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, 2025. 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 McCreary County Fiscal Court Did Not Segregate Duties Over Accounting Functions

This is a repeat finding and was included in the prior year audit report as finding 2024-005. 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. The finance officer prepares a list of bills for the fiscal court’s approval, prepares all checks, and adjusts the appropriation ledger if necessary. 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 employees’ benefit payments for health insurance and 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 initialing the source documents.

County Officials Response

County Judge/Executive’s Response: The McCreary County Fiscal Court acknowledges the lack of full segregation of duties due to limited staffing resources. We have developed a plan to strengthen compensating internal controls to provide accountability within the existing staffing constraints. We now have a documented chain of custody for incoming mail, which includes date stamping and appropriate routing from pickup to delivery. All purchase orders are signed by the issuing Finance Officer, the Department Head, the Treasurer, and the Judge Executive. Disbursements and supporting documents are reviewed and then initialed by the Finance Officer, the County Treasurer, and the Judge Executive. Fiscal Court reviews the claims and expenditures providing an additional level of independent review. Monthly bank reconciliations are prepared and reviewed with supervisory initials. Payroll is reviewed and initialed by the finance officer, the treasurer, and the Judge Executive. Our financial software also provides audit trails and tracks transaction activity. We have introduced compensating controls in every instance possible with the employees we have. Nothing is paid without a minimum of three people involved.

Finding: The McCreary County Fiscal Court Reported Inaccurate Budget Figures On The Fourth Quarter Financial Statement

The McCreary County Fiscal Court reported budgeted receipts and appropriations on its fourth quarter financial statement that did not agree to the original budget and approved amendments. Specifically, the occupational tax fund budgeted receipts were overstated by $3,672,770 on the quarterly report. Additionally, the General and Jail Funds budgeted disbursements were overstated by $22,690 and $12,474, respectively.

Recommendations

The McCreary County Fiscal Court should implement a review procedure to ensure that quarterly financial statements accurately reflect the budget as adopted and amended by the fiscal court. All changes affecting budgeted amounts should be formally approved by budget amendment prior to being entered into the accounting system.

County Officials Response

County Judge/Executive's Response: This finding resulted in our failure to record a budget change that was made upon recommendation from Department for Local Government within our computer software. This is attributed to human error and we will take action to ensure that all changes are recorded throughout the different documents.

Finding: The McCreary County Fiscal Court Did Not Have Adequate Internal Controls Over The Service Organization Providing Ambulance Service Billing And Collections

During fiscal year 2025, the McCreary County Fiscal Court utilized a service organization for ambulance service billing and collections. The service organization is responsible for billing ambulance service clients as well as the collections of receivables due to the county. The service organization will provide a statement to the county, which includes three different types of collections. These collections noted below are not reviewed or compared to what the county has collected and are included in its General and EMS Funds:

- Credit card collections the service organization deposits into the county's bank account.
- Listing of EFT's, which would typically include payments from insurance companies, Medicaid and Medicare.
- Listing of individual client checks for bills received for payment by the county's EMS.

Recommendations

We recommend the fiscal court establish controls to properly monitor the service organization providing ambulance service billing and collections.

County Officials Response

County Judge/Executive's Response: McCreary County Fiscal Court utilizes a third-party billing company for billing and collections for the county ambulance service. This finding resulted from a lack of documented procedures to verify the amounts collected and reported from the billing company were accurately deposited into the bank account of the Fiscal Court. The ambulance service has a paramedic who oversees billing on her end, but we do not have the appropriate records to accompany the bank reconciliation. To strengthen internal control required on this process, the treasurer is now performing a weekly reconciliation comparing the deposits to the collections report to ensure that all balance equally. She is retaining the paperwork to document this activity. The reconciliation will be reviewed and initialed by the finance officer as well to provide an additional level of oversight.

Finding: The McCreary County Fiscal Court Lacks Internal Controls For Off-site Collections

The McCreary County Fiscal Court lacks internal controls for off-site collections. The fiscal court collects fees off-site for rentals of campgrounds and park buildings as well as ambulance services. After these funds are collected off-site, they are brought to the county judge/executive's office to be deposited. During testing of these off-site collections, the following deficiencies were noted:

- Cash received in the amount of $2,167 for ambulance services could not be traced to a bank deposit and could not be accounted for.
- Supporting documentation for collections at the ambulance service is not being provided to the county treasurer.
- The county does not issue receipts for the collections at Sandhill Park and these collections are not being deposited timely. Only three deposits were made during one month of collections tested.
- Receipts issued for collections at the senior citizens center are not prenumbered and are not being deposited timely. Only three deposits were made during one month of receipts tested.

Recommendations

We recommend the fiscal court implement a proper system of internal controls over off-site collections. We further recommend prenumbered receipts be issued for all off-site collections and documentation of those receipts should be provided to management for proper reconciliation. In addition, off-site collections should be deposited daily. This finding will be referred to the Kentucky Office of the Attorney General for review.

