



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of McLean County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the McLean County Fiscal Court for the fiscal year ended June 30, 2014. State law requires annual audits of county fiscal courts.

Recent changes in 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 McLean County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court 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:

The Fiscal Court does not have adequate controls over decentralized receipts. The McLean County Fiscal Court does not issue receipts for all monies received at sites other than the courthouse. This includes monies collected at the transfer site, park, animal shelter and fire department fundraiser events. Daily check out sheets including receipts numbers were not being utilized at any of these sites. Also, there is no approved fee schedule for the animal shelter. KRS 64.840(2) requires all governmental officials handling public funds to issue a three part pre-numbered 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, the opportunity for theft of funds or fraudulent recording is increased. Additionally, there were no receipts from the animal shelter in the fiscal year ended June 30, 2014. The transfer site has been making deposits instead of submitting funds to the County Treasurer. One deposit made by a fire department was not recorded on the receipts ledger. 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 would be accounted for and properly maintained. Fundraiser receipts should be remitted to the Treasurer for deposit and inclusion in the Fire Department Fund. We also recommend the Fiscal Court determine what fees may have been collected at the animal shelter and if money is due to the Fiscal Court. Additionally, all funds should be remitted to the County Treasurer on a timely basis.

County Judge Executive Kelly Thurman's response: We recognize the deficiencies noted and continue to monitor revenues from decentralized operations. Proper documentations of receipts shall be made and all sources of cash receipts and checks shall be collected and deposited through the County Treasurer's Office.

The County Treasurer should reconcile monthly ambulance runs billed by offsite billing service. McLean Fiscal Court has contracted with a third party billing service to bill for the McLean County Ambulance Service. Ambulance runs are submitted to the third party after runs are made. The third party will then prepare a bill and either bill insurance or individuals accordingly. Payments are then remitted directly to the County Treasurer. The Ambulance Director prepares a monthly report that contains all ambulance runs. The third party also generates a monthly report containing all the ambulance runs for McLean County Ambulance Service. However, there is no documented reconciliation between the ambulance runs billed by the third party and ambulance runs per the Ambulance Director. Good internal controls dictate that these should be reconciled to ensure that all ambulance runs are being billed correctly on behalf of the McLean 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 third party. We recommend that ambulance runs billed by the third party be reconciled to the McLean County Ambulance Service's records and the reconciliation be documented.

County Judge Executive Kelly Thurman's response: The concern is noted and will be addressed with the County EMS Director.

Quarterly financial reports presented to Fiscal Court and the Department for Local Government should accurately reflect cash, receipts, and disbursements. During testing auditors noted that the Fourth Quarter Financial Statement was not accurate. KRS 68.360

requires a statement for the year showing the actual receipts, encumbrances, disbursements, and transfers that is to be submitted to the state local finance officer. The former treasurer was out of the office for personal reasons during the close of the fiscal year. Closing adjustments were improperly classified causing the cash balances to be misstated. There were no internal controls in place to verify amounts remitted were correct. Without proper oversight, amounts on the financial statement could be materially misstated. We recommend the Fiscal Court monitor quarterly reports and compare quarterly reports to supporting documentation.

County Judge Executive Kelly Thurman's response: Currently, Fiscal Court is reviewing and monitoring quarterly financial reports for accuracy.

The Fiscal Court has a lack of adequate segregation of duties over receipts, cash, bank reconciliations, ledger postings, and financial statement preparation. During testing we noted that there is a lack of segregation of duties over receipts, cash, bank reconciliations, ledger postings, and financial statement preparation. 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. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The treasurer performs all accounting functions over cash and receives, posts, and reconciles receipts as well as preparation of the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. Due to the lack of oversight the following errors were noted:

- The cover of the fourth quarter financial statement was not correct.
- The financial statements for the Public Properties Corporation were misstated.
- No Schedule of Federal Awards was prepared.
- Liabilities section on the fourth quarter financial statement was understated.
- Payroll account was not properly reconciled.
- Cash balances, receipts, and disbursements were incorrect for most funds.
- Fund bank accounts went months without being reconciled.
- Cash transfers were not approved by fiscal court.

We recommend the fiscal court segregate these duties or implement compensating controls over these duties.

