

**REPORT OF THE AUDIT OF THE  
MCLEAN COUNTY  
FISCAL COURT**

**For The Year Ended  
June 30, 2018**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
MCLEAN COUNTY OFFICIALS.....	5
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS.....	7
NOTES TO FINANCIAL STATEMENT.....	11
BUDGETARY COMPARISON SCHEDULES.....	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	33
SCHEDULE OF CAPITAL ASSETS.....	37
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS.....	38
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	41
SCHEDULE OF FINDINGS AND RESPONSES.....	45

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Curtis Dame, McLean County Judge/Executive  
The Honorable Kelly Thurman, Former McLean County Judge/Executive  
Members of the McLean County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McLean County Fiscal Court, for the year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the McLean County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Curtis Dame, McLean County Judge/Executive  
The Honorable Kelly Thurman, Former McLean County Judge/Executive  
Members of the McLean County Fiscal Court

### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the McLean County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the McLean County Fiscal Court as of June 30, 2018, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the McLean County Fiscal Court as of June 30, 2018, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the McLean County Fiscal Court. The Budgetary Comparison Schedules and Capital Asset Schedule are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky  
 The Honorable Andy Beshear, Governor  
 Holly M. Johnson, Secretary  
 Finance and Administration Cabinet  
 The Honorable Curtis Dame, McLean County Judge/Executive  
 The Honorable Kelly Thurman, Former McLean County Judge/Executive  
 Members of the McLean County Fiscal Court

### **Other Matters (Continued)**

#### *Supplementary Information (Continued)*

The accompanying Budgetary Comparison Schedules and Capital Asset Schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and Capital Asset Schedule are fairly stated in all material respects in relation to the financial statement as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2021, on our consideration of the McLean County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the McLean County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses included herein, which discusses the following report findings:

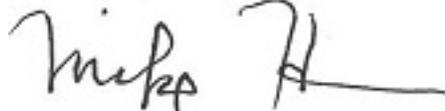
- 2018-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained
- 2018-002 The Mclean County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Processes And Financial Reporting
- 2018-003 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service
- 2018-004 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Maintenance Of The Capital Asset Schedule
- 2018-005 The Current McLean County Judge/Executive And County Treasurer Declined Signing The Required Certification Of Compliance With The Local Government Economic Assistance And Development Programs
- 2018-006 The McLean County Fiscal Court Failed To Implement Sufficient Internal Controls Over Their Service Organization's Collection Of Ambulance Receipts
- 2018-007 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over The Collection Of Receipts At Off-Site Locations
- 2018-008 The McLean County Fiscal Court Was Not In Compliance With Bid Laws And Failed To Implement Adequate Internal Controls Over The Bid Process
- 2018-009 The McLean County Fiscal Court Does Not Have Adequate Internal Controls Over Payroll Processing

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable Curtis Dame, McLean County Judge/Executive  
The Honorable Kelly Thurman, Former McLean County Judge/Executive  
Members of the McLean County Fiscal Court

**Other Reporting Required by *Government Auditing Standards* (Continued)**

- 2018-010 The Former McLean County Treasurer Failed To Reconcile The Payroll Revolving Account
- 2018-011 The Former McLean County Treasurer Failed To Prepare An Annual Settlement As Required Per KRS 68.020(5) And KRS 68.030
- 2018-012 The Former McLean County Judge/Executive Failed To Require Encumbrances Be Properly Reported On The Fourth Quarter Financial Report
- 2018-013 The McLean County Fiscal Court Did Not Have Adequate Controls Over Disbursements And ACH Transactions

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

February 16, 2021

**MCLEAN COUNTY OFFICIALS****For The Year Ended June 30, 2018****Fiscal Court Members:**

Kelly Thurman	County Judge/Executive
Clay Troutman	Magistrate
Bobby Johnson	Magistrate
James Igleheart	Magistrate
Matthew Hayden	Magistrate

**Other Elected Officials:**

Donna Dant	County Attorney
Mike Sallee	Jailer
Stacy Patrick	County Clerk
Stephanie King-Logsdon	Circuit Court Clerk
Kenneth Frizzell	Sheriff
Dale Ayer	Property Valuation Administrator
John Muster, IV	Coroner

**Appointed Personnel:**

Sarah Hawkins	County Treasurer
Elaine Gunterman (Ending June 15, 2018)	Administrative Assistant
Dana Mason (Beginning June 15, 2018)	Administrative Assistant

**MCLEAN COUNTY  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2018**

**MCLEAN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2018**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,707,277	\$ 133,155	\$
Excess Fees	86,121		
Licenses and Permits	4,137		
Intergovernmental	352,029	1,659,442	83,403
Charges for Services	42,358		
Miscellaneous	142,176	110,655	9,042
Interest	295		
Total Receipts	<u>2,334,393</u>	<u>1,903,252</u>	<u>92,445</u>
<b>DISBURSEMENTS</b>			
General Government	1,212,749	28,000	
Protection to Persons and Property	22,398		183,650
General Health and Sanitation	140,627	967	
Social Services	11,467		
Recreation and Culture	24,315		
Roads		1,326,824	
Debt Service	55,908	106,963	
Capital Projects	26,647		
Administration	638,590	234,945	21,383
Total Disbursements	<u>2,132,701</u>	<u>1,697,699</u>	<u>205,033</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>201,692</u>	<u>205,553</u>	<u>(112,588)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Financing Obligation Proceeds		115,858	
Payroll Revolving Account	26,092		
Transfers From Other Funds	202,500	115,591	98,693
Transfers To Other Funds	(558,681)	(202,500)	
Total Other Adjustments to Cash (Uses)	<u>(330,089)</u>	<u>28,949</u>	<u>98,693</u>
Net Change in Fund Balance	(128,397)	234,502	(13,895)
Fund Balance - Beginning (Restated)	<u>344,494</u>	<u>263,368</u>	<u>(53,709)</u>
Fund Balance - Ending	<u>\$ 216,097</u>	<u>\$ 497,870</u>	<u>\$ (67,604)</u>

The accompanying notes are an integral part of the financial statement.

**MCLEAN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

<b>Budgeted Funds</b>				
<b>Local Government Economic Assistance Fund</b>	<b>Ambulance Fund</b>	<b>Fire Department Fund</b>	<b>911 Fund</b>	<b>Senior Citizens Fund</b>
\$	\$	\$	\$ 39,730	\$
674,977	10,000	54,500	153,994	29,856
	504,638	167,209		
6,941	21,127	12,838	100	2,754
145	46	103		
<u>682,063</u>	<u>535,811</u>	<u>234,650</u>	<u>193,824</u>	<u>32,610</u>
118,600				
19,055	651,641	107,453	253,917	
10,379				151,484
20,753				
273,470				
21,500	228,652		67,754	46,569
<u>463,757</u>	<u>880,293</u>	<u>107,453</u>	<u>321,671</u>	<u>198,053</u>
<u>218,306</u>	<u>(344,482)</u>	<u>127,197</u>	<u>(127,847)</u>	<u>(165,443)</u>
	342,500	10,646	145,177	168,568
<u>(246,288)</u>		<u>(76,206)</u>		
<u>(246,288)</u>	<u>342,500</u>	<u>(65,560)</u>	<u>145,177</u>	<u>168,568</u>
(27,982)	(1,982)	61,637	17,330	3,125
<u>220,420</u>	<u>(530,469)</u>	<u>69,741</u>	<u>(203,239)</u>	<u>(56,439)</u>
<u>\$ 192,438</u>	<u>\$ (532,451)</u>	<u>\$ 131,378</u>	<u>\$ (185,909)</u>	<u>\$ (53,314)</u>

The accompanying notes are an integral part of the financial statement.

