



**Auditor of
Public Accounts
Allison Ball**

McCreary County Fiscal Court

Audit

FRANKFORT, Ky. – State Auditor Allison Ball has released the audit of the financial statements of the McCreary 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 McCreary 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 payroll revolving account was not properly reconciled.

The payroll revolving account did not reconcile to zero as of June 30, 2024, and the remaining balance could not be readily explained. According to the information available to auditors, the bank statement balance on June 30, 2024, was \$147,023, with \$17,283 of outstanding checks, and \$105,510 of outstanding liabilities, leaving an unexplained balance of \$24,230. In addition, the account was overdrawn 13 times between July 2023 and March 2024. The bank did not charge any overdrawn fees. We recommend the fiscal court properly reconcile the payroll revolving account to a zero balance

Recommendations

monthly. If the county cannot determine the source of the surplus funds, we recommend the county open a new revolving account then transfer the surplus to the general fund once all checks have cleared. Additionally, we recommend the bank reconciliations be reviewed by an employee independent of the reconciliation process. These reviews should be dated and initialed by both the preparer and the reviewer to document evidence of oversight, accuracy and completeness.

County Officials Response

County Judge/Executive's Response: We have initiated the following actions: 1) A spreadsheet has been developed for each payroll deduction with the deposit amount, and then reconciled with the payment amount for the entire fiscal year 2024/2025. We know the approximate amount of the overage and are taking fiscal court action to approve the amount which is over. 2) Fiscal court action was taken to change the payroll deposit to the date which [bank name redacted] makes the deposit

Finding: Did not have proper purchase and procurement procedures.

available to the employees. This should have already corrected the overdraft condition of the account. The fiscal court did not have proper purchase and procurement procedures as noted by the following deficiencies:

Of the 59 invoices tested:

- Eleven invoices, totaling \$574,984, did not have purchase orders.
- One invoice totaling \$100 was a duplicate of the previous month invoice.
- One invoice was a partial prepayment of services (\$500 of the \$1,500 total).

Recommendations

We recommend the fiscal court take the steps necessary to ensure they are following the state local finance officer and the county administrative code. We recommend all individuals review that documentation to ensure the invoice is not a duplicate or a pre-payment of services. We further recommend all purchase orders be issued and completed properly.

County Officials Response

County Judge/Executive's Response: We have initiated the following actions: 1) Purchase orders are now issued for all checks issued other than payroll. 2) The duplicated invoice which was paid has undergone a complete change in procedure in the manner for which the bill was paid. The service has now been incorporated into normal job duties and is issued in payroll. It will not re-occur since it has been eliminated. 3) The prepayment noted involved one vendor and has been corrected in our invoicing and rectified.

Finding: Internal controls over payroll were not operating effectively.

This is a repeat finding and was included in the prior year audit report as finding 2023-004. The McCreary County Fiscal Court's internal controls over payroll processes were not operating effectively as noted by the following deficiencies:

- Three timesheets of the 48 tested had hours that did not match the employee's pay stub.
- Two timesheets of the 48 tested had regularly scheduled shifts overlapping with call time.
- One timesheet of the 48 tested could not be located.
- One timesheet of the 48 tested utilized sick time when the employee did not have an available sick leave balance.
- One timesheet of the 48 tested was not approved by a supervisor.
- One timesheet of the 48 tested used vacation time, but listed the hours as having actually been worked.
- Two timesheets of the 48 tested contained overtime hours that were in fact regular hours.
- One timesheet of the 48 tested contained compensatory time for an ineligible employee.
- The FSA/HAS bank account had insufficient funds of \$9,300 as of June 30, 2024.

Recommendations

We recommend the fiscal court put a control system in place to monitor sick, vacation and leave time, ensure timesheets are reviewed by supervisors and review is documented by signature or initials. We further recommend the fiscal court monitor the FSA/HSA account balances to ensure the bank account is properly funded. In addition, the fiscal court should ensure all members of management comply with the controls the county has implemented.

County Officials Response

County Judge/Executive's Response: We have purchased an electronic timekeeping system to reduce the possibility of human error. We have also initiated a secondary step where calculations are reviewed, and then before the end of the year, we do an internal audit to review any errors so improvement is a continual part of our process. We have addressed compensatory time issues with additional instruction in our administrative code, stopped compensatory time where necessary, and maintain well-documented records to support the hours. In addition, we have replaced the previous administrator of our HRA/FSA with a more modern method of reporting so that balances and reports are available to us at all times.

Finding: Did not have adequate internal controls over the revolving loan program.

Since 1994, the fiscal court has utilized United States Department of Agriculture (USDA) grants to run a Rural Business Enterprise Grant (RBEG) program. The program is designed to encourage new employment opportunities within the county by providing low-cost financing to new businesses. The fiscal court has made 45 loans, totaling \$1,845,345, from fiscal year 1994 through fiscal year 2024. The following issues were noted for fiscal year 2024 as a result of reviewing the program:

- Four loan recipients did not accrue interest during months they did not make payments.
- One loan recipient erroneously accrued interest for one month when a payment had been made early.
- One loan recipient had a payment applied to the wrong month, resulting in an incorrect balance due.
- One loan recipient's promissory note couldn't be located to verify accurate payments were being made.
- One loan appears to have been refinanced in 2020; however, no loan documents could be located. The loan's amortization schedule was changed without a promissory note to support it.

Recommendations

We recommend the fiscal court properly monitor the activities of the revolving loan program, including maintaining all documentation of loan agreements. Additionally, we recommend the fiscal court comply with the requirements of the USDA Application for Federal Assistance SF-424 and ensure that all loans are properly made, documented, collected, and reported.

County Officials Response

County Judge/Executive's Response: The previous administrator of The Revolving Loan Program has resigned and a new employee has been hired. He comes to us with 15 years of banking experience and is working in conjunction with myself and McCreary County Attorney to address issues.

Finding: Did not segregate duties over accounting functions.

A lack of segregation of duties exists over accounting functions. The county treasurer prepares and deposits receipts, posts to the ledgers, prepares financial reports, and prepares the monthly bank reconciliations. Items returned from the bank are handled by the county treasurer. The finance officer picks up mail from the post office then distributes to the proper department. The finance officer prepares a list of bills for the fiscal court's approval, prepares all checks, and makes adjustments to the appropriations ledger. The finance officer submits the financial statement electronically to the Department for Local Government. The finance officer maintains timesheets, prepares payroll, posts payroll to the ledgers and transfers funds from the appropriate accounts to the revolving payroll account. In addition, the finance officer is responsible for employee benefits payments (health insurance, life insurance and payments to the employee benefit bank account).

Recommendations

We recommend the fiscal court segregate the duties involving collecting and depositing receipts and preparation of reports and reconciliations. If this is not feasible due to limited staff, strong oversight over these areas could occur and involve an employee that is not currently performing any of those functions. For example, the county judge/executive could provide this oversight and document his oversight by initiating the source documents.

County Officials Response

County Judge/Executive's Response: Since we are unable to address proper segregation of duties with additional people, we are providing ways to document additional oversight. A chart has been developed to document our work flow and additional personnel from other departments are reviewing and initialing transactions to provide additional documentation.

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

