



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Graves County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Graves County Fiscal Court for the fiscal year ended June 30, 2019. 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 Graves 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 comments:

**The Graves County Fiscal Court does not have adequate controls over the budget process:**

The Graves County Fiscal Court lacks adequate controls over the budget process. The budget per the fourth quarter financial report did not agree to the original budget and budget amendments approved by the Graves County Fiscal Court. There were also mathematical errors in footing and cross-footing for total budget available column on the quarterly financial report.

A budget amendment for the general fund in the amount of \$542,663, adopted by the fiscal court on June 10, 2019, was omitted from the fourth quarter financial report. Also, the fiscal court approved a budget for DES fund account codes #4541 and #4544 for \$16,000 and \$5,000, respectively but were inaccurately reported on the fourth quarterly financial report as account

codes #4841 and #4844. Finally, the total budget available reported on the quarterly did not foot and cross-foot accurately and was understated by \$22,500.

According to the county treasurer, due to an oversight when preparing the report, an error was made in posting the third budget amendment. The treasurer also stated that the budget on the DES fund was inadvertently posted to the wrong budget codes. Due to these errors, the budget on the fourth quarter financial report submitted to the Department for Local Government (DLG) did not balance and required proposed audit adjustments in order to balance the budget.

Strong internal controls over the reporting process are vital to ensure the fiscal court's financial reports accurately reflect the approved budget and budget amendments of the Graves County Fiscal Court.

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*. The manual provides the 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.

We recommend the fiscal court implement procedures to require someone other than the preparer to review all financial reports to ensure accuracy.

*County Judge/Executive's Response: Due to an oversight when preparing the report, an error was made in posting, therefore making the fourth quarter financial report out of balance. The fiscal court will implement procedures to require someone other than the preparer to review all financial reports to ensure accuracy.*

**The Graves County Fiscal Court failed to approve cash transfers prior to them being made by the county treasurer:** During Fiscal Year 2019, the Graves County Fiscal Court failed to approve cash transfers prior to them being made by the county treasurer. We tested 10 cash transfers totaling \$1,313,300. Nine cash transfers totaling \$1,296,300 were transferred without prior approval; however, they were subsequently approved by the fiscal court. One transfer of \$17,000 was transferred without ever receiving approval by the fiscal court.

According to the county treasurer, she was not aware that transfers are to be approved prior to making the transfers. Because cash transfers occurred before being approved by the fiscal court, the county's funds were at an increased risk of being misappropriated.

Strong internal controls dictate that the fiscal court oversee the movement of funds in order to decrease the risk of misappropriation. It is also the responsibility of the fiscal court to make financial decisions for the county, such as transferring cash between funds.

Additionally, 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* states, "[a]ll transfers require a court order."

We recommend all cash transfers be presented to, and approved by, the Graves County Fiscal Court prior to being made by the county treasurer.

*County Judge/Executive's Response: On January 10, 2022 the Fiscal Court voted to authorize County Treasurer to make transfers within the budget as they are needed with the approval of the transfers being made at the next Fiscal Court Meeting.*

**The Graves County Fiscal Court's purchase order system did not function as designed:** The Graves County Fiscal Court's purchase order system did not function as designed, purchase orders were either not issued for all purchases or in other instances were issued after the purchase had been made and the invoice was received. We tested 50 transactions totaling \$3,835,592. Fourteen of these transactions totaling \$1,272,705 did not have a purchase order prepared for the purchase. Eight of these transactions totaling \$161,938 had purchase order prepared after the invoice was received from the vendor.

According to the county treasurer, individuals sometimes make purchases prior to requesting purchase orders. In these instances, the fiscal court will prepare purchase orders when invoices are received. The issues noted above 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.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* states, "[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."

In addition, according to a memorandum from the Department for Local Government (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 57 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.

Additionally, per the Graves County Administrative Code, adopted by the fiscal court, the following General Purchase Procedures:

- A. All purchases must be verified and approved by the issuance of a purchase order. When the vendor submits an invoice the purchase order number must be indicated; invoices without a purchase order number will not be paid. Department Heads shall complete the purchase order form and signify their approval of the purchase by their signature or other appropriate method.
- B. It is the responsibility of each Department Head to ensure that the correct goods are received, that the vendor's invoice is received and is correct, and that the purchase order amount has not been exceeded.

- C. Approval of the annual budget does not constitute permission for departments to make purchases. Factors such as cash flow and deposits on hand must always be considered before purchases are approved.
- D. The Judge/Executive and Department Heads shall cooperate with each other to standardize all department supplies, material, equipment, and services where feasible.
- E. There will be no reimbursements to any employee unless prior approval from the Judge/Executive, unless it is an unforeseen emergency.

