



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

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, 2020. 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 failed to approve cash transfers prior to them being made by the county treasurer: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. During Fiscal Year 2020, 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 \$1,740,700. All 10 of these cash transfers were transferred without prior approval; however, they were subsequently approved 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 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 the 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: This is a repeat finding and was included in the prior year audit report as Finding 2019-003. 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 42 transactions totaling \$4,434,654. Fourteen of these transactions totaling \$1,085,312 did not have a purchase order prepared for the purchase. Fourteen of these transactions totaling \$2,073,662 had a 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 every 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 was included in the prior year audit report as Finding 2019-004. 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: This is a repeat finding and was included in the prior year audit report as Finding 2019-005. 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 is 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 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 current administration has been responsible for the entire reporting period.

The Graves County Jail does not have policies and procedures for collecting accounts receivable from inmates: This is a repeat finding and was included in the prior year audit report as Finding 2019-006. The Graves County Jail does not have written policies and procedures to collect amounts due from former inmates. The jailer couldn’t even provide auditors 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 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 fees being collected, we no longer collect fees until the new law goes into effect. Therefore, this issue should be a moot point.

The Graves County Fiscal Court exceeded budget appropriations for Fiscal Year 2020: The Graves County Fiscal Court exceeded budget appropriations for Fiscal Year 2020. General fund social services and capital projects (line items) exceeded budget appropriations by \$36,553 and \$2,641, respectively. Road fund, roads and administration (line items) exceeded budget appropriations by \$537 and \$13,042, respectively, as well as exceeding overall budget by \$13,579. Jail fund protection to persons and property and debt service (line items) exceeded budget appropriations by \$155,132 and \$31,500, respectively, as well as exceeding overall budget by \$184,260.

According to the treasurer this was due to an oversight and the county did not transfer funds correctly. Due to this error, the Graves County Fiscal Court exceeded budgeted appropriations which is in violation of state regulations.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim. The county treasurer shall be liable on his official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable."

Strong internal controls include procedures to be in place to ensure sufficient budget appropriations are available prior to approving claims.

We recommend the fiscal court monitor the budget more closely and implement control procedures to ensure necessary transfers and amendments are made when necessary.

County Judge Executive's Response: We will monitor the budget more closely and do our best to ensure necessary transfers and amendments are made when necessary.

The Graves County Jailer entered into a contract without fiscal court approval: On July 12, 2019, the Graves County Jailer signed an amended contract with Securus Technologies to provide phone services to inmates at the jail. This amendment also contained a clause for the purchase of a full body scanning security system for use at the jail totaling no more than \$165,251. Based on the contract, this purchase is to be repaid by the jail fund with a reduction of \$3,500 from monthly telephone commissions for 50 months totaling \$175,000. The jailer failed to have the amended contract and purchase of a body scanner approved by the fiscal court. Furthermore, neither the contract nor the purchase of the body scanner was advertised for bids. Lastly, none of this activity was accounted for in the county's budget.

According to the jailer, it was his understanding that the body scanner was part of a grant from the vendor and not required to be bid. Also, he did not think the contract was required to be approved by the fiscal court.

This lack of communication resulted in the county's quarterly financial report being misstated. Since the fiscal court was not aware of this new contract, the budget was not amended to properly account for the purchase of the scanner and corresponding debt payments. Additionally, by not properly budgeting these items, the fiscal court overspent the protection to persons and property and debt service line items by \$155,132 and \$31,500, respectively in the jail fund.

All financing arrangements should be approved by the fiscal court. KRS 67.710 states, in part, "[t]he county judge executive shall be the chief executive officer of the county and shall have all the powers and perform all the duties of an executive and administrative nature vested in, or imposed upon, the county or its fiscal court by law or by agreement ... and such additional powers as are granted by the fiscal court. The county judge executive shall be responsible for the proper administration of the affairs of the county placed in his charge. His responsibilities shall include, but are not limited to, the following: (1) Provide for the execution of all ordinances and resolutions of the fiscal court, execute all contracts entered into by the fiscal court, and provide for the execution of all laws by the state subject to enforcement by him or by officers who are under his direction and supervision."

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 that all borrowed money received and repaid must be reflected in the county budget.

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 thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids."

The internal control system should include procedures to ensure all financial obligations are properly recorded and reported and well as compliance with applicable laws and regulations.

We recommend the Graves County Fiscal Court implement internal controls to ensure all contracts affecting the county's budget be presented and approved by the fiscal court. The fiscal court should also ensure that they properly budget and record all borrowed money, any related purchases, and outstanding liability balances. We also recommend the fiscal court implement internal controls to monitor all procurement to ensure that all required elements of bidding procedures are followed.

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

County Jailer's Response: After the death of inmate from contraband, it became apparent that a body scanner would be within the best interests of inmates. Based on the need to keep and make safety a priority, the jailer was given the opportunity to obtain a body scanner by means of negotiating a phone contract. As far as we understood, this was not a purchase by the jail, but in the words of our provider, a grant. Therefore, we were not aware that we needed to do any bidding, since we were not purchasing the equipment. This was done in the best interest of the jail and not intended in any way to create an issue for the fiscal court in their accounting. The jailer had previous conversations with the county attorney, who advised that he would not be held to a previous contract signed by the previous jailer and was therefore, simply trying to negotiate a contract. This machine was a part of that contract. This once again was our first audit, due to covid, and we have been made aware of this. We will know in the future and will not make the same mistake twice.

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

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

