reconciled each month. Additionally, she failed to make all the appropriate transfers into the payroll revolving account for Kentucky Law Enforcement Foundation Program Fund (KLEFPF) payroll and additional retirement invoices.

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 properly reconciled, the payroll revolving account had an ending balance of negative \$27,193 as of June 30, 2021. Funds were not properly transferred into the payroll revolving account; therefore, the account could become overdrawn and assessed fees by the bank.

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: The county treasurer continues to rectify and improve practices that have been lacking in McLean County for some time. With that, our treasurer has received training and guidance from both the Department of Local Government and fellow treasurers regarding payroll reconciliation.*

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

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