County Judge Executive Kelly Thurman's response: Duties are currently segregated to the Judge/Executive's staff and County Treasurer. Budget constraints limit the workforce and best efforts are made to insure that the noted deficiencies are addressed.

Fiscal Court investments should be properly documented. During testing of investments, we found that the treasurer had not prepared an investment ledger. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, requires books of original entry be maintained for receipts and expenditures of all transactions of the fiscal court. This includes an investment ledger or journal.

The treasurer failed to prepare a ledger and there were no internal controls in place to ensure that the proper records were being maintained. Therefore, the Fiscal Court had no documentation of investment balances. Since there was no oversight, investments could be liquidated without Fiscal Court knowledge. We recommend the Fiscal Court require an investment ledger be maintained and investments be reviewed in order to verify amounts listed on the quarterly as investments.

County Judge Executive Kelly Thurman's response: The investment ledger is being maintained and is current at this time.

The Payroll Revolving Account was not properly reconciled. During testing of cash, we discovered the payroll account was not properly reconciled. An accurate running balance had not been maintained for the entire fiscal year. The payroll activity was not entered into the financial software, so there were no ledgers to support payroll cash transactions. 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 payroll activity was not reconciled, disbursements from the various funds of the county did not agree to amounts received by the payroll account and payroll related items were posted incorrectly on the financial statement. The lack of controls over payroll could cause a misappropriation of county assets. We recommend the payroll account be properly reconciled and that the fiscal court establish internal controls to determine that the account is properly handled.

County Judge Executive Kelly Thurman's response: The findings are recognized and have been corrected in the past year.

Internal controls over disbursements/credit cards should be strengthened. During our testing of disbursements and credit cards, we noted that ten of the items tested on credit card statements did not have proper supporting documentation for the expense paid. Additionally, 25 of 60 operating disbursements were paid prior to fiscal court approval. None of the invoices of the items tested were stamped paid. KRS 68.275 requires "The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid". Also, 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. Invoices should be marked paid to prevent duplicate payment.

These deficiencies over disbursements and credit card transactions occurred because the Fiscal Court's lack of internal controls and oversight. Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the Fiscal Court. We recommend that the Fiscal Court develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

County Judge Executive Kelly Thurman's response: Currently, all credit card expenditures must be documented with appropriate receipts attached. All credit card transactions must be reported in advance to the Treasurer, (unless emergency) and all credit cards are maintained in the Treasurer's office and must be checked out for use.

The Fiscal Court failed to implement adequate internal controls over capital assets purchases and capital asset record maintenance. During testing we noted that the Fiscal Court's capital asset schedule was understated. The County Budget Preparation and State Local Finance Officer Policy Manual requires capital asset purchases be inventoried and tracked. The Fiscal Court failed to properly record asset purchases. There was no oversight to determine if capital asset records were being maintained. The effect of the lack of internal controls was that the County's capital asset schedule was understated by \$500,007. Additionally, some capital assets additions were not properly added to the county's insurance policy. We recommend the Fiscal Court prepare and maintain adequate capital asset property records in accordance with the guidance in the County Budget Preparation and State Local Finance Officer Policy Manual.

County Judge Executive Kelly Thurman's response: Capital Asset ledgers are currently maintained by the Judge/Executive's assistant and are up to date as of this time.

The Fiscal Court should advertise for bids in accordance with KRS 424.260. During the review of capital asset additions, we noted three instances where bids were not obtained as required by KRS 424.260. KRS 424.260 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 for 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."

The Fiscal Court purchased a fire engine that cost \$55,000. This occurred because a fire chief obligated the county. Since this transaction was not properly bid, the Fiscal Court is in violation of the McLean County Administrative code and KRS 424.60. Additionally, there were three recycling trailers purchased totaling \$26,100. The payment for the trailers was split between funds. The purchase of the trailers was not properly bid. There was also an ambulance purchased that did not have supporting bid documentation. We recommend all purchases where a single vendor is paid greater than \$20,000 be bid in accordance with KRS 424.260 and that documentation of the bid process be maintained.

County Judge Executive Kelly Thurman's response: We agree with the finding and will adhere to KRS statutes and County Administrative Code procurement procedures.

