



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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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, 2021. 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 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 115 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 comments:

The jailer did not have adequate internal controls, segregation of duties, or management oversight over jail commissary fund accounting functions: This finding is a partial repeat of a finding that was included in the prior year report as Finding 2020-001. The jail commissary fund is a fund that allows the jailer to sell snacks, sodas, and other items to inmates for profit to be used for the benefit and to enhance the well-being of the inmates. A lack of segregation of duties existed over the jail commissary fund in the areas of receipts, disbursements, and bank reconciliations. The jail commissary bookkeeper recorded receipts, prepared deposits, prepared the monthly receipt ledger, prepared checks for disbursements, maintained the disbursements ledger, and performed the monthly bank reconciliation. Although jail commissary checks required dual signatures, it was noted that no review of invoices for jail commissary disbursements by the jailer

or his designee was documented prior to payments being remitted. It was also noted there was no review by the jailer of bank reconciliations for the majority of the fiscal year. The jailer implemented some compensating controls following the prior year audit which included performing reviews of the monthly reconciliations. The jailer's review of the June 2021 bank reconciliation was noted.

The jail commissary bookkeeper handles all aspects of the financial process with minimal oversight. A lack of internal controls, segregation of duties, and management oversight increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

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 and the financial statement, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting.

We recommend the following:

- The jailer should separate duties for preparing and depositing receipts, recording transactions, preparing daily checkout sheets, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee(s) responsible for these duties. Any compensating controls performed should be documented by the reviewer's initials and date on applicable documentation.
- Deposits should be prepared and taken to the bank daily. Someone independent of that process should agree receipt tickets, bank deposits, and the receipts ledger. Any review should be documented with the reviewer's initials and date on the documentation.
- The jailer, or his designee, should review all jail commissary disbursements prior to payments being remitted. Any review should be documented with the reviewer's initials and date on the documentation.
- The jailer, or his designee, should complete bank reconciliations or review for accuracy and provide evidence of the review by initialing or signing and dating the bookkeeper's reconciliation.
- The jailer, or his designee, should review the monthly reports and annual financial statement for accuracy and agreement to the underlying accounting records and bank documentation.

County Jailer's Response: Since the 2021 audit, additional controls were implemented with the commissary account consisting of initialing and dating all kiosk deposit slips.

The jailer failed to properly implement controls over the inmate trust account financial reporting: This finding is a partial repeat of a finding that was included in the prior year report as Finding 2020-002. The jailer failed to implement controls over the inmate trust account, activity of the account, and bank reconciliations. This account is an agency trust account used to maintain funds deposited by or on behalf of inmates (see Note 4 to the financial statements). After funds are deposited, inmates' balances within the account are reduced for jail costs and fees as well as

inmate purchases from the jail commissary. These functions are all performed by a service organization. This service organization also is responsible for removal and deposit of kiosk monies. At the time of an inmate's release, if the inmate owes no additional amounts, the amount remaining in the inmate's account is refunded to the inmate. The following deficiencies were noted:

- There was no evidence that amounts collected via the kiosk were agreed to bank records during the daily checkout sheet and monthly bank reconciliation process.
- Receipts for monies processed outside the kiosk system were not batched and deposited daily.
- No evidence that disbursements from the inmate account were reviewed by a person independent of the accounting function.
- Documentation for refunds issued to inmates upon release for any remaining account balance was not maintained.

The jailer failed to properly implement internal controls and provide sufficient management oversight over accounting functions of the inmate trust account.

A lack of internal controls and adequate oversight of the accounting functions for the inmate trust account could allow undetected errors to occur, thereby increasing the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations.

We recommend the jailer ensure staff are adequately trained and the jailer implement procedures to strengthen controls over the inmate account and associated accounting functions. The following procedures should be implemented to strengthen controls over the inmate account:

- Appropriate oversight and documentation should be maintained over the removal of funds from the kiosk machines. A daily checkout sheet that includes the makeup of the funds removed, signature of the people performing the removal, and total removed should be prepared.
- Receipts should be deposited daily or at very least the same day that funds are removed from the kiosk machines.
- A deposit ticket for funds collected by jail personnel should be prepared based upon the daily checkout sheet and counted money and then reviewed by an independent person to ensure the amount on the deposit slip agrees to the daily checkout sheet and the money being deposited.
- After the deposit has been made, the bookkeeper should agree the deposit receipt to the daily checkout sheet. This deposit receipt should be attached to the daily checkout sheet after review. Evidence of this review should be with the reviewer's initials and date on the documentation.
- At minimum on a monthly basis, a person independent of the accounting function should review deposit receipts and compare that to the accounting system to ensure accuracy.
- Bank reconciliations should be performed monthly and reviewed by a person independent of the accounting process. The bank reconciliations should include all outstanding checks, deposits-in-transit, receivables, and liabilities. The inmate account is considered a trust

account and should reconcile to zero each month. Evidence of this review should be with the reviewer's initials and date on the documentation.

- All disbursements should be reviewed by a person independent of the accounting function. Evidence of this review should be with the reviewer's initials and date on the documentation.

County Jailer's Response: Since the 2021 audit, additional controls were implemented consisting of initialing and dating of the inmate trust account financial reporting.

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

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