



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, 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 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 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 findings:

The McLean County Fiscal Court did not have adequate internal controls over disbursements: During Fiscal Year 2022, the McLean County Fiscal Court had material weaknesses in internal controls and noncompliances over disbursements. The following findings were noted regarding McLean County Fiscal Court's disbursements:

- The McLean County Fiscal Court's purchase order system did not function as designed. Purchase orders were either not issued for purchases or in other instances were issued after the purchases had been made and the invoices were received. We tested 45 transactions totaling \$1,615,358 and noted the following:
 - Two invoices totaling \$171 did not have purchase orders.

- Twenty-two invoices totaling \$1,122,585 had purchase orders that were prepared after the invoice date.
- The fiscal court paid \$3 in sales tax on one transaction.
- Asphalt delivery tickets were not maintained to support the asphalt invoice.

According to the finance officer, the issues related to the purchase orders occurred due to various reasons. Such as, not realizing purchase orders needed to be issued prior to receiving the invoices for fuel and utilities, and not realizing purchase orders needed to be issued in order to disburse occupational tax refunds. Other disbursements for which purchase orders were not issued timely were for monthly and yearly billings that the finance officer simply forgot to issue the purchase order until she received the invoices. Lastly, some purchase orders were issued by county departments.

The county failed to request the asphalt delivery tickets when the asphalt company stopped providing them. 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 uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties and each county is responsible for ensuring their purchase order system is executed and working properly.

In addition, 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 PO's for payroll and utility claims.

Lastly, strong internal controls dictate that purchase orders be issued and approved prior to items being ordered and expenses being incurred to ensure available line-item appropriation exists and adequate supporting documentation is maintained for all disbursements. All vendor invoices should be maintained including any additional supporting documentation (i.e., delivery tickets) and agreed to the corresponding purchase orders.

We make the following recommendations to the fiscal court:

- Internal control procedures regarding purchase orders should be strengthened by requiring purchase orders be issued prior to purchases being made or services rendered in accordance with DLG requirements and KRS 68.210.
- Sales tax should not be paid on purchases.
- Proper documentation should be maintained for all disbursements to properly support claims.

County Judge/Executive's Response: McLean County Fiscal Court continues to revise finance policies to adopt a more robust purchase order system and system of account transaction. The adherence to a strict purchase order system will be adopted in the next fiscal year.

Internal control deficiencies exist over the reporting of liabilities and debt: Material weaknesses existed over the reporting of liabilities and debt of McLean County. The June 30, 2022, outstanding debt balances reported on the fourth quarter financial report were misstated when compared to the actual debt balances confirmed with lenders. In total, \$1,142,573 of outstanding debt was not properly reported on the county's fourth quarter financial report.

The judicial center was refinanced in the prior year and due to a lack of understanding of the new lease requirements the amount of outstanding debt balances reported on the fourth quarter financial report was materially misstated.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting.

We recommend the McLean County Fiscal Court strengthen internal controls over the reporting of outstanding 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 lenders to verify outstanding debt balances agree with the county's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that the proper amounts are reported.

County Judge/Executive's Response: Our county treasurer will work to update the liabilities ledger and report notes accordingly.

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 2021-002. 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 bank reconciliations for the months of May and June 2022.

With the payroll account issues from the past, the county treasurer has not been able to reconcile the account. Also, there were no internal controls in place to ensure the payroll account was being properly reconciled each month. Since the account had not been properly reconciled, the payroll revolving account had an ending balance of \$20,845 as of June 30, 2022.

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 should be

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 for Local Government and fellow treasurers regarding payroll reconciliation.

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

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