Auditor of Public Accounts
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Harmon Releases Audit of Grant County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Grant County Fiscal Court for the fiscal year ended June 30, 2017. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Grant County Fiscal Court in accordance with accounting principles generally accepted in the United States of America.

The Grant County Fiscal Court's Statement of Receipts, Disbursements and Changes in Fund Balances - Regulatory Basis, includes the receipts and disbursements of the jail commissary fund, over which there was no system of internal controls on which auditors could rely upon for the purpose of this audit. There were no other satisfactory audit procedures that auditors could adopt to satisfy themselves that the recorded receipts and disbursements of the jail commissary fund were free from material misstatements.

Except for the effects noted above, the financial statement presents fairly, in all material respects, the fund balances of the Grant County Fiscal Court as of June 30, 2017, and its cash receipts and disbursements, for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

The Grant County Fiscal Court's master capital asset listing was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The county did not maintain an accurate capital asset listing. Our review of the fiscal court minutes and the county's disbursements ledger disclosed $2,940,608 of capital asset purchases that were not included on the county's capital asset listing. In addition, $48,388 of prior year deletions were not removed from the county's master capital asset listing.

The county did not have proper controls in place to ensure that the capital asset listing was updated as required. The county updated an older version of the capital asset listing that did not include additions or deletions from the prior fiscal year. This resulted in the capital asset listing being materially misstated. Furthermore, the risk of undetected misappropriation of assets increases with material misstatements. Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Strong controls reduce the risk of asset misappropriation.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description as to why the asset was discarded. The inventory of county assets should be updated as new assets are purchased or sold. We also recommend the county reconcile asset purchases and disposals with the disbursements ledger and receipts ledger. The county should also conduct a physical inspection of county assets at the end of each year and make comparisons to the county's list of inventoried assets and insurance policy.

County Judge/Executive's Response: The county will maintain a detailed list of all Capital Assets and conduct a physical inspection of county assets annually and compare that to the list of inventoried assets of the county insurance policy.

The Grant County Fiscal Court had inadequate internal controls over disbursements and was not compliant with various statutes: This is a repeat finding and was included in the prior year audit report as Finding 2016-004. The auditor noted the following issues when testing disbursements:

- There were eight instances where disbursements were not paid within 30 days as required by statute. Some were as much as eight months late.
- There were 35 instances where the county did not adhere to purchase order guidance per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Purchase orders were not issued for utilities, payroll, and other disbursements covered under the standing order. There were instances where one purchase order was issued for a vendor and the same number was used for all purchases made with that vendor for the entire fiscal year. Purchase orders were not used in sequence as there was more than one person issuing and they would be logged when the finance officer received them. Credit card purchases were made by various departments without confirming that the funds were available.
- Disbursements to the jail health care provider and jail food service provider exceeded the county's bid threshold and were not properly bid.

- There were negative balances on the purchase order log, indicating that purchases were made without adequate appropriations or reviews.

The fiscal court lacks strong internal controls and oversight with regard to the purchase order process and fails to follow the procedures established by DLG.

The lack of internal controls and oversight led to numerous disbursement account codes having a negative balance at some point during the fiscal year. This is neither compliant with purchasing requirements for counties, nor an effective implementation of internal controls. Management is unable to determine where potential issues with spending are before the expense is already incurred, creating the opportunity for waste, fraud, or abuse. This could lead to financial strain on the county due to overspending and lack of funds to cover necessary expenses of the county. Further, failure to pay invoices timely can lead to late fees and penalty charges which are unnecessary expenses for the county. Lastly, failure to bid expenditures exceeding $20,000 could result in the county not receiving the best price as they may with competitive bidding.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling public funds, including required purchasing procedures for counties. These requirements prescribe that, "[p]urchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made."

Good internal controls for purchase requests exceeding budget appropriations would lead to discussion with both the county treasurer and county judge executive as to whether the purchase order will be issued, the necessity and appropriateness of a budget transfer to cover the expense, and if other issues need to be addressed related to spending. Purchase orders should be issued for all goods and services utilized by the fiscal court. DLG issued a memorandum on August 4, 2016, in which it "highly recommends" implementation of issuing purchase orders for payroll and utilities. This control allows for fiscal court to ensure that sufficient budget allocation is available for all expenses.

KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

KRS 424.260(1) states, "[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."

We recommend the fiscal court work to ensure they comply with DLG's requirements and guidance for the purchase order procedures per the *County Budget Preparation and State Local*

Finance Officer Policy Manual. Additionally, we recommend the county strengthen controls over the disbursements process to ensure compliance with applicable statures and to provide better oversight to ensure funds are available prior to issuing purchase orders. Furthermore, we recommend the fiscal court pay all invoices within thirty working days of receipt of a vendor's invoice and bid all goods or services over $20,000.

County Judge/Executive's Response: Going forward the fiscal court will work to ensure they adhere with DLG's requirements and guidance for purchase order procedures.

The Grant County Fiscal Court does not have adequate controls over payroll: This is a repeat finding and was included in the prior year audit report as Finding 2016-007.

The lack of strong internal controls and oversight over processing of payroll led to the following payroll issues:

- Documentation for leave accumulation and balances were not always available for the employees in our sample. Many employees were maintaining their own leave balances. These balances were not being checked for accuracy. Auditors were unable to determine if employees had accumulated leave and if leave time used was properly handled.
- One employee was overpaid $79 for the test period.
- Multiple instances were noted where timesheets did not have both the employee and the supervisor's signature of approval and review prior to payment.
- Payroll deduction authorization forms were not maintained in employee files for the portion of the cell phone bills that were covered by employees through deduction from their pay.
- Deferred compensation withholdings were deducted from FICA wage calculations.
- Health reimbursement account withholdings were listed on reports as flexible spending account withholdings.
- Bank reconciliations for the payroll revolving account were not reviewed. The payroll revolving account was not zeroed out and the balance fluctuated monthly, with no explanation provided. The ending cash balance in the account was $26,810.

The employee responsible for ensuring that payroll is accurate is not reviewing timesheets, leave balance reports, payroll revolving account bank reconciliations, payroll journals prepared by the third party processor, or other payroll documentation. Review procedures were in place; however, the county did not follow their written policies which addresses payroll issues such as timesheets, leave balances, etc.

Management is unable to ensure employees are accurately reporting hours, using leave appropriately, and ensuring payroll expenses were actually incurred, creating the opportunity for waste, fraud, and abuse. This could lead to financial strain on the county due to erroneous payment for hours not worked and for lawsuits that could derive from failure to ensure accurate time is reported. Failure to properly reconcile the revolving account appropriately could result in monies that are due back to the general fund, employees, or venders. This leads to monies being retained that are unaccounted for and susceptible to fraud or theft.

KRS 337.320(1) states “[e]very employer shall keep a record of: (a) [t]he amount paid each pay period to each employee; (b) [t]he hours worked each day and each week by each employee; and (c) [s]uch other information as the commissioner requires.” KRS 337.320(2) states, “[s]uch records shall be kept on file for at least one (1) year after entry. They shall be open to the inspection. . .at any reasonable time, and every employer shall furnish to the commissioner or the commissioner's authorized representative on demand a sworn statement of them.”

Per the Grant County Administrative Code, Section 2.4A., “[t]he County Judge/Executive is responsible for administering the provisions of the County Budget Ordinance when adopted by the Fiscal Court. All or part of the financial management duties may be assigned to a finance officer job description and may include, but not be limited to. . .(10) Maintain time records, including vacation, sick leave, etc.” An addendum to the administrative code, section 401 states, “[n]onexempt employees should accurately record the time they begin and end their work, as well as the beginning and ending time of each meal period. They should also record the beginning and ending time of any split shift or departure from work for personal reasons.”

Good internal controls dictate that adequate oversight and strong internal controls are essential for ensuring that payroll disbursements are properly reported and accounted for. These controls will assist in making sure that the county is compliant with applicable regulations, to protect the county from fraud and abuse, and to ensure employees are accurately compensated.