County Officials Response

County Judge/Executive's Response: The McCreary County Fiscal Court has identified and acknowledges the weakness in internal control over off-site collections including inconsistent use of receipts, lack of standardized tracking procedures, and delays in depositing funds for off-site collections. We can find no evidence of theft but can agree there are ways to provide rigorous accountability. When there is no system, even honest people cannot prove what happened. Therefore, to strengthen our internal controls, McCreary County Fiscal Court has eliminated the acceptance of cash for off-site collections effective immediately. All payments must not be made by check, money order, or approved electronic payment methods. When evaluating our off-site camping collections where collection is done from campsite to campsite, there are very limited ways to account for cash collection without passing on high costs to taxpayers. The Fiscal Court immediately started working on the capability to accept debit and credit card payments in lieu of cash to improve transaction traceability, and the technology is already up and running. This corrective action of eliminating cash will significantly reduce the risk associated with off-site cash collections and will improve accountability, transparency, and the safeguarding of public funds without passing the cost to taxpayers.

Finding: The McCreary County Fiscal Court Lacks Adequate Segregation Of Duties Over Occupational Tax Collections And Net Profit Tax Collections

The McCreary County Fiscal Court collects occupational taxes and net profit tax collections as established per local ordinance. Occupational tax payments are collected in person at the occupational tax office or via mail. The occupational tax administrator and deputy are both responsible for collection of payments, processing payments, and deposit preparation. There is no documented secondary review of these collections.

Recommendations

We recommend the fiscal court strengthen internal controls by segregating duties over occupational tax and net profit tax collections. If segregation is not possible, strong oversight should be implemented. We also recommend the receipts listing be compared to the daily deposit by an individual not involved in the receipt collection process. The employee providing this oversight should document his or her review by initialing all source documentation.

County Officials Response

County Judge/Executive's Response: McCreary Fiscal Court acknowledges that adequate segregation of duties over occupational tax and net profit tax collections was not in place due to limited staffing. Certain procedures relating to the receipt, recording, and reconciliation of tax collections are often performed by the same individual. Immediately upon feedback from the auditors, a secondary review process was established where the County Treasurer reviews the reports for occupational and net profit tax collections. Any monthly reports detailing the collections, deposits, and posting are reviewed and compared to supporting documentation, including bank deposit records. The county treasurer will document this review by initialing and dating the documents and retaining for auditing purposes.

Finding: The McCreary County Fiscal Court Did Not Perform Bank Reconciliations For Revolving Accounts

This is a repeat finding and was included in the prior year audit report as finding 2024-001. The McCreary County Fiscal Court did not prepare bank reconciliations for the revolving accounts, which included a payroll account for employee deductions for federal, social security, state taxes, and retirement and an FSA/HRA account to pay for employee's medical expenses. The fiscal court's revolving accounts are designed to be used as clearing bank accounts for payroll processing and should reconcile to zero every month. Since bank reconciliations were not provided, the accuracy of the cash balance of these accounts as June 30, 2025, could not be verified. The following issues were noted:

- The payroll account had an unreconciled balance as of June 30, 2025, of $80,283. The auditor discovered that the county had unpaid liabilities at year end, so a reconciled balance could not be determined.
- The payroll account was overdrawn twice during fiscal year ending June 30, 2025.
- The HRA/FSA account had an unreconciled balance as of June 30, 2025, of $9,511. The auditor discovered that the county had unpaid liabilities at year end, so a reconciled balance could not be determined.
- The HRA/FSA account was overdrawn twelve times during fiscal year ending June 30, 2025.

Recommendations

We recommend the fiscal court establish procedures to prepare and review bank reconciliations for the payroll and HRA/FSA revolving accounts. Also, oversight procedures to review the bank reconciliations and financial reports prepared by the finance officer should be implemented. The review should be conducted by an independent employee to verify the accuracy and completeness.

County Officials Response

County Judge/Executive's Response: The McCreary Fiscal Court acknowledges the bank reconciliations were not consistently performed for all revolving accounts. Our finance officer was relatively new at that time, and interpreted the prior audit finding to mean the balance on hand must explain how the balance as accumulated (i.e., from withholdings liabilities, etc.). To strengthen our internal controls over cash management, the finance officer will reconcile the revolving accounts to bank statements monthly and provide the reconciliation ledger to the auditors. Each reconciliation will include a comparison of the bank statement balance to the general ledger balance. The reconciliations will be prepared in a timely manner upon receipt of bank statements and reviewed and initialed by another individual in the judge's office to provide an additional level of oversight.

Finding: The McCreary County Fiscal Court Did Not Have Proper Purchase And Procurement Procedures

This is a repeat finding and was included in the prior year audit report as finding 2024-002. The fiscal court did not have proper purchase and procurement procedures and the following deficiencies and non-compliances were noted:

- Two invoices totaling $60,190 had checks issued before the invoice date.
- Five invoices totaling $300,594 were paid more than 30 days after the date of the invoice.