**MCLEAN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<u>Unbudgeted Fund</u>	
	<b>Justice Center Corporation Fund</b>	<b>Total Funds</b>
	<u>Fund</u>	<u>Funds</u>
<b>RECEIPTS</b>		
Taxes	\$	\$ 1,880,162
Excess Fees		86,121
Licenses and Permits		4,137
Intergovernmental	250,688	3,268,889
Charges for Services		714,205
Miscellaneous		305,633
Interest	<u>34</u>	<u>623</u>
Total Receipts	<u>250,722</u>	<u>6,259,770</u>
<b>DISBURSEMENTS</b>		
General Government		1,359,349
Protection to Persons and Property		1,238,114
General Health and Sanitation		141,594
Social Services		173,330
Recreation and Culture		24,315
Roads		1,326,824
Debt Service	250,688	434,312
Capital Projects		300,117
Administration		<u>1,259,393</u>
Total Disbursements	<u>250,688</u>	<u>6,257,348</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>34</u>	<u>2,422</u>
<b>Other Adjustments to Cash (Uses)</b>		
Financing Obligation Proceeds		115,858
Payroll Revolving Account		26,092
Transfers From Other Funds		1,083,675
Transfers To Other Funds		<u>(1,083,675)</u>
Total Other Adjustments to Cash (Uses)		<u>141,950</u>
Net Change in Fund Balance	34	144,372
Fund Balance - Beginning (Restated)	<u>3,881</u>	<u>58,048</u>
Fund Balance - Ending	<u>\$ 3,915</u>	<u>\$ 202,420</u>
<b>Composition of Fund Balance</b>		
Bank Balance		\$ 125,966
Payroll Revolving Account Reconciled Balance		26,092
Less: Outstanding Checks		(5,801)
Certificates of Deposit		<u>56,163</u>
Fund Balance - Ending		<u>\$ 202,420</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	11
NOTE 2.	DEPOSITS .....	14
NOTE 3.	TRANSFERS.....	14
NOTE 4.	AGENCY TRUST FUNDS .....	15
NOTE 5.	LONG-TERM DEBT .....	15
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM .....	18
NOTE 7.	DEFERRED COMPENSATION.....	21
NOTE 8.	INSURANCE.....	21
NOTE 9.	SUBSEQUENT EVENTS .....	21
NOTE 10.	RELATED PARTY TRANSACTION.....	22
NOTE 11.	PAYROLL REVOLVING ACCOUNT .....	22
NOTE 12.	CONDUIT DEBT.....	22
NOTE 13.	NEGATIVE FUND BALANCES .....	22
NOTE 14.	PRIOR PERIOD ADJUSTMENTS .....	22

**MCLEAN COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2018**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of McLean County includes all budgeted and unbudgeted funds under the control of the McLean County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Fund**

The fiscal court reports the following budgeted fund:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Budgeted Funds (Continued)**

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Ambulance Fund - The primary purpose of this fund is to account for the county's ambulance service. The primary source of receipts for this fund are grants and fees for services.

Fire Department Fund - The primary purpose of this fund is to account for the county's equipment services. The primary sources of receipts for this fund are grants, donations, and fire dues.

911 Fund - The primary purpose of this fund is to account for the county's 911 services. The primary source of receipts for this fund are 911 telephone surcharges.

Senior Citizens Fund - The primary purpose of this fund is to account for the activity of the senior citizens center. The primary source of receipts for this fund is grants and fees for meals.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the justice center corporation fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. McLean County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting McLean County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the McLean County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**H. Jointly Governed Organizations and Joint Ventures**

Regional governments or other multi-governmental arrangements that are governed by representatives from each of the governments that created the organizations but are not joint ventures because the participants do not retain an ongoing financial interest or responsibility. Based on this criteria, the following are considered jointly governed organizations of the McLean Fiscal Court:

Four Star Regional Industrial Park  
 Green River Regional Industrial Development Authority (GRRIDA)  
 Paradise Industrial Park  
 McLean County Park Board  
 McLean County Cemetery Board

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Jointly Governed Organizations and Joint Ventures (Continued)**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the following are considered joint ventures of the McLean Fiscal Court:

McLean Joint City - County Planning Commission  
 Connect GRADD

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, 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. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (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. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2018.

	General Fund	Road Fund	LG EA Fund	Fire Department Fund	Total Transfers In
General Fund	\$	\$ 202,500	\$	\$	\$ 202,500
Road Fund	115,591				115,591
Jail Fund	59,682		24,274	14,737	98,693
Ambulance Fund	218,736		100,382	23,382	342,500
Fire Departments Fund	10,646				10,646
911 Fund	106,136		12,529	26,512	145,177
Senior Citizens Fund	47,890		109,103	11,575	168,568
Total Transfers Out	<u>\$ 558,681</u>	<u>\$ 202,500</u>	<u>\$ 246,288</u>	<u>\$ 76,206</u>	<u>\$ 1,083,675</u>

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 3. Transfers (Continued)**

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Agency Trust Funds**

Agency trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Senior Citizens/GRADD Fund - This fund accounts for donations received from senior meals and are paid over to the Green River Area Development District (GRADD) on a monthly basis. The balance in the senior citizens/GRADD fund as of June 30, 2018, was \$12.

**Note 5. Long-term Debt**

**A. Series 2010 First Mortgage Refunding Revenue Bonds**

On November 30, 2010, the McLean County Justice Center Corporation issued First Mortgage Refunding Revenue Bonds, Series 2010 in the amount of \$2,570,000. The bonds were dated November 30, 2010, payable semi-annually on March 1 and September 1, beginning March 1, 2011. The interest rate on the bonds ranges from 2.0% to 4.0%. The McLean County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the McLean County Judicial Center. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning March 1, 2015 through March 1, 2027.

The fiscal court issued the bonds to refund the First Mortgage Revenue Bonds, Series 2001A due on or after March 1, 2011. The refunding of the series 2001A bonds have been accomplished pursuant to the escrow agreement by and between the county and U.S. Bank, National Association, the paying agent for the series 2001A bonds (the "escrow agent") by depositing with the escrow agent a sum of initial cash provided from the proceeds of the bonds. Amounts deposited with the escrow agent bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid according to their respective terms, sufficient moneys together with any amounts of cash then on deposit with the escrow agent, will be available to fully provide for the scheduled principal and interest payments outstanding for the series 2001A bonds. Principal outstanding as of June 30, 2018, was \$1,830,000. Future debt service requirement are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 180,000	\$ 65,288
2020	190,000	59,887
2021	190,000	54,188
2022	200,000	48,250
2023	205,000	41,750
2024-2027	865,000	89,775
Totals	<u>\$ 1,830,000</u>	<u>\$ 359,138</u>

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Sewer Project**

On July 26, 2001, the McLean County Fiscal Court borrowed \$400,000 from the Kentucky Association of Counties Leasing Trust for the construction of and improvements to the McLean County sewer system. The interest rate is variable, with payments due monthly for twenty years. The principal balance at June 30, 2018, was \$85,000. Future interest and principal requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 25,000	\$ 4,029
2020	30,000	2,566
2021	30,000	945
Totals	<u>\$ 85,000</u>	<u>\$ 7,540</u>

**C. Park Improvements**

On September 8, 2008, the McLean County Fiscal Court borrowed \$275,000 from the Kentucky Association of Counties Leasing Trust for the purpose of improving county parks. The interest rate is variable, with payments due monthly for twenty-five years. The principal balance at June 30, 2018, was \$178,710. Future interest and principal requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 14,849	\$ 11,273
2020	10,000	10,646
2021	10,000	9,997
2022	10,000	9,377
2023	10,000	8,750
2024-2028	50,000	34,360
2029-2033	73,861	15,538
Totals	<u>\$ 178,710</u>	<u>\$ 99,941</u>

**D. Courthouse Renovations Refinance**

On November 30, 2012, the McLean County Fiscal Court borrowed \$220,000 from the Kentucky Association of Counties Leasing Trust for the purpose of refinancing a lease agreement dated December 3, 2011, by and between the Kentucky Area Development Districts Financing Trust and the County of McLean County, Kentucky, proceeds of which were used to complete the renovations of the McLean County Courthouse. The interest rate is variable, with payments due until February 1, 2028. The principal balance at June 30, 2018, was \$155,000. Future interest and principal requirements are:

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**D. Courthouse Renovations Refinance (Continued)**

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 15,000	\$ 4,560
2020	15,000	4,223
2021	15,000	3,885
2022	15,000	3,547
2023	15,000	3,195
2024-2028	<u>80,000</u>	<u>9,525</u>
Totals	<u>\$ 155,000</u>	<u>\$ 28,935</u>

**E. Ambulance and Fire Truck**

On May 2, 2014, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$50,000. The interest rate is fixed at 2.44%. Five equal annual installments of principal and interest in the amount of \$10,744 are due. The principal balance at June 30, 2018, was \$9,529. Future interest and principal requirements are:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	<u>\$ 9,529</u>	<u>\$ 268</u>
Totals	<u>\$ 9,529</u>	<u>\$ 268</u>

**F. Excavator**

On April 6, 2017, the McLean County Fiscal Court entered into a promissory note and loan agreement in the amount of \$106,580 for the purchase of an excavator for the road department. The interest rate is fixed at 2.99%. Payments of principal and interest are due monthly for 48 months. The principal balance at June 30, 2018 was \$0.

