



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Casey County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Casey County Fiscal Court for the fiscal year ended June 30, 2022. 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 Casey County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 116 of 120 fiscal court audits in Kentucky.

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 findings:

The former Casey County Jailer did not have segregation of duties over accounting functions of jail commissary fund and inmate account: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The former Casey County Jailer did not have adequate segregation over all accounting functions of the jail commissary fund and the inmate account. The former jailer's bookkeeper received the mail, collected cash, issued receipts, prepared and deposited receipts, wrote and signed checks, and prepared bank reconciliations. The bookkeeper also posted to the receipts and disbursements ledgers.

According to the former jailer's bookkeeper, this condition is a result of a limited budget, which restricted the number of employees the former jailer could hire and limited the delegation of duties.

A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court. A proper segregation of duties over the accounting functions or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from undetected errors occurring. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the jailer segregate the duties of preparing deposits, recording receipts, preparing the bank reconciliations, and signing checks. If segregation of duties is not feasible due to lack of staff, we recommend the jailer implement effective compensating controls to offset the lack of segregation of duties.

County Judge/Executive's Response: I have spoken with the current Jailer regarding this situation and we will work together to correct the issue.

Jailer's Response: This issue was taken care of 1/1/23 when [name redacted] was hired to help [name redacted] in the front office.

The former Casey County Jailer did not reconcile the inmate account to zero and failed to follow requirements of KRS 441.137: The former Casey County Jailer's inmate account had a reconciled book balance of \$19,373 as of June 30, 2022. The bookkeeper was unable to identify who the \$19,373 belonged to and so she was unable to distribute it. The June 30, 2022 inmate account bank reconciliation included outstanding checks that date back to August 14, 2008. Total stale dated checks for inmate refunds are \$68,100 as of June 30, 2022. The bookkeeper did not transfer money abandoned by inmates after their release from the inmate account to the commissary account. In addition, the reconciled book balance included unpaid liabilities of \$108,225. The inmate account owes the jail commissary account \$104,833 per fiscal year 2021 audit, the jail commissary account \$2,083 for fiscal year 2022 commissary sales, and the jail fund \$1,309 for fiscal year 2022 fees collected for fiscal court.

The bookkeeper stated the former jailer did not have a policy to handle outstanding stale dated checks. She also stated she had been given conflicting information by previous auditors so had been afraid to move the money for outstanding checks to the commissary account.

By not handling inmate refunds correctly and failing to properly reconcile the inmate account, the chance of errors or fraud increases. Also, the jailer can miss out on monies that could be transferred to the commissary account a year after the date the check is mailed or an attempt to call is made.

Good internal controls over reconciliations dictate that due to the nature of the inmate account, the reconciled balance each month should be \$0. Strong internal controls over the inmate account should be implemented to ensure that the proper amounts are distributed timely. Additionally, KRS 441.137(1) states, "[f]or any moneys in an inmate account or prisoner canteen account of a jail that are not returned to a prisoner at the time he or she is released from the jail, the jailer shall transmit a check for the balance of the moneys by first class mail to the released prisoner at his or her last known address. If the check is returned as undeliverable, then the jailer shall attempt to contact

the prisoner at a telephone number on file, if any, to arrange the return of the moneys. If the moneys are not claimed after the jailer fulfills the requirements of this subsection, the moneys shall be presumed abandoned after one (1) year after the date the check is mailed or, if an attempt to call is made, the date of the phone call.” KRS 441.137(2) states “[a]ny abandoned moneys as set out in subsection (1) of this section shall, if in a prisoner account, be transferred into the canteen account if these are two (2) different accounts, or shall remain in the canteen account and be available for the purposes set out in KRS 441.135.”

We recommend the jailer reconcile the inmate account to zero every month. We also recommend the jailer document the dates and contact method for each inmate’s outstanding balance and follow the requirements of KRS 441.137.

County Judge/Executive’s Response: I have spoken with the current Jailer regarding this situation and we will work together to correct the issue.

County Jailer’s Response: The inmate account will be reconciled to zero and follow requirements of KRS 441.137.

The Casey County Fiscal Court did not prepare all purchase orders before purchases were made: During Fiscal Year 2022, the Casey County Fiscal Court issued purchase orders after the item was purchased or the service was performed for 30 out of 37 disbursements tested in the amount of \$2,020,364. The finance officer stated that employees do not call and request purchase orders before making purchases so she cannot issue the purchase order until she receives the invoices. The purchase order process not working as designed could result in line-items being over budget, claims being paid which are not valid obligations of the fiscal court, inaccurate reporting, and misappropriation of assets.

Proper internal controls over purchase orders are important to ensure purchase orders are only created when sufficient funds are available. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* which requires a purchase order system for all counties and each fiscal court is responsible for ensuring their purchase order system is executed and working properly. According to a memorandum from DLG dated August 4, 2016, “[t]he main purpose of this system is to ensure that purchases can be made if there are sufficient appropriations available within the amount of line items in the county’s budget. Because of this, it is a requirement by the State Local Finance Officer that all counties have a purchase order system and follow the guidelines prescribed on Page 54 of the *County Budget Preparation and State Local Finance Officer Policy Manual*.”

Furthermore, DLG highly recommends that counties accept the practice of issuing purchase orders for payroll and utility claims. The manual further states “[p]urchases shall not be made without approval by the judge/executive (or designee), and/or a department head” and “[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.”

We recommend the Casey County Fiscal Court strengthen internal controls over purchase orders by ensuring purchase orders are issued prior to all purchases being made to ensure sufficient funds are available for the purchase.

County Judge/Executive's Response: The purchase orders in question were authorized by me. I authorized the expenditure, but did not assign a purchase order number at the time of authorization. A plan is now in place to ensure that all authorized work and all purchases are assigned a purchase order number at the time of authorization.

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

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