- Six invoices totaling $259,465 had purchase orders prepared after the invoice date.
- Two invoices totaling $410,466 did not have a purchase order issued.
- Eight invoices totaling $1,827 were paid after the due date noted on the invoice.
- One invoice in the amount of $326 had a purchase order prepared after the check was issued.
- Two invoices could not be located. These invoices totaled $41,305.
- Three invoices totaling $398,632 for asphalt were not detailed enough to match to corresponding haul tickets.
- Bid requirement testing resulted in the following:
  - One disbursement in the amount of $44,000 was not advertised for bids.
  - One disbursement of $45,000 was not advertised for bids.
  - One disbursement did not have invoices that were detailed enough to determine whether the price paid agrees to the bid accepted.
  - Two disbursements involved trade-ins, but the administrative code did not allow trade-in as a means of disposal for surplus equipment.
  - One disbursement of $26,807 did not agree to the accepted bid price.
  - One disbursement was for an item purchased through the state agency price contract, but three quotes were not obtained as required.
- Credit card transaction testing resulted in the following:
  - Three transactions totaling $377 did not have a purchase order.
  - One transaction of $165 was missing a supporting invoice.
  - Late fees and interest of $819 were incurred during FY 25.

Recommendations

We recommend the fiscal court take the steps necessary to ensure they are following the state local finance officer requirements, Kentucky statutes and the county administrative code regarding disbursements. We further recommend all purchase orders be issued and completed properly. Additionally, we recommend the fiscal court put controls in place to ensure proper bidding procedures are followed.

County Officials Response

County Judge/Executive's Response: The McCreary County Fiscal Court has identified the conditions in which proper purchase order and procurement procedures were identified as weak. A purchase order review process has been implemented in which utilities and other common purchases are issued a purchase order promptly on the first business day of each month regardless of which day of the month the bill arrives. For emergency purchases, the Fiscal Court will ensure that a formal emergency declaration is documented, including the justification for the emergency and approval by appropriate authority, in accordance with applicable statues. All procurement will follow appliable bidding requirements. Further, the Fiscal Court has amended its ordinance to allow for trade-in of leased vehicles, ensuring that future transactions are conducted in accordance with approved policy.

Finding: The McCreary County Fiscal Court's Internal Controls Over Payroll Were Not Operating Effectively

This is a repeat finding and was included in the prior year report as finding 2024-003. The McCreary County Fiscal Court's internal controls over payroll processes were not operating effectively as indicating by the following deficiencies noted during testing:

- One timesheet calculated overtime based on 80 hours over a pay period instead of per 40-hour work week.
- One timesheet showed half an hour more time worked than total hours paid.
- One timesheet showed compensatory time used, but nothing was deducted from the employee's compensatory time balance.
- Three timesheets did not properly accrue compensatory time.
- Two timesheets were for salaried employees whose pay did not match with the salary schedule approved by fiscal court.

Recommendations

We recommend the fiscal court put a control system in place to monitor compensatory time and ensure timesheets are properly calculated.

County Officials Response

County Judge/Executive's Response: The McCreary County Fiscal Court acknowledges that isolated errors were identified in payroll processing found from rounding, recording of compensatory time, and overtime not paid to the finance officer on one time sheet examined. While these errors were not systemic, they indicate that existing review controls were not consistently applied. To strengthen internal controls over payroll processing, the Finance Officer and Treasurer will review all payroll records, including timesheets and compensatory time balances, to ensure accuracy. Documentation of payroll review will be maintained, including initials and dates, to provide evidence of oversight.

Finding: The McCreary County Fiscal Court Did Not Have Adequate Internal Controls Over The Rural Business Enterprise Grants Revolving Loan Program

The McCreary County Fiscal Court has utilized United States Department of Agriculture (USDA) grants to run a Rural Business Enterprise Grant (RBEG) program since 1994. 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 2025. The following issues were noted for fiscal year 2025:

- 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.
- One loan recipient is being charged an incorrect rate of interest.

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 McCreary County Fiscal Court acknowledges that internal controls over the Rural Business Enterprise Grant revolving loan programs had a period of time with limited documentation and oversight of loan activity due to negligence on the part of the former Deputy Judge Executive/Economic Development Director whose responsibility was to oversee the program. Upon his resignation, a replacement was carefully sought, and the current Director of this loan program has implemented procedures for a centralized loan tracking system which details records of loan issues, payment schedules, outstanding balances, and repayment activity. Loans are supported with written agreements which include terms, repayment schedules, and authorization documentation. Periodic reviews have been established which monitors loan status and supporting documentation and records are maintained for auditing purposes and are overseen by the County Treasurer as well.

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