**G. Excavator**

On April 25, 2018, the McLean County Fiscal Court entered into a promissory note and loan agreement in the amount of \$115,858 for the purchase of an excavator for the road department. The interest rate is fixed at 2.99%. Payments of principal and interest are due monthly for 48 months. The principal balance at June 30, 2018 was \$111,301.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**G. Excavator (Continued)**

Fiscal Year Ending June 30	Principal	Scheduled Interest
2019	\$ 27,828	\$ 2,941
2020	28,662	2,106
2021	29,530	1,237
2022	25,281	355
Totals	<u>\$ 111,301</u>	<u>\$ 6,639</u>

**H. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Refunding Revenue Bonds	\$ 2,010,000	\$	\$ 180,000	\$ 1,830,000	\$ 180,000
Financing Obligations	586,645	115,858	162,963	539,540	92,206
Total Long-term Debt	<u>\$ 2,596,645</u>	<u>\$ 115,858</u>	<u>\$ 342,963</u>	<u>\$ 2,369,540</u>	<u>\$ 272,206</u>

**Note 6. Employee Retirement System**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2016 was \$349,372, FY 2017 was \$370,958, and FY 2018 was \$419,786.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Nonhazardous (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 19.18 percent.

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 161.714 with exception of COLA and retiree health benefits after July 2003.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5%. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5% cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 161.714 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

D. Cost of Living Adjustments - Tier 2 and Tier 3

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

E. Death Benefit

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share. Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 7. Deferred Compensation**

The McLean County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2nd Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.

**Note 8. Insurance**

For the fiscal year ended June 30, 2018, the McLean County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Subsequent Events**

- A. Sarah Hawkins, former McLean County Treasurer, was not reappointed at the end of her term. On May 22, 2019, the McLean County Fiscal Court approved advertising for the treasurer's position to be appointed in June. On June 28, 2019, the fiscal court appointed Belinda Stirsman as the new McLean County Treasurer.
- B. On July 2, 2019, the McLean County Fiscal Court entered into an agreement in the amount of \$120,200 in order to be able to meet their payroll. Then on July 10, 2019, the McLean County Fiscal Court entered into another agreement in the amount of \$499,000 for a promissory note to be used as a line of credit. An initial draw in the amount \$120,200 was made on July 18, 2019, to pay-off the original loan. To date, an additional \$396,907 has been borrowed against this line of credit and \$519,894 has been paid in principal and interest as of August 14, 2020. The balance on the line of credit as of August 14, 2020, was \$0.
- C. On July 23, 2020, the McLean County Fiscal Court entered into an agreement in the amount of \$300,000 for operating purposes. To date, \$609,114 has been borrowed against this line of credit and \$526,087 has been paid in principal and interest. The balance on the line of credit as of February 12, 2021, was \$86,019.
- D. On July 23, 2020, the McLean County Fiscal Court entered into an agreement in the amount of \$300,000 for road projects. To date, only \$250 in fees has been attributed to this line of credit and \$252 has been paid in principal and interest. The balance on the road line of credit as of February 11, 2021, was \$0.

**MCLEAN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2018**  
**(Continued)**

**Note 10. Related Party Transaction**

The McLean County Fiscal Court paid \$1,635 for fiscal year June 30, 2018, to a lawn care business owned by a magistrate's son.

**Note 11. Payroll Revolving Account**

The reconciled balance of \$26,092 in the payroll revolving account as of June 30, 2018, was added to the general fund cash balance for financial reporting purposes.

**Note 12. Conduit Debt**

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the McLean County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. As of June 30, 2018, conduit debt has been issued but the amount currently outstanding is not reasonably determinable.

**Note 13. Negative Fund Balances**

The audited financial statements show negative fund balances in the jail fund (\$67,604), in the ambulance fund (\$532,451), in the 911 fund (\$185,909), and in the senior citizens fund (\$53,314). These negative balances are due to all funds being maintained in a combined bank account. At the end of the fiscal year, the combined bank account had a positive balance, which was a result of the road, LGEA, and fire department funds having large cash balances to offset those funds with negative cash balances. However, the road, LGEA, and fire department funds are restricted and cannot be used to fund deficits of other funds.

**Note 14. Prior Period Adjustments**

	<u>General Fund</u>	<u>LGEA Fund</u>
Ending Cash Balances Prior Year	\$ 317,622	\$ 170,420
Unexplained Variances	<u>26,872</u>	<u>50,000</u>
Beginning Fund Balance Restated	<u>\$ 344,494</u>	<u>\$ 220,420</u>

**MCLEAN COUNTY  
BUDGETARY COMPARISON SCHEDULES  
Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2018**

THIS PAGE LEFT BLANK INTENTIONALLY

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2018**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,604,500	\$ 1,619,642	\$ 1,707,277	\$ 87,635
Excess Fees	70,000	86,121	86,121	
Licenses and Permits	4,134	4,134	4,137	3
Intergovernmental	311,412	318,059	352,029	33,970
Charges for Services	37,000	37,000	42,358	5,358
Miscellaneous	243,750	331,151	142,176	(188,975)
Interest	500	500	295	(205)
Total Receipts	<u>2,271,296</u>	<u>2,396,607</u>	<u>2,334,393</u>	<u>(62,214)</u>
<b>DISBURSEMENTS</b>				
General Government	1,252,094	1,214,895	1,212,749	2,146
Protection to Persons and Property	20,361	22,398	22,398	
General Health and Sanitation	124,641	140,627	140,627	
Social Services	8,800	11,467	11,467	
Recreation and Culture	59,292	24,475	24,315	160
Debt Service	61,944	55,908	55,908	
Capital Projects	20,000	26,647	26,647	
Administration	492,304	764,870	638,590	126,280
Total Disbursements	<u>2,039,436</u>	<u>2,261,287</u>	<u>2,132,701</u>	<u>128,586</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>231,860</u>	<u>135,320</u>	<u>201,692</u>	<u>66,372</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	202,500	202,500	202,500	
Transfers To Other Funds	(632,612)	(720,013)	(558,681)	161,332
Total Other Adjustments to Cash (Uses)	<u>(430,112)</u>	<u>(517,513)</u>	<u>(356,181)</u>	<u>161,332</u>
Net Change in Fund Balance	(198,252)	(382,193)	(154,489)	227,704
Fund Balance - Beginning (Restated)	<u>198,252</u>	<u>198,252</u>	<u>344,494</u>	<u>146,242</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (183,941)</u>	<u>\$ 190,005</u>	<u>\$ 373,946</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 120,000	\$ 120,000	\$ 133,155	\$ 13,155
Intergovernmental	1,496,366	1,501,729	1,659,442	157,713
Miscellaneous	13,910	56,847	110,655	53,808
Total Receipts	<u>1,630,276</u>	<u>1,678,576</u>	<u>1,903,252</u>	<u>224,676</u>
<b>DISBURSEMENTS</b>				
General Government	28,000	28,000	28,000	
General Health and Sanitation	21,200	18,172	967	17,205
Roads	1,259,873	1,311,201	1,326,824	(15,623)
Debt Service	28,500	115,901	106,963	8,938
Administration	238,203	238,203	234,945	3,258
Total Disbursements	<u>1,575,776</u>	<u>1,711,477</u>	<u>1,697,699</u>	<u>13,778</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>54,500</u>	<u>(32,901)</u>	<u>205,553</u>	<u>238,454</u>
<b>Other Adjustments to Cash (Uses)</b>				
Financing Obligation Proceeds			115,858	115,858
Transfers From Other Funds		87,401	115,591	28,190
Transfers To Other Funds	(202,500)	(202,500)	(202,500)	
Total Other Adjustments to Cash (Uses)	<u>(202,500)</u>	<u>(115,099)</u>	<u>28,949</u>	<u>144,048</u>
Net Change in Fund Balance	(148,000)	(148,000)	234,502	382,502
Fund Balance - Beginning	148,000	148,000	263,368	115,368
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 497,870</u>	<u>\$ 497,870</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>JAIL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 84,525	\$ 84,525	\$ 83,403	\$ (1,122)
Miscellaneous	4,000	4,000	9,042	5,042
Total Receipts	<u>88,525</u>	<u>88,525</u>	<u>92,445</u>	<u>3,920</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property Administration	128,300	183,650	183,650	
	19,218	21,383	21,383	
Total Disbursements	<u>147,518</u>	<u>205,033</u>	<u>205,033</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(58,993)</u>	<u>(116,508)</u>	<u>(112,588)</u>	<u>3,920</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	58,993	58,993	98,693	39,700
Total Other Adjustments to Cash (Uses)	<u>58,993</u>	<u>58,993</u>	<u>98,693</u>	<u>39,700</u>
Net Change in Fund Balance		(57,515)	(13,895)	43,620
Fund Balance - Beginning			(53,709)	(53,709)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (57,515)</u>	<u>\$ (67,604)</u>	<u>\$ (10,089)</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 555,000	\$ 667,627	\$ 674,977	\$ 7,350
Miscellaneous			6,941	6,941
Interest			145	145
Total Receipts	<u>555,000</u>	<u>667,627</u>	<u>682,063</u>	<u>14,436</u>
<b>DISBURSEMENTS</b>				
General Government	9,000	118,600	118,600	
Protection to Persons and Property	13,547	19,055	19,055	
Social Services	10,246	10,379	10,379	
Roads	124,500			
Debt Service	20,906	20,753	20,753	
Capital Projects	80,000	273,470	273,470	
Administration	15,000	21,500	21,500	
Total Disbursements	<u>273,199</u>	<u>463,757</u>	<u>463,757</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>281,801</u>	<u>203,870</u>	<u>218,306</u>	<u>14,436</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	<u>(331,801)</u>	<u>(331,801)</u>	<u>(246,288)</u>	<u>85,513</u>
Total Other Adjustments to Cash (Uses)	<u>(331,801)</u>	<u>(331,801)</u>	<u>(246,288)</u>	<u>85,513</u>
Net Change in Fund Balance	(50,000)	(127,931)	(27,982)	99,949
Fund Balance - Beginning (Restated)	<u>50,000</u>	<u>50,000</u>	<u>220,420</u>	<u>170,420</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (77,931)</u>	<u>\$ 192,438</u>	<u>\$ 270,369</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>AMBULANCE FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 10,000	\$
Charges for Services	515,000	523,452	504,638	(18,814)
Miscellaneous	2,500	2,500	21,127	18,627
Interest	125	125	46	(79)
Total Receipts	<u>527,625</u>	<u>536,077</u>	<u>535,811</u>	<u>(266)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	711,782	652,825	651,641	1,184
Administration	234,147	228,652	228,652	
Total Disbursements	<u>945,929</u>	<u>881,477</u>	<u>880,293</u>	<u>1,184</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(418,304)</u>	<u>(345,400)</u>	<u>(344,482)</u>	<u>918</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	494,854	494,854	342,500	(152,354)
Total Other Adjustments to Cash (Uses)	<u>494,854</u>	<u>494,854</u>	<u>342,500</u>	<u>(152,354)</u>
Net Change in Fund Balance	76,550	149,454	(1,982)	(151,436)
Fund Balance - Beginning	<u>(76,550)</u>	<u>(76,550)</u>	<u>(530,469)</u>	<u>(453,919)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 72,904</u>	<u>\$ (532,451)</u>	<u>\$ (605,355)</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>FIRE DEPARTMENT FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 55,000	\$ 55,000	\$ 54,500	\$ (500)
Charges for Services	199,000	199,000	167,209	(31,791)
Miscellaneous	11,500	11,500	12,838	1,338
Interest			103	103
Total Receipts	<u>265,500</u>	<u>265,500</u>	<u>234,650</u>	<u>(30,850)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	130,450	107,217	107,453	(236)
Administration	135,050	10,000		10,000
Total Disbursements	<u>265,500</u>	<u>117,217</u>	<u>107,453</u>	<u>9,764</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>148,283</u>	<u>127,197</u>	<u>(21,086)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			10,646	10,646
Transfers To Other Funds			<u>(76,206)</u>	<u>(76,206)</u>
Total Other Adjustments to Cash (Uses)			<u>(65,560)</u>	<u>(65,560)</u>
Net Change in Fund Balance		148,283	61,637	(86,646)
Fund Balance - Beginning			<u>69,741</u>	<u>69,741</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 148,283</u>	<u>\$ 131,378</u>	<u>\$ (16,905)</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>911 FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 45,000	\$ 45,000	\$ 39,730	\$ (5,270)
Intergovernmental	180,000	180,000	153,994	(26,006)
Miscellaneous			100	100
Total Receipts	<u>225,000</u>	<u>225,000</u>	<u>193,824</u>	<u>(31,176)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property Administration	342,600	253,699	253,917	(218)
	81,006	67,754	67,754	
Total Disbursements	<u>423,606</u>	<u>321,453</u>	<u>321,671</u>	<u>(218)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(198,606)</u>	<u>(96,453)</u>	<u>(127,847)</u>	<u>(31,394)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	248,606	248,606	145,177	(103,429)
Total Other Adjustments to Cash (Uses)	<u>248,606</u>	<u>248,606</u>	<u>145,177</u>	<u>(103,429)</u>
Net Change in Fund Balance	50,000	152,153	17,330	(134,823)
Fund Balance - Beginning	<u>(50,000)</u>	<u>(50,000)</u>	<u>(203,239)</u>	<u>(153,239)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 102,153</u>	<u>\$ (185,909)</u>	<u>\$ (288,062)</u>

**MCLEAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2018**  
**(Continued)**

	<b>SENIOR CITIZENS FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 28,000	\$ 28,000	\$ 29,856	\$ 1,856
Miscellaneous	4,200	4,200	2,754	(1,446)
Total Receipts	<u>32,200</u>	<u>32,200</u>	<u>32,610</u>	<u>410</u>
<b>DISBURSEMENTS</b>				
Social Services	150,960	151,544	151,484	60
Administration	43,200	46,569	46,569	
Total Disbursements	<u>194,160</u>	<u>198,113</u>	<u>198,053</u>	<u>60</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(161,960)</u>	<u>(165,913)</u>	<u>(165,443)</u>	<u>470</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>161,960</u>	<u>161,960</u>	<u>168,568</u>	<u>6,608</u>
Total Other Adjustments to Cash (Uses)	<u>161,960</u>	<u>161,960</u>	<u>168,568</u>	<u>6,608</u>
Net Change in Fund Balance		(3,953)	3,125	7,078
Fund Balance - Beginning			<u>(56,439)</u>	<u>(56,439)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (3,953)</u>	<u>\$ (53,314)</u>	<u>\$ (49,361)</u>

**MCLEAN COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2018**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of the General Fund**

Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (356,181)
To adjust for Payroll Revolving Account	<u>26,092</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (330,089)</u>
Fund Balance - Ending - Budgetary Basis	\$ 190,005
To adjust for Payroll Revolving Account	<u>26,092</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 216,097</u>

**Note 3. Excess of Disbursements Over Appropriations**

Road fund, roads line item, exceeded budget appropriations by \$15,623.

Fire department fund, protection to persons and property line item, exceeded budget appropriations by \$236.

911 fund, protection to persons and property line item, exceeded budget appropriations by \$218, as well as, the total budget by \$218.

THIS PAGE LEFT BLANK INTENTIONALLY

**MCLEAN COUNTY  
SCHEDULE OF CAPITAL ASSETS  
Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2018**

THIS PAGE LEFT BLANK INTENTIONALLY

**MCLEAN COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2018**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance (*Restated)	Additions	Deletions	Ending Balance
Land*	\$ 1,250,309	\$	\$	\$ 1,250,309
Buildings*	8,418,636			8,418,636
Vehicles and Equipment*	1,971,667	266,088		2,237,755
Other Equipment*	2,643,392	219,233	113,605	2,749,020
Infrastructure*	3,910,686	508,654		4,419,340
 Total Capital Assets	 <u>\$ 18,194,690</u>	 <u>\$ 993,975</u>	 <u>\$ 113,605</u>	 <u>\$19,075,060</u>

**MCLEAN COUNTY  
NOTES TO REGULATORY SUPPLEMENTARY  
INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2018**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 25,000	50
Buildings and Building Improvements	\$ 25,000	50
Other Equipment	\$ 5,000	10
Vehicles and Equipment	\$ 10,000	10
Infrastructure	\$ 25,000	50

**Note 2. Restatement of Capital Assets Beginning Balance**

	<u>Land</u>	<u>Buildings</u>	<u>Vehicles and Equipment</u>	<u>Other Equipment</u>	<u>Infrastructure</u>
Prior Year Ending Balances	\$ 1,231,309	\$ 8,300,443	\$ 2,022,496	\$ 2,628,327	\$ 4,503,040
Omitted Assets	19,000	118,193		15,065	
Assest Erroneously Included			(50,829)		(592,354)
Beginning Balances Restated	<u>\$ 1,250,309</u>	<u>\$ 8,418,636</u>	<u>\$ 1,971,667</u>	<u>\$ 2,643,392</u>	<u>\$ 3,910,686</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Curtis Dame, McLean County Judge/Executive  
The Honorable Kelly Thurman, Former McLean County Judge/Executive  
Members of the McLean County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McLean County Fiscal Court for the fiscal year ended June 30, 2018, and the related notes to the financial statement which collectively comprise the McLean County Fiscal Court's financial statement and have issued our report thereon dated February 16, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the McLean County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McLean County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-007, 2018-008, 2018-009, 2018-010, 2018-011, 2018-012, and 2018-013 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the McLean County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005.