We recommend the county strengthen controls over the payroll process to ensure compliance with applicable statutes and to provide better oversight to ensure accuracy in payroll disbursements. All reports from the service organization should be reviewed for accuracy and all employees should be required to submit timesheets detailing hours worked per day, with appropriate review and approval documented. The county needs to ensure all authorization forms are completed and maintained on file to support deductions authorized by the employees. Further, reconciliations for the payroll revolving account should be adequately reviewed. Because the payroll revolving account is a clearing account, this account should reconcile to zero at the end of each month.

County Judge/Executive’s Response: The county will strengthen controls over payroll process making sure all employees have submitted timesheets detailing hours worked per day. Also retain all authorization forms on file to support deductions authorized by the employee.

The Grant County Jailer was not involved in the daily activities of his office: The jailer was not involved in the daily activities of his office. Numerous weaknesses in the control environment of the Grant County Detention Center significantly increase the risk of fraud and misappropriation of funds, and decrease the accuracy of records provided.

This condition is a result of poorly designed policies and procedures; inconsistent, incomplete, and inaccurate implementation of controls; and lack of management oversight and involvement. The noted weaknesses, such as inadequate segregation of duties and inaccurate or incomplete financial reports and ledgers, could affect the jailer’s ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. This impacts the jailer’s ability to ensure that assets were sufficiently safeguarded. The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. As a result, we were unable to obtain adequate audit evidence to express an opinion over the jail commissary fund.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. Internal controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained, maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems. The following recommendations are supplemented by additional recommendations presented throughout this report:

- The jailer should be more diligent in the day-to-day operations of his office by providing direct oversight of financial reporting for all receipts and disbursements.
- The jailer should implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight; provides reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations; and transactions are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial data.
- The jailer should segregate duties so that no one person can both create and conceal fraudulent activity or commit an undetected material error.
- The jailer should train employees to ensure that each employee understands both the activities and the accounting principles needed for their positions.
- The jailer should implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing.

County Judge/Executive's Response: No response provided.

County Jailer's Response: 1) The current budget has prevented the Jail from having more than one person in the office. The bookkeeping position was held by two part time employees who were only able to come in when available leaving a gap in communication and the check and balance system. 2) Since November 2017 there has been a full time employee bookkeeper. 3) I as the Jailer are thoroughly involved in all of the day to day operations of the jail on both the operational side and the administrative side which includes all financial decisions and oversight. Due to a new Jailer coming in maybe he will have better luck on getting more help in the office.

The Grant County Detention Center failed to implement strong controls over receipts for the jail commissary and inmate trust funds: The jailer's office lacks adequate segregation of duties and strong internal controls over receipts. One of the jailer's bookkeepers receives mailed collections, prepares deposits, prepares daily checkout sheets, and posts transactions to the receipts ledger. The lack of adequate review over receipts and failure to adhere to the administrative policy led to multiple exceptions as noted below:

- Deposits were not made daily, as late as 27 days.

- Receipts were not issued in numerical sequence, were not batched daily, and were not accounted for numerically.
- Receipts were not issued for all collections and receipt books contained missing receipts.
- All three copies of voided receipts were not always maintained.
- Weekender fees totaling $2,245 were deposited into the canteen account rather than into the inmate account.
- There was no comparison of reconciled cash balances in the inmate account to total inmate funds entrusted to the jailer. This comparison would have detected the deposit error noted above, as the account would have shown a reconciled shortage of $1,615 at June 30, 2017.
- The lack of commissary and inmate records created a scope limitation which prevented auditors from relying on receipts ledgers for the jail commissary account and the inmate trust account, determining if correct fees were collected from inmates, and determining if receipts were posted to inmate accounts timely.
- Receipts into the jail commissary account are from the inmate trust account. Auditors could not confirm more than 80 percent of inmate trust account receipts due to scope limitation.
- Auditors reconciled the jail commissary account based on bank statements; however, without reliance on ledgers, the ending cash balance is unreliable; therefore, we have issued a qualified opinion on the financial statement due to this matter.

There were no review procedures in place, as described in Finding 2017-004, to eliminate or reduce errors. The jailer switched commissary providers during the fiscal year. No reports, other than those printed prior to the switch were available.