Lastly, strong internal controls dictate the purchase orders be issued and approved prior to items being ordered and expenses being incurred, in order to ensure available line-item appropriation exists.

We recommend the Graves County Fiscal Court strengthen internal controls over disbursements by ensuring that purchase orders are issued prior to all purchases being made.

*County Judge/Executive's Response: We have informed each official/department head what is stated in the admin code regarding the purchase order system. We have requested again that everyone is required to get a purchase order before anything is purchased or ordered. This will require each department head to make sure this is done properly.*

**The Graves County Jail does not have adequate segregation of duties over jail commissary operations:** This is a repeat finding and was included in the prior year audit report as Finding 2018-005. The Graves County Jail does not have adequate segregation of duties over the operation of the jail commissary. Both office employees collect receipts from customers and the kiosk system, prepare deposits and write checks. One of these employees reconciles the bank accounts each month, but there was no documentation that anyone reviews the reconciliations.

According to the bookkeepers, they do review each other's work, but there is no documentation of this review. The lack of segregation of duties or strong oversight increases the risk that errors or fraud could occur and not be detected. Segregation of duties or the implementation of compensating controls, when necessary, is essential for providing protection to employees in the normal course of performing their duties and will help prevent misappropriation of assets and inaccurate financial reporting.

We recommend the Graves County Jail segregate duties to the extent possible. If these duties cannot be adequately separated, then strong oversight should be provided to the employee or employees responsible for these duties.

*County Judge/Executive's Response: I recognize the inadequacies and it falls on the responsibility of the Graves County Jailer.*

*County Jailer's Response: We are a small agency that currently has 2 Administrative Assistants. This poses an issue in regards to the segregation of duties. However, we will make attempts to ensure the person that takes in cash or checks, is not the same person that counts or deposits. This*

*is our first audit and a learning experience. We have received documentation from the auditors that we shall attempt to duplicate to prevent such issues in the future.*

**The Graves County Jailer failed to maintain minimum accounting records on commissary funds:** The Graves County Jailer did not maintain minimum accounting records as prescribed by the state local finance officer (SLFO). The following exceptions were noted:

- Receipts are not issued in compliance with state regulations.
- Numerical sequence of issued receipts are not accounted for.
- Daily checkouts sheets are not prepared.
- Deposits are not on a daily basis.
- The jailer did not maintain a receipts and disbursements ledgers.
- The jailer did not submit an annual financial report to the county treasurer.

According to the bookkeeper, the jailer entered office in January 2019, and they were not aware of all of the requirements and regulations they needed to follow. Since the jailer did not follow the minimum accounting requirements, he was unable to provide complete and accurate financial records for commissary activities. This resulted in proposed audit adjustments to present a financial statement based on other information.

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* outlines minimum accounting procedures to be utilized by county jailers for jail commissary funds. These procedures include preparing daily checkout sheets, cash receipts journal, cash disbursements journal and annual summary and reconciliation.

KRS 441.135(2) states, in part, “[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.”

KRS 64.840(1) states, in part, “[a]ll 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.”

In addition, good internal controls dictate that policies and procedures be in place to ensure commissary funds are properly accounted for.

We recommend the Graves County Jailer implement internal controls procedures including issuing receipts, performing daily checkout procedures, maintaining ledgers, and preparing an annual financial report.

*County Judge/Executive's Response: I recognize the inadequacies and it falls on the responsibility of the Graves County Jailer.*

*County Jailer's Response: It is my understanding that this issue is due to lack of cooperation from the previous vendor for the previous administration. We were unable to obtain records for this account from the previous administration and there was a discrepancy between what our account totals indicate we have, and the account totals the previous administration had. I think this issue has been resolved and should not occur in the future.*

Auditor's Reply: This finding is not related to the previous administration. We found that the current administration does not maintain the minimum accounting records required.

**The Graves County Jail does not have policies and procedures for collecting accounts receivable from inmates:** The Graves County Jail does not have written policies and procedures to collect amounts due from former inmates. The jailer couldn't even provide auditor with an actual amount due from these former inmates.

According to the bookkeeper, the jailer entered office in January 2019 and was not aware of all of the requirements and regulations they needed to follow. Because the jail does not attempt to collect these outstanding accounts receivables, the county is missing out on funds that could be used to operate the jail.

Strong internal controls dictate that procedures be in place to ensure outstanding amounts due to the jail are being collected.

We recommend the Graves County Jail implement policies and procedures to collect outstanding accounts receivables.

*County Judge/Executive's Response: I recognize the inadequacies and it falls on the responsibility of the Graves County Jailer.*

*County Jailer's Response: We were utilizing the "Pay My Jailer" account for this. However, due to the recent court decision on the fees being collected, we no longer collect fees until the new law goes into effect. Therefore, this issue should be a moot point.*

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

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