**Views of Responsible Official and Planned Corrective Action**

McLean County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

February 16, 2021

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2018**

THIS PAGE LEFT BLANK INTENTIONALLY

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2018**

FINANCIAL STATEMENT FINDINGS:

2018-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained

---

This is a repeat finding and was included in the prior year audit report as findings 2017-001, 2017-002, and 2017-004. There were no functioning internal controls in place over the work performed by the former county treasurer. The fiscal court failed to provide adequate oversight, allowing the former county treasurer complete control over the accounting and reporting functions. The following deficiencies and errors were noted during the performance of the audit:

- The fourth quarter financial report was incomplete and inaccurate:
  - The total budgeted amount for general fund receipts per the approved budget did not agree to the amount reported as budgeted amounts per the fourth quarter report. Budgeted receipts were overstated by \$22,715.
  - The former county treasurer failed to complete the summary/reconciliation page of the fourth quarter financial report.
  - Receipts and disbursements were recorded to the incorrect funds on the fourth quarter financial report. For example, a reimbursement of \$16,170 was recorded in the LGEA fund but should have been recorded in the general fund; insurance proceeds of \$97,794 and \$12,675, which should have been recorded in the road and ambulance funds, respectively, were recorded in the general fund; and retirement for the road fund in the amount of \$4,607 was recorded in the general fund. There were numerous other classification errors noted within the funds, which required audit adjustments to correct.
  - Total disbursements per the fourth quarter report were overstated by \$24,641 when compared to the disbursements ledger.
  - Prior year cash and fund balances were omitted from the fourth quarter financial report.
  - A complete and correct fourth quarter financial report, including cash and fund balances as well as encumbrances was provided to the Department for Local Government (DLG) on August 10, 2018. This report was due on the 20th day following the close of the fourth quarter, which is July 20, 2018. The fourth quarter financial report that was submitted to DLG on August 10, 2018, and later provided to auditors did not include reconciled cash and fund balances or encumbrances.
  - There were no receipt or disbursements ledgers maintained to support amounts reported on the fourth quarter financial statement due to the computer system losing all financial information for the 2018 fiscal year. These had to be recreated by the current treasurer and other staff.
  - Liabilities were misstated on the fourth quarter report by \$727,642 (see finding 2018-003).
  - Bank reconciliations were not performed for fiscal year 2018 (see finding 2018-002).
- The former county treasurer failed to present financial reports to the fiscal court for December 2017, January 2018, and May 2018.
- The jail, ambulance, 911, and senior citizens funds all had negative fund balances at June 30, 2018, in the amounts of \$67,604, \$532,451, \$185,909, and \$53,314, respectively.
- The protection to persons and property line item in the fire department and 911 funds were overspent by \$236 and \$218, respectively.

Additional internal control issues noted were:

- An emergency was declared for the approval and adoption of the fiscal year 2017-2018 budget on June 30, 2017, and then on June 29, 2018, for a fiscal year 2018 budget amendment.
- An emergency budget amendment was declared because there was not time to publish and advertise before the end of the fiscal year. Time constraints and lack of proper planning do not meet the definition of a legitimate emergency.

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

---

Additional internal control issues noted were: (Continued)

- Financial reports remitted to each fire district were inaccurate and did not agree to amounts remitted on quarterly financial statements.
- Accounting software back-up procedures were insufficient. When the accounting software crashed due to a corrupt file, the former county treasurer was unable to restore the activity for fiscal year 2018 from the back-up. The county's back-up system was not able to maintain the pertinent data since so much time had passed from the corruption event.

The McLean County Fiscal Court failed to implement a strong internal control system or provide proper oversight to ensure complete and accurate accounting records were maintained, and instead relied on a single person without adequate oversight. Additionally, the former county treasurer lacked sufficient understanding of all accounting concepts and responsibilities.

Due to the lack of oversight of the former treasurer's functions by the fiscal court and the treasurer's lack of understanding of her duties as prescribed by the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, the deficiencies, non-compliances, and undetected errors noted above pertaining to required record-keeping were allowed to occur. Additionally the fiscal court was unable to properly budget and plan for the following fiscal year due to inaccurate financial information being presented. The inaccurate and incomplete financial reporting also hid the deficits that were occurring in several county funds.

Strong internal controls over the reporting process are vital to ensure the fiscal court's financial reports accurately reflect the financial activity of the fiscal court, as well as, adherence to applicable laws and regulations.

KRS 65.905(2) states, "[t]he final quarterly report filed by a county within fifteen (15) days after the end of the last quarter of the fiscal year, in accordance with KRS 68.360(2), shall be deemed the uniform financial information report for that county for purposes of compliance with KRS 65.900 to 65.925."

KRS 68.260(1) states, "[t]he proposed county budget, tentatively approved by the fiscal court and approved by the state local finance officer as to form and classification, shall be submitted to the fiscal court for adoption not later than July 1 of each year. The budget as presented and amended shall be adopted as of July 1. The county judge/executive shall cause a copy of the proposed budget to be posted in a conspicuous place in the courthouse near the front door, and be published pursuant to KRS Chapter 424, at least seven (7) days before final adoption by the fiscal court."

KRS 68.020(4) states that county treasurer, "shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of account of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer."

KRS 68.110(1) forbids expenditures in excess of revenues and states, "[t]he fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year or levied, collected or appropriated for any special purpose."

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-001 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls To Ensure Complete And Accurate Accounting Records Were Maintained (Continued)

---

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the county treasurer to "[p]repare a quarterly financial report for the State Local Finance Officer." The manual also provide a format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, and actual receipts and disbursements and totals available in each line item. The manual goes on to state, "[a] budget amendment is an ordinance and must be approved by the fiscal court in the statutorily prescribed manner including advertising and publishing requirements. All amendments to a county budget must be approved by the State Local Finance Officer as mandated by KRS 68.280." It further states, "[a]ny amendments to a county budget submitted to the State Local Finance Officer on an emergency basis must strictly adhere to the provisions of KRS 67.078 and a photocopy of the fiscal court order naming and describing the emergency much accompany the budget amendment pursuant to KRS 68.280."

In addition, KRS 68.360(1) states, "[t]he county treasurer shall balance his books on the first day of each month, so as to show the correct amount on hand belonging to each fund on the day the balance is made, and shall within ten (10) days file with the county judge/executive and members of the fiscal court a monthly statement containing a list of warrants paid by him during the month, showing all cash receipts and the cash balance at the beginning and at the end of the month, and certifying that each warrant or contract is within the budget appropriation."

We recommend the McLean County Fiscal Court strengthen oversight and internal controls in order to ensure complete and accurate accounting records are maintained and that no one individual has control over the accounting functions without establishing checks and balances to verify amounts recorded and reported are accurate.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The current McLean County Judge/Executive and Treasurer fully understand and realize the implications of insufficient internal controls regarding accounting records that were conducted during FY2018 by prior staff and elected officials. The Fiscal Court has approved, upon recommendation by the current Judge/Executive, the purchase and installation of improved financial management software. The software adheres to standards included in KRS 68.210 regarding the implementation of a uniform system of accounts.*

*In addition, the current Judge/Executive and treasurer also realize the brevity and necessity of following KRS 68.020, 68.110, 65.905, 68.260, and 68.360 regarding proper reporting, deadlines and budget creation. The strength and fiscal soundness of McLean County relies on having our fiscal house in order which has not been the case for a number of years.*

*Lastly, the Judge/Executive and Treasurer will continue to consult with neighboring counties for ideas and procedures to streamline duties and reporting procedures.*

**MCLEAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Processes And Financial Reporting

---

This is a repeat finding and was included in the prior year audit report as finding 2017-010. The McLean County Fiscal Court had internal control weaknesses and non-compliances regarding cash processes and financial reporting. The following findings were noted with McLean County Fiscal Court's cash processes and financial reporting:

- The former treasurer failed to perform monthly bank reconciliations for all bank accounts, including, the payroll revolving account for the entire fiscal year ending June 30, 2018. The former county treasurer stopped preparing monthly reconciliations in February 2016. The fiscal court entered into an agreement on December 18, 2018, with an outside CPA firm to prepare the bank reconciliations for fiscal years 2017-2018 and 2018-2019.
- The former county treasurer failed to record interest earned on certificates of deposit in the amount of \$249. This amount includes \$145 in interest earned in the LGEA fund and \$104 earned in the fire department fund.
- The former county treasurer failed to record a \$100 withdrawal from the fire department fund truck account to the disbursement ledger.
- The former county treasurer failed to accurately maintain and report the financial activity for the justice center corporation. The former county treasurer netted the receipts and disbursements for March 2018, causing them to be understated \$215,844.
- The former treasurer presented \$311,725 of cash transfers for the months of July and August 2018 to the fiscal court in December 2018. These amounts do not agree to what was reported on the fourth quarter financial statement. Additionally, we noted one cash transfer in the amount of \$26,512 was never approved by the fiscal court.
- The former treasurer transferred \$76,206 from the fire department fund (a restricted fund) to various other funds. The general fund repaid \$10,646 back to the fire department fund.

