Auditor of
Public Accounts
Allison Ball

Mason County Fiscal Court

Audit

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the Mason County Fiscal Court for the fiscal year ended June 30, 2024. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts, disbursements, and changes in fund balances of the Mason 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.

Finding: The Mason County Fiscal Court Did Not Have Adequate Internal Controls Over Financial Reporting

The following reporting errors and deficiencies occurred due to a lack of internal controls over financial reporting:

• The treasurer did not prepare an annual settlement or present one to the fiscal court for approval (See finding 2024-002).

• Budgeted receipts were misstated by $186,274 and disbursements were misstated by $90,500 on the fourth quarter report. This was due to State Grants Fund receipts being overstated by $110,726, Federal Fund grant receipts being understated by $297,000, General Fund disbursements being overstated by $42,774, State Grants Fund disbursements being overstated by $160,726, and Federal Fund grants disbursements being understated by $294,000.

• The cash balance on the fourth quarter financial statement varied from the reconciled balance for the General Fund by $111,212, the Road Fund by $53, the Jail Fund by $27,000, the Landfill Fund by $40,483, and the Garbage Collections Fund by $10,469.

• Interfund transfers were transferred in excess of amounts approved by the fiscal court.

Recommendations

We recommend the fiscal court implement internal controls and management oversight over the financial reporting process such as:

• Ensuring that an annual settlement is prepared, presented, and approved by the fiscal court.

• A thorough review of the quarterly financial statements by someone independent of the accounting function to help detect any misstatements and errors.

• Timely and accurate bank reconciliations on all bank accounts maintained by the county.

• Agreeing fund balances between the quarterly financial statements and bank reconciliations, agreeing bank balances per the bank statements to the quarterly financial statements, and monthly reconciliations.

• All transfers should be approved by the fiscal court.

County Officials Response

County Judge/Executive's Response: The annual settlement was prepared, but not presented to the fiscal court with the fourth quarter financial statement. It was an oversight on the treasurer's part. This has been corrected and will be presented to the fiscal court for approval each year within 30 days. Budget receipts were misstated due to the budget transfers needed to correct grant expenditure account *codes not being finalized by the end of the quarter. Per the auditor's suggestion, the quarterly's will be reviewed by someone other than the treasurer to detect any corrections that need to be made before finalizing the quarterly statements, including cash balances. Interfund transfers in excess of the annual order approved by fiscal court will be presented and approved in a separate order as needed.*

Finding: The Treasurer Did Not Prepare An Annual Settlement

The treasurer did not prepare an annual settlement that should have been presented to the fiscal court. This was an oversight by the county treasurer. By not having an annual settlement, the fiscal court may not be aware of the financial position of the county.

Recommendations

We recommend that the treasurer prepare an annual settlement and have it approved by the fiscal court within 30 days after the close of the fiscal year.

County Officials Response

County Judge/Executive's Response: Although an annual statement was prepared and is available, it was not presented to fiscal court for approval. This was an oversight by the treasurer and has been corrected. The annual statement will be presented at the first July fiscal court meeting each year moving forward.

Finding: The Mason County Fiscal Court's Actual Disbursements Exceeded Budgeted Appropriations

The Mason County Fiscal Court exceeded their approved budgeted appropriations in the State Grants Fund and the Landfill Fund. The fiscal court exceeded the overall approved budget for the following funds:

• The State Grants Fund total budget was overspent by $60,783, with the general health and sanitation category for this fund being overspent by $4,092,733.

• The Landfill Fund total budget was overspent by $415,902,with the general government category for this fund was overspent by $160,726.

Recommendations

We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding the budget.

County Officials Response

County Judge/Executive's Response: Some disbursements in the State and Landfill funds exceeded the budgeted amount due to an unaccounted for reimbursement, and the Landfill Phase 6 lease that was out semi-annually to the vendors through the lessor instead of fiscal court directly. Fiscal court did not receive the lease proceeds, instead each expenditure was paid out directly by KACo to the vendors. Journal entries were not made in order to show the payments made by KACo. This was an error in the budget line items, not cash errors. All corrections have been made, and in the future, budget numbers and expenditure codes will show the true financial position of the landfill fund.

Finding: Fund Transfers Were Made In Excess Of Amount Approved

Fund transfers were made in excess of the amount approved by the fiscal court. The fiscal court approves an annual order for interfund transfers at the beginning of the fiscal year. During the year, the treasurer transfers amounts from fund to fund. At the end of the fiscal year, transfers exceeded the approved amounts. There were unauthorized transfers of $928,349. By not having cash transfers approved, the fiscal court may not be aware of actual fund balances, which could create cash flow issues.