The Fiscal Court should expend 100% of Coal Impact Funds in the transportation category.

While reviewing restricted (LGEA) funds disbursements, auditor noted that McLean County did not expend any of Coal Impact Funds in the required transportation categories. KRS 42.470(1)(c) says expenditures of funds received by non-coal producing counties impacted by the transport of coal shall be limited to projects set out in KRS 42.55(2)(c). KRS 42.455(2)(c) says that projects are limited to "Public transportation, including mass transit systems, streets,

and roads”. Also KRS 42.455 specifically prohibits the expenditures of LGEA funds for the administration of government. Disbursements from the LGEA fund were for Sheriff’s vehicles fuel, fuel for ambulance service, new ambulance, meal driver’s mileage, economic development and debt related funds. By not spending Coal Impact Funds accordingly, the Fiscal Court runs the risk or no longer receiving these funds or having to repay funds that were not spent appropriately. We recommend that the Fiscal Court adhere to the provisions of KRS 42.470 and KRS 42.455.

County Judge Executive Kelly Thurman’s response: We agree with the finding and all future LGEA expenditures shall comply with KRS 42.455.

The Fiscal Court should implement internal controls over occupational/net profit tax collections. During testing of occupational/net profit taxes and review of internal controls we noted that there were insufficient internal controls over occupational tax collections. Good internal controls dictate that the Fiscal Court be able to determine that all eligible taxpayers have been billed and that payments for taxes are being made properly. The Fiscal Court hired an occupational tax administrator (OTA) to handle the collection and processing of occupational/net profit taxes. The OTA maintains all occupational tax records and gives the treasurer the checks and a report of who paid. The OTA does not bring the checks and report on a daily or even weekly basis. The treasurer then deposits the checks after agreeing checks back to the report, but has no way of knowing if taxes paid agree to returns or if all eligible taxpayers have been billed. We recommend the Fiscal Court require tax returns be remitted to the Fiscal Court (their designee) and that the designee periodically verifies amounts collected to the applicable tax return. Additionally, the database of eligible taxpayers should be occasionally checked against tax returns to determine that all eligible taxpayers are properly submitting tax returns and tax payments. The Fiscal Court should also require daily deposits of occupational/net profit taxes or at a minimum when those receipts exceed \$500.

County Judge Executive Kelly Thurman’s response: The finding shall be addressed with the Occupational Tax Administrator.

The Fiscal Court should strengthen internal controls over payroll. During testing of payroll, we noted there were not adequate internal controls over payroll. Payments were made that were not approved by fiscal court and employees were allowed to accumulate comp time in excess of prescribed limits. KRS 337.285 5(b) states “A county or city employee who has accrued four hundred eighty (480) hours of compensatory time off pursuant to paragraph (a)1. of this subsection, or two hundred forty (240) hours of compensatory time off pursuant to paragraph (a)2. of this subsection, shall for additional overtime hours of work, be paid overtime compensation.”

Good internal controls dictate that payroll payments should be reviewed by someone who is not preparing the payroll documents. The treasurer prepares payroll, makes payroll bank deposits and transfers, and posts payroll to the financial statement. Due to the lack of oversight, the treasurer was overpaid by \$606.45, former employees were overpaid vacation balances, and new employee salaries were never approved by fiscal court. We recommend the Fiscal Court require new employees salaries be approved in open court, have someone independent of the payroll preparation check amounts paid to employees and make sure that employees are not paid in excess of Fiscal Court approved amounts. Additionally, the fiscal court should monitor comp leave balances to ensure compliance with KRS 337.285.

County Judge Executive Kelly Thurman's response: Compensatory time and vacation time are monitored on a monthly basis. All changes in payroll schedules, new hires, and terminations shall be approved by fiscal court.

The Fiscal Court should have a written agreement to protect deposits. The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of August 31, 2013, the Fiscal Court had bank deposits of \$338,745; FDIC insurance of \$250,000; and no collateral pledged or provided. Additionally, on June 30, 2014, the bank had pledged ineligible collateral to the Fiscal Court. We recommend the Fiscal Court enter into a written agreement with the depository institution to secure the Fiscal Court's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge Executive Kelly Thurman's response: A written agreement with depository bank institution is currently in place.

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

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