The former county treasurer's lack of understanding of accounting concepts and responsibilities caused the findings noted above. Additionally, there were no internal controls implemented by the fiscal court to discover the aforementioned problems.

The failure to maintain accurate and detailed accounting information does not provide a true picture of the activities within the fiscal court's accounts and increases the risk that undetected misstatements due to error or fraud could occur. Furthermore, the McLean County Fiscal Court's lack of controls resulted in the LGEA fund and fire department fund cash balances being understated by \$145 and \$4, respectively, as well as, the financial activity of the justice center corporation being understated by \$215,844. Unallowable transfers from the fire department fund created a receivable from other funds due back to the fire department fund in the amount of \$65,560.

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. Additionally, strong internal controls over bank reconciliations are vital in ensuring that cash balances have been accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them. Furthermore, fire department funds are restricted for use per the county's fire dues ordinance and the nature of other fire department fund receipts.

**MCLEAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-002 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Cash Processes And Financial Reporting (Continued)

---

We make the following recommendations to address these findings:

- Monthly bank reconciliations should be performed and submitted to the fiscal court for approval for all funds of the McLean County Fiscal Court.
- All interest earned on certificates of deposit should be recorded to the appropriate fund's receipts ledger.
- All financial activity for the justice center corporation should be accurately maintained by the county treasurer.
- All cash transfers should be approved by the fiscal court prior to the county treasurer making the transfer. Fiscal court approval of all transfers should be documented in the fiscal court orders.
- The fire department fund should be reimbursed for unallowable transfers of restricted funds.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: Proper training and adherence to statutes regarding uniform budgeting and accounting procedures have historically been insufficient in McLean County. Since July of 2019, the McLean County Fiscal Court has approved substantial changes regarding adequate internal controls which have included changing staff, following proper cash accounting procedures, following proper budget transfers and amendments, and the presentation of reports prior to fiscal court meetings.*

*Lastly, proper adoption of procedures listed in KRS 68.210 gives an adequate framework for the treasurer and court to report cash activity. For FY2021 the Judge/Executive has implemented enhanced daily cash receipt tracking to help with proper documentation of receipts for each fund, site and department.*

2018-003 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service

---

This is a repeat finding and was included in the prior year audit report as findings 2017-004 and 2017-022. Material internal control weaknesses existed over the reporting of debt and debt service of the McLean County Fiscal Court, and the following discrepancies were noted:

- The June 30, 2018 outstanding debt balances reported on the fourth quarter financial report were materially misstated when compared to the actual debt balances confirmed with lenders. According to the fourth quarter financial report, total long-term liabilities were \$3,097,182 as of June 30, 2018. This balance is overstated for four debt issues, which included a balance for the 2017 excavator that was paid off in January 2018. The combined misstatement is \$727,642.
- Interest balances were overstated by \$621,366.
- The McLean County Fiscal Court borrowed \$115,858 in April 2018, to purchase a 2018 excavator. The loan proceeds were paid directly to the vendor on behalf of the fiscal court for this purchase. Therefore, it was not included in the county's financial statements as a budgeted disbursement for fiscal year ended June 30, 2018.
- The McLean County Fiscal Court failed to approve the financing for the 2018 excavator.

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Debt And Debt Service (Continued)

---

The county failed to implement a strong internal control system over debt and debt service, and instead relied on a single person without adequate oversight. Additionally, the former county treasurer was not aware that she needed to budget for or record loan proceeds when they were paid directly by the lender to the vendor, since she did not directly receive these funds. This lack of internal controls resulted in the county's fourth quarter financial report being materially misstated. Additionally, by not properly budgeting these items, the fiscal court overspent the roads line item by \$15,623 in the road fund.

Strong internal controls over outstanding debt and debt service are necessary to ensure accurate financial reporting. Also, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including outstanding debt and liabilities. It also requires all borrowed money received and repaid must be reflected in the county budget. The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

We recommend the county strengthen internal controls over the reporting of debt service payments and outstanding liability 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 its lenders to verify outstanding debt balances are in agreement with the county's schedule of leases and liabilities. The fiscal court should also ensure that they properly budget and record all borrowed money and any related purchases. All financing arrangements should be approved by the fiscal court. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The McLean County Fiscal Court and Judge/Executive, as of FY21, have an accurate view of current debt and debt service due to the extensive work of new staff. Our review has allowed for current debts to be accurately reflected. Surprisingly, the debt load previously reported were grossly overstated which added fund restraints that did not exist at the level previous reported by former elected officials and prior treasurers.*

*Additionally, with the adoption of new accounting software, the court now possesses the assets necessary to effectively record the reduction in county debt and debt service. With training, assistance from the department of local government, and the state auditor's office, we feel that our representation of current county debt is accurate to date.*

*Regarding new debts, the county currently adheres to the completion of Notice of Intent to Finance documentation as required by KRS 68.210.*

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over Maintenance Of The Capital Asset Schedule

---

This is a repeat finding and was included in the prior year audit report as finding 2017-018. In fiscal year 2018, the McLean County Fiscal Court failed to record \$884,885 in additions and \$113,605 in deletions to their capital asset schedule. Capital asset beginning balances were misstated in the amount of \$2,091,620 and the capital asset schedule was not updated for changes from the previous audit. Therefore, the schedule was missing some of the previous year's additions and included some prior year deletions.

According to county personnel, there was some confusion on what items needed to be added and deleted. Without adequate controls, the risk of asset misappropriation increases or results in assets not being covered by insurance in the event of an accident or loss. Additionally, the fiscal court's capital asset schedule was materially misstated and did not accurately reflect the assets held by the county.

Good internal controls dictate that assets be properly tracked and maintained to prevent theft or loss. These controls should also ensure compliance with applicable laws and regulations related to capital assets. Furthermore, per the fiscal court's capital asset capitalization policy all land, land improvements, buildings, building improvements, and infrastructure over \$25,000 should be capitalized and added to the fiscal court's capital asset schedule. In addition, all vehicles over \$10,000 and equipment over \$5,000 should also be capitalized and added to the fiscal court's capital asset schedule. When items on the capital asset schedule are sold or disposed, they should be deleted from the fiscal court's capital asset schedule.

Under the authority of KRS 68.210, the Department of Local Government (DLG) issued the *County Budget Preparation and State Local Finance Officer Policy Manual* which states that "[f]or purposes of internal control, an asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount, and have a useful life of greater than one year."

We recommend the McLean County Fiscal Court implement internal controls to ensure all assets are being appropriately added and deleted from the capital asset schedule. We also recommend the fiscal court adhere to their capital asset policy.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The current Fiscal Court and Judge/Executive are aware of KRS 68.210 which outlines proper maintenance of capital asset schedules. Work began, regarding updating these schedules, when the new Judge/Executive took office in the fall of 2019. Current staff have been instructed to use court approved purchases, updated department inventories and active asset records to ensure proper documentation of assets relating to the McLean County Fiscal Court.*

*In addition, the integration of an improvement purchase order system has allowed for the proper documentation of purchases in order to document the best value and retention of purchases.*

**MCLEAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Current McLean County Judge/Executive And County Treasurer Declined Signing The Required Certification Of Compliance With The Local Government Economic Assistance And Development Programs

---

This is a repeat finding and was included in the prior year audit report as finding 2017-026. The current judge/executive and county treasurer did not sign the certification of compliance with the local government economic assistance and development programs. Since the judge/executive and county treasurer did not sign the certification, it is not included in the audit report. LGEA expenditures for fiscal year 2018 were \$463,757.

The current judge/executive and county treasurer did not feel comfortable certifying that the local government economic assistance and development program funds had been expended appropriately, since neither of them were the judge/executive or county treasurer for the fiscal year 2018. Furthermore, the former county treasurer and former county judge executive failed to maintain adequate records to document that the funds were expended for the intended purposes. Funds may not have been expended for the intended purposes of the local government economic assistance and development program. Additionally, the fiscal court was not in compliance with KRS 42.460.

KRS 42.460, states, “[e]xcept as provided in KRS 91A.040(7)(b), any assistance granted under KRS 42.450 to 42.495 shall include an agreement that an independent annual audit shall be conducted and that the audit report shall include a certification that the funds were expended for the purpose intended. A copy of the audit and certification of compliance shall be forwarded to the Department for Local Government, in the case of assistance granted from the local government economic assistance fund or the local government economic development fund as allocated in KRS 42.4592(1)(a) and (b), or to the Cabinet for Economic Development and the Kentucky Economic Development Finance Authority, in the case of assistance granted from the local government economic development fund, within eighteen (18) months after the end of the fiscal year.”