Good internal controls dictate that adequate controls and sufficient review is necessary to reduce the risk of errors and misstatements. Segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Based on the minimum accounting and reporting standards as prescribed in the *County Budget Preparation and State Local Finance Officer Policy Manual* by the state local finance officer pursuant to KRS 68.210, the jail should prepare checkout sheets and make deposits daily. Receipts should be issued numerically and accounted for daily. All three copies of voided receipts should be maintained.

The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office.

We recommend the following:

- The jailer should separate duties involved in receiving cash, preparing deposits, preparing daily checkout sheets, and posting to ledgers.
- All collections should be deposited each day that the commissary is open.
- Pre-numbered receipts in triplicate should be written and maintained for all collections at the jail.

- Receipts should be issued in numerical sequence and properly accounted for.
- Receipts should be batched daily and total collections for the day should be agreed to total receipts.
- Checkout sheets should be prepared daily and should agree to batched receipt tickets, bank deposits, and the receipts journal.
- All three copies of voided receipts should be maintained.
- Reconciled cash balances in the inmate account should be compared to total inmate funds entrusted the jailer.
- Reports supporting commissary collections should be maintained.

County Judge/Executive's Response: No response provided.

County Jailer's Response: 1.) During the 2017 Fiscal Year, there was only a part-time book-keeper; therefore deposits could only be made when the bookkeeper was available to work. 2.) Receipt oversight and procedure has been corrected with the full time bookkeeper position.

The Grant County Detention Center lacks adequate controls over disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-005. The jailer's office lacks strong internal controls over disbursements. The lack of adequate review over disbursements and failure to adhere to the administrative policy led to multiple discrepancies. Due to the lack of effective controls, numerous exceptions were noted as follows:

- An overpayment to a vendor, totaling $4,760, went undetected for several months with the bank reconciliation resulting in a negative reconciled balance.
- Out of our sample of 30 disbursements, two checks totaling $8,181, had no supporting documentation.
- Payments to the commissary provider were more than two months late.
- Disbursements to inmates for closeout did not have inmate or employee signatures.
- Stale dated checks, totaling $12,967, dating back to June 2014 were not written off timely. They were written off in February 2017.
- Checks from the commissary account were not written in numerical sequence.
- The jailer keeps blank signed checks on hand for purchases while he is away from the detention center.

There were no review procedures in place, as described in Finding 2017-004, to eliminate or reduce errors. Good internal controls dictate that adequate controls and sufficient review is necessary to reduce the risk of errors and misstatements. Good internal controls require all disbursements should be for allowable disbursements, be properly authorized, and be adequately documented. Per KRS 441.137, any monies in an inmate account or prisoner canteen account of a jail that are presumed abandoned (one year after the date the check is mailed or, if an attempt to call is made, the date of the phone call) shall be transferred into the Jail Commissary account and be available for the purposes set out in KRS 441.135.

Good internal controls dictate all disbursements should be for allowable disbursements, be properly authorized, and be adequately documented.

The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office. Failure to deposit all abandoned inmate monies and commissary profits into the jail commissary account results in noncompliance of KRS 441.137.

We recommend the following improvements:

- Properly authorizing and reviewing all disbursements;
- Paying all invoices in a timely manner;
- Ensuring inmate release reports are signed by the inmate and an employee;
- Writing off stale dated checks within one year from date determined abandoned;
- Adequately documenting and supporting disbursements;
- Writing checks in numerical order; and
- Ceasing the practice of signing blank checks.

County Judge/Executive's Response: No response provided.

County Jailer's Response: 1.) Payments will be done to commissary in a timely manner, considering the previous commissary company was months behind on their bills this will assist in correcting this issue. 2.) Stale dated checks will be written off timely. However it should be taken in to consideration those checks were written when I took office in 2015 and you have to wait a year before you can write them off. We were also trying to locate the individuals before writing them off as well. 3.) The overpayment did not go unnoticed; we had to reach out to the vendor. It took time to get it back. This will be addressed in the next term so it doesn't happen again. 4.) I as the Jailer am the fiduciary of the canteen account and have constant control of the checks while they are in my possession. No checks have ever been lost and the account has never been comprised.

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

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