Recommendations

We recommend all cash transfers be approved by the fiscal court before they are made and that the cash transfer amounts approved should agree to the actual transfers made.

County Officials Response

County Judge/Executive's Response: Interfund transfers are approved by an Order at the beginning of each fiscal year. Any transfers made above the amounts approved by fiscal court are approved in an additional, separate order as needed. Some transfers were made above the approved amount without an additional Order. Although all transfers are included in the financial statements presented to fiscal court each month, some of them were not pre-approved. That oversight has been addressed, with safeguards put in place so no interfund transfers will be made above the approved annual Order amounts without prior fiscal court approval moving forward.

Finding: The Mason County Fiscal Court Did Not Properly Account For Debt Payments On The County's Financial Statement

During the year ending June 30, 2024, the county entered into lease agreements for the landfill project and a packer truck incurring a total liability of $4,456,800. The county did have the outstanding amount of debt on the liabilities section of its quarterly report but failed to post the total amount on the receipts ledger for the lease proceeds and the corresponding expenditure to the disbursements ledger. The audited financial statement and the Landfill Fund budgetary comparison schedule were adjusted to record the financing and purchase.

Recommendations

We recommend the county implement controls to ensure all lease transactions are accurately posted on the county's quarterly report in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

County Officials Response

County Judge/Executive's Response: This goes back to the Landfill Phase 6 lease. That debt was paid to the vendors directly by KACo and the lease proceeds were never sent directly to us. This oversight has been corrected and the lease amount and balances of the debt are correctly stated in our liability's reports moving forward.

Finding: The Mason County Fiscal Court Does Not Have Adequate Procedures For Reporting County Liabilities

The Mason County Fiscal Court liabilities journal total principal and interest balances were overstated by $859,672 and $167,638, respectively. The fiscal court does not have controls in place to ensure balances reported on the county's liabilities register are accurate. This has resulted in the misstatement of the county's liabilities, making it difficult for management to determine the county's current debt balances.

Recommendations

We recommend the county improve procedures to ensure proper reporting of all the county's liabilities on the financial statement.

County Officials Response

County Judge/Executive's Response: Expenditures made for liabilities were not automatically transferred into our liabilities journal and had to be entered manually. There were a few of those expenditures that were not entered in a timely manner, therefore overstating the outstanding balances. That has been corrected and our software now automatically applies the expenditures paid to our principal and interest balances in our liabilities reporting. Each balance is also checked with all amortization schedules before finalizing reports.

Finding: The Mason County Fiscal Court Lacks Adequate Internal Controls Over The Disbursement Process

During disbursements testing, we noted 40 instances where purchase orders were not issued and 6 instances of invoices not being paid within 30 days. These deficiencies occurred due to lack of monitoring of controls that diminished the effectiveness of the controls put in place over expenditures by the fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

Recommendations

We recommend the fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

County Officials Response

County Judge/Executive's Response: Purchase orders, although issued for each order/purchase, are not issued for some pre-approved expenses through fiscal court. Now we have set it up so all invoices is checked against purchase orders by more than one employee to ensure that any invoice requiring a purchase order, has one. I am not aware of which invoices were selected as not being paid within 30 days, but there are instances where that can occur based on the invoice date entered by the vendor. For example, we will sometime receive an invoice dated the 10th, but the work was not complete and the invoice was not received by us until the 25th. In addition, invoices that are not brought into our office for payment in a timely manner, may not be received in time to be approved at the next fiscal court meeting for payment, causing a delay in that payment unless a special meeting has been called. We will start recording such instances for our auditors, as well as being more cautious with dates presented on invoices as we receive them.

Finding: The Mason County Jailer Does Not Deposit Funds Daily

Receipts collected at the jail were not being deposited on a daily basis. The jail has three separate deposits during the week tested, one deposit from the lobby, general cash drawer, and booking. However, all three sources are not emptied and deposited daily. Additionally, we found that one check for an inmate account was held in the safe 47 days prior to deposit.

Recommendations

We recommend the jailer deposit funds on a daily basis.

County Officials Response

County Judge/Executive's Response: After speaking to the jailer, all monies received at the jail will now be deposited daily moving forward, including after hours.

The audit report can be found on the auditor's website.