We recommend the fiscal court maintain adequate records to determine that the funds expended under the local government economic assistance and development program were expended for the intended purposes, so that the county judge executive and treasurer can attest to the proper spending of those funds.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive’s Response: The current Judge/Executive and Treasurer realize and believe that it is not in their best interests to certify the actions conducted by previous officials and staff. There are numerous issues with the FY2017, FY2018, and FY2019 budget reports, account totals and actions that are not verifiable to current staff and elected officials due to deficiencies in previous oversight, reporting and control. The current Judge/Executive and Treasurer believe that work conducted since their activation can be verified as required by statute and will attest to those procedures when those auditing requirements are completed for FY2021 forward.*

**MCLEAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-006 The McLean County Fiscal Court Failed To Implement Sufficient Internal Controls Over Their Service Organization's Collection Of Ambulance Receipts

---

This is a repeat finding and was included in the prior year audit report as finding 2017-013. The fiscal court failed to oversee the ambulance billing service organization that handled all of the billing and receipt collections for the McLean County Ambulance Service. In fiscal year ending June 30, 2018, the amount of ambulance receipts reported on the quarterly report was \$504,638. The following findings were noted with the collection of receipts at the service organization:

- The county does not review the service organization's billing and collections to ensure all the McLean County Ambulance Service runs and collections are accounted for properly. There was no documentation of the review of internal controls implemented at the service organization. The service organization did not have a Service Organization Report (SOC) Report. A SOC 1 report focuses on controls at the service organization that would be useful to user entities and their auditors for the purpose of planning a financial statement audit of the user entity and evaluating internal control over financial reporting at the user entity.
- The service organization failed to respond to numerous information requests from auditors. Two months after the last auditor inquiry, county officials were able to get the service organization to respond to information requests. The fiscal court has minimal oversight and control over the collection of ambulance receipts process. Although the service organization sent a month end report to the fiscal court that documented charges, credits, the accounts receivable balance, and daily deposit amounts, the fiscal court was not able to determine if all amounts intended for them were actually collected and deposited since the total amount of ambulance runs and corresponding charges were not presented to the fiscal court. Because of the lack of detail in the service organization reports, the fiscal court was unable to verify the amount of ambulance revenue due to them.

The findings listed above are due to the lack of effective internal controls. Because of the lack of adequate internal controls over service organization activities, the ambulance billing receipts were left vulnerable to misappropriation and loss.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

We recommend the McLean County Fiscal Court strengthen internal controls regarding the ambulance service's service organization.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The realization of risk regarding the collection of ambulance receipts by a contract service organization is both troubling and a point of concern for the current Judge/Executive. The Treasurer and Judge/Executive have addressed the issue with the ambulance service and are in discussions with staff to improve redundant oversight of billing, which historically, has been deficient and has placed the ambulance service at risk for loss of receipts. Given the current financial state of the McLean County Fiscal Court, the adoption of improved internal control regarding ambulance receipts will be given top priority.*

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-007 The McLean County Fiscal Court Failed To Implement Adequate Internal Controls Over The Collection Of Receipts At Off-Site Locations

---

This is a repeat finding and was included in the prior year audit report as findings 2017-006 and 2017-016. The McLean County Fiscal Court has poor internal controls over the collection of receipts at off-site locations. The following findings were noted with McLean County Fiscal Court's collection of receipts at off-site locations:

- Receipts were not issued for all applicable transactions as required by KRS 64.840.
- Receipts collected at the road department and transfer site are not turned over to the county treasurer daily, as required by KRS 68.210.
- Copies of donation receipts at Eastern and South Eastern fire departments were not maintained by the fire departments.
- There were no records for receipts collected at the animal shelter for fiscal year 2018. As a result of a prior year audit finding, the animal shelter was closed during fiscal year 2018.

The findings listed above are due to the lack of effective internal controls. Because of the aforementioned findings, receipts were left vulnerable to misappropriation and loss. Also, the McLean County Fiscal Court failed to issue and maintain required documentation as prescribed by state statutes.

Strong internal controls over the collection of receipts are vital in ensuring that receipts are accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes. KRS 64.840(1) states, in part, "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt.

KRS 64.840(2) states, "[o]ne (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, KRS 68.210 states, in part, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe. . . a system of uniform accounts for all counties and county officials[.]"

We make the following recommendations to address these findings:

- Pre-numbered, triplicate receipts should be issued for all applicable transactions according to KRS 64.840.
- All receipts collected at off-site locations should be turned over to the county treasurer daily to be deposited according to KRS 68.210.
- All off-site locations should keep a receipts ledger to document all types of receipts, dates received, and amounts collected.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The McLean County Fiscal Court and Judge/Executive are currently conducting a review of procedures and equipment that will help to improve internal controls regarding the collection of receipts at off-site locations.*

**MCLEAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-008 The McLean County Fiscal Court Was Not In Compliance With Bid Laws And Failed To Implement Adequate Internal Controls Over The Bid Process

---

This is a repeat finding and was included in the prior year audit report as finding 2017-008. In fiscal year 2018, the McLean County Fiscal Court failed to follow bid laws and regulations. The McLean County Fiscal Court made multiple purchases from two vendors during fiscal year 2018. Payments to each vendor exceeded the \$20,000 bid requirement included in the county's administrative code. One vendor was paid \$26,415 for computer maintenance and supplies. Another vendor was paid \$ 23,699 for culverts. Also, the fiscal court failed to properly procure three capital asset additions. As a result of the aforementioned items, the McLean County Fiscal Court had \$182,118 in purchases that were not bid.

There was a lack of knowledge and internal controls over bidding procedures and bid laws. County personnel were not aware of all the elements surrounding bidding requirements. Additionally, it was an oversight the purchases of capital assets were not bid. Since bidding procedures were not followed, it is possible that the county did not get the lowest rate for purchases. This also puts the county at higher risk for potential fraudulent purchases. Additionally, the county was not in compliance with KRS 424.260.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws. During the audit period, KRS 424.260(1) stated, "[e]xcept 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 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." Additionally, the county's administrative code states, "Any expenditure or contract for materials, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) shall be subject to competitive bidding."

We recommend the fiscal court implement internal controls to monitor all procurement in order to ensure that all required elements of bidding procedures are followed.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: As of January 2020, the current Judge/Executive has revised and implemented an enhanced purchase order system and bid process. The fiscal court continues to implement a \$20,000.00 bid threshold due to fiscal constraints. The court also seeks guidance from the county attorney on matters related to statute requirements regarding state contract pricing and procedures which were not conducted previously. The currently policy also requires quotes for expenses over the \$500.00 baseline. These guidelines have helped to insure proper expenditures of county funds.*

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The McLean County Fiscal Court Does Not Have Adequate Internal Controls Over Payroll Processing

---

The McLean County Fiscal Court failed to implement adequate internal controls over payroll and timekeeping processes. The following findings were noted during testing of McLean County Fiscal Court's payroll:

- Two employees were not paid according to the approved salary schedule, and were paid \$.25 an hour over their approved hourly rate for the time period tested.
- One employee timesheet did not include the employee or supervisor's signature.
- One employee paid overtime did not have a timesheet available to support the hours worked.
- Twelve employees did not have the current withholding forms in their personnel file.
- One employee did not have the correct amount of local withholding withheld.
- Five employees did not have support for leave balances used during the tested period.
- Two employees received health insurance benefits while receiving workers compensation insurance. The county paid the \$2,980 employee portion of the premiums and also \$10,483 in employer premiums for a total of \$13,463 paid on behalf of these two employees.
- One employee was paid compensatory time in the amount of \$3,355 for 250 hours accrued which was more than the hours allowable to accrue per the county's administrative code.
- Two employees accrued sick time totaling 581 hours resulting in \$8,250, while not working full time, one of which was paid in excess of the 60 days allowable to accrue permitted by the county's administrative code.

Based on county records there was a lack of segregation of duties over payroll preparation and no independent review of payroll items before processing and disbursing payroll. Due to the lack of internal controls over payroll, payments for payroll were not properly supported, employees received benefits for which they were not entitled, payroll taxes were not properly withheld, and the fiscal court made payments in violation of the county's administrative code. Failure to maintain timesheets also resulted in the county not being in compliance with KRS 337.320.

Strong internal controls over payroll and timekeeping are vital in ensuring the payroll amounts are calculated and accounted for properly. Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them, as well as helping make certain the county is in compliance with state statutes.

The McLean County Administrative Code, Section 5.35 states, "[a]s of January 1, 2016, a County employee engaged in work in excess of thirty seven and half (37.5) hours, may accrue, not more than forty (40) hours of compensatory time."

The McLean County Administrative Code Section 5.27(2) states, "[f]ull time employees shall be eligible to accrue sick leave at the rate of one day per month accruing at the end of each month for each full month worked." Also, section 5.27(3) states, "[s]ick leave may be accumulated from year to year up to 60 days."

Lastly, KRS 337.320(1) requires employers to maintain a record of "[t]he hours worked each day by each employee."

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-009 The McLean County Fiscal Court Does Not Have Adequate Internal Controls Over Payroll Processing (Continued)

We make the following recommendations to address these findings:

- An individual independent of the payroll process should review payroll calculations, withholding amounts, etc., to verify that all amounts have been calculated properly and that they are properly supported.
- All timesheets should be signed by the corresponding employee and his or her supervisor.
- Personnel files should be updated regularly.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The McLean County Fiscal Court is in the process of approving payroll processing and accounts at monthly fiscal court meetings. This will be a new process that has not been in place previously. The Judge/Executive and Treasurer believe this process will increase transparency and oversight of this process. In addition, the current staff also realize that previous payroll processing was not conducted properly nor reconciled correctly.*

*As listed in the audit findings, the current Judge/Executive also believes that the lack of adherence, by previous administrations, has created a risk to the county regarding employee time accounts and lacks equitable distribution of funds to county employees outside the bounds of approved procedures. The current Judge/Executive has installed timeclocks for employees and has integrated the purchase of new time management software to better safeguard the county from previously mentioned risks. In addition, the Judge/Executive is also researching third-party options to independently verify employee payroll account totals to further improve oversight of these accounts.*

2018-010 The Former McLean County Treasurer Failed To Reconcile The Payroll Revolving Account

This is a repeat finding and was included in the prior year audit report as finding 2017-019. 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 former county treasurer stopped preparing monthly reconciliations in February 2016. The fiscal court entered into an agreement with an outside CPA firm to prepare the bank reconciliations for fiscal years 2017-2018 and 2018-2019. However, the payroll account was not properly reconciled to zero. As of June 30, 2018, a balance of \$26,092 existed in the account.

The former county treasurer neglected her duty to reconcile bank accounts monthly as described in the *County Budget Preparation and State Local Finance Officer Policy Manual*. There were no internal controls in place to ensure the payroll account was properly reconciled each month. The payroll revolving account should zero out at the end of the year or reconcile to a minimal carrying balance. However, because the account had not been reconciled, the payroll revolving account had an ending balance of \$26,092 as of June 30, 2018. Funds held in a clearing account when they are not needed to pay liabilities removes those funds from accounts where they could be used in the regular operations of the county. Additionally, a lack of payroll reconciliation to the ledgers on a regular basis increases risk of misstatement in the financial statements, and can result in undetected errors or fraud occurring.

**MCLEAN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2018**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-010 The Former McLean County Treasurer Failed To Reconcile The Payroll Revolving Account  
 (Continued)

---

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 are 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.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The McLean County Fiscal Court, Judge/Executive and Treasurer have adopted proper controls regarding the reconciliation and control of the payroll revolving account in accordance with County Budget Preparation and State Local Finance Office Policy Manual. Changes include keeping a minimum balance in the clearing account and reporting such activity to the fiscal court.*

2018-011 The Former McLean County Treasurer Failed To Prepare An Annual Settlement As Required Per  
 KRS 68.020(5) And KRS 68.030

---

The former McLean County Treasurer failed to prepare an annual treasurer's settlement for the fiscal year ending June 30, 2018. The former county treasurer lacked understanding of her job responsibilities. The fiscal court was not presented with the cumulative information for fiscal year ending June 30, 2018. The lack of a treasurer's settlement also hid the deficits that were occurring in several county funds, and the lack of proper accounting for all county financial activity. Additionally, by not submitting the treasurer's settlement, the fiscal court was not in compliance with KRS 68.020(5) and KRS 68.030.

KRS 68.020(5) states, in part, "[t]he county treasurer shall, when required by the fiscal court, settle his accounts as county treasurer, and within thirty (30) days after the close of each fiscal court, he shall, unless his immediate predecessor has done so, make a full and complete settlement for the preceding fiscal year with the fiscal court or with a person or persons whom the fiscal court, by order of record, appoints to make settlement with him[.]" Additionally, KRS 68.030, states, in part, "[e]ach settlement made by the county treasurer shall be approved by the fiscal court in open court, and shall, by order of the fiscal court, be recorded by the county clerk in a book kept for that purpose[.]" Strong internal controls are also important in safeguarding the county's assets and those given the responsibility of accounting for them.

We recommend the fiscal court ensure the treasurer's annual settlement is prepared and approved in accordance with KRS 68.020(5) and KRS 68.030.

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-011 The Former McLean County Treasurer Failed To Prepare An Annual Settlement As Required Per KRS 68.020(5) And KRS 68.030 (Continued)

---

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The current county treasurer is knowledgeable of required duties and has completed required reports to-date.*

*In addition, the treasurer also understands the requirements to seek training and guidance on reporting standards and due dates.*

2018-012 The Former McLean County Judge/Executive Failed To Require Encumbrances Be Properly Reported On The Fourth Quarter Financial Report

---

This is a repeat finding and was included in the prior year audit report as finding 2017-007. McLean County's encumbrances at year-end were not properly reported on the fourth quarter financial report. Upon further examination, it was determined that a list of encumbrances had not been maintained as of June 30, 2018.

The former county judge/executive failed to require encumbrances be properly reported on the fourth quarter financial report. By not properly reporting encumbrances, the fiscal court is not in compliance with reporting requirements per the Department for Local Government. In addition, failure to report encumbrances will not accurately reflect cash balances and alert management to any possible cash flow issues.

KRS 68.360(2) states, in part, "[t]he county judge/executive shall within (15) days after the end of each quarter of each fiscal year, prepare a statement showing for the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund[.]" Furthermore, the *County Budget Preparation and State Local Finance Officer Policy Manual* requires the county to disclose encumbrances on the face of the fourth quarter financial report. Good internal controls dictate the fiscal court monitor line items to ensure that there is ample cash and budget prior to approving payment of bills.

We recommend the county maintain an encumbrance listing and properly report encumbrances on the fourth quarter financial report in order to accurately disclose unencumbered fund balances.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The current Judge/Executive is aware of the duties and responsibility of county elected officials. The Judge/Executive also realizes that accurate representation of encumbrances to the fiscal court is crucial to effective decision-making procedures. The current Judge/Executive has thorough understanding and has installed the new financial software on his computer in order to view encumbrances weekly.*

**MCLEAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2018  
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-013 The McLean County Fiscal Court Did Not Have Adequate Controls Over Disbursements And ACH Transactions

---

This is a repeat finding and was included in the prior year audit report as finding 2017-011. During our review and testing of four monthly credit card statements, we noted the following exceptions:

- Two transactions were missing invoices, totaling \$2,411.
- Sales tax totaling \$90 was paid on four transactions.
- Thirty of the 156 transactions on the fuel credit card were missing invoices.

Additionally, auditor tested 25 of the 266 ACH transactions and found there were no documented controls in place over these transactions. The former finance officer was paying most utilities bills for July and August of 2017 by ACH, while they were declining, she still continued to pay some utility bills for September through December of 2017.

The McLean County Fiscal Court failed to implement internal controls over disbursements to ensure proper handling and compliance with applicable laws. In addition, the former county treasurer failed to enforce that sales tax should not be paid on purchases. The former finance officer was unaware that disbursements were only to be made by check.

The lack of controls increases the risk of undetected errors or fraud occurring. By failing to maintain adequate documentation, the fiscal court is increasing the risk of paying invoices for goods or services that were not provided to the fiscal court. In addition, vendors were given access to the county's bank accounts without sufficient monitoring in place over these transactions.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements. The McLean County Fiscal Court should be exempt from paying sales tax because the fiscal court is a governmental entity. KRS 139.470(6) and (7) exempts local governments from paying state sales tax on goods and services.

Under the authority of KRS 68.210, the Department of Local Government (DLG) issued the *County Budget Preparation and State Local Finance Officer Policy Manual*, which states, “[d]isbursements by checks only.”

We recommend the fiscal court implement internal control procedures to ensure that all disbursements are properly supported. Also, per KRS 13.470(6) and (7) the fiscal court should ensure sales tax is not being paid on purchases. Lastly, all disbursements should only be made by check and agreed to supporting documentation prior to payment.

Views of Responsible Official and Planned Corrective Action:

*County Judge/Executive's Response: The Finance Officer, Treasurer and Judge/Executive have adopted an improved policy regarding the denial of request for purchase for any item that includes state sales tax, electronic purchase methods and other deficiencies. In addition, all purchase shall be paid by check only according to state regulations. Exceptions include ACH transactions for payroll.*