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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, 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 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 2020-001. During Fiscal Year 2021, 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 \$779,700. Nine cash transfers totaling \$579,700 were transferred without prior approval but, were subsequently approved by fiscal court. One transfer of \$200,000 was transferred without ever receiving approval by fiscal court.

According to the county treasurer, she was not aware that transfers are to be approved prior to making the transfers. In addition, the one transfer not approved was due to a coding error on the

claims list. Because cash transfers occurred before being approved by fiscal court, the county's funds were at an increased risk of being misappropriated.

Strong internal controls dictate that fiscal court oversees the movement of funds in order to decrease the risk of misappropriation. It is also the responsibility of 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 in budget as needed with the approval of the transfers taking place 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 2020-002. 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 51 transactions totaling \$1,442,700. Fifteen of these transactions totaling \$774,499 did not have a purchase order prepared for the purchase. Four of these transactions totaling \$360,855 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 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.

Additionally, the Graves County Administrative Code, adopted by the fiscal court, includes 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 disbursement 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 the requirements of the admin code regarding the purchase order system. We have requested 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 and was included in the prior year audit report as Finding 2020-003. The Graves County Jail does not have adequate segregation of duties. Both bookkeepers collected receipts from kiosks and customers and prepared deposits. One bookkeeper reconciled the bank accounts each month, but there was no documentation of anyone reviewing 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 can also help prevent inaccurate financial reporting and misappropriation of assets.

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.

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 2020-004. 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 minimum accounting and reporting standards. 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.” 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.

Jailer's Response: Receipts are written and computer generated from the accounting program that was used and scanned into jail management system, [name redacted]. Triplicate receipt books will be ordered and used in the future with any receipts collected. Daily checkout sheets have been prepared and will be used. Any monies collected will be deposited on the day they are received. (The mail is delivered at the RCC late in the afternoon and is taken to fiscal court or deposited the following day). Every effort will be made to generate a receipts and disbursement ledger and submit an annual financial report to the county treasurer.

The Graves Fiscal Court does not have adequate controls over the budgeting and reporting process: The Graves County Fiscal Court does not have adequate controls over the budgeting and reporting process. There were various issues that were noted during testing for Fiscal Year 2021, they are as follows:

- Budgeted amounts recorded on the 2021 fourth quarter financial report did not agree to the original budget and budget amendments approved by the fiscal court.
- The fiscal court approved a budget amendment as an emergency amendment though an emergency was not declared, resulting in an ineligible budget amendment.
- The capital projects category of the general fund was overspent by \$6,400.
- One budget amendment for CARES grant funds was approved for inclusion in the federal grant (CARES) fund, but the CARES grant funds were actually transferred to the general fund where the CARES grant receipts and disbursements were recorded using federal fund codes.
- Total budget transfers were not properly balanced or recorded in the general, jail, and federal grant (ARPA) funds.
- A budget amendment of \$55,116 for state grant receipts was approved for the general fund but was inaccurately posted to the federal grant (ARPA) fund where the receipts were deposited.
- A budget amendment of \$48,287 for general fund prior year carryover was inaccurately posted in the federal grant (ARPA) fund on the fourth quarter financial statement.
- Budget amendments of \$1,268,766 for the federal grant (CARES) fund and \$5,602 for the LGFA fund were omitted from the fourth quarter financial report.

According to the treasurer most of these issues were due to errors made when processing the report. The capital projects line item was overspent due to the pass through of ASAP funds not being budgeted correctly. One budget amendment was approved as an emergency because the money was received late in the year, and fiscal court wanted to use it quickly for small business grants. Due to these errors, fund budgets on the fourth quarter financial report were materially misstated, which increases the risk of misappropriation of funds.

Strong internal controls require all financial reports to be reviewed and compared to original documents to ensure all information and totals are accurate. 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* provides the format to be used when preparing the quarterly financial statement. This format includes reporting original budget estimates, budget amendments, budget transfers, 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: Internal office procedures will be required that someone other than the preparer review all financial reports to ensure accuracy.

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 2020-006. The Graves County Jail does not have written policies and procedures to collect amounts due from former inmates. The jailer couldn't 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.

Good 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.

Jailer's Response: Because of the Jones vs. Clark ruling, the jail stopped collecting fees October of 2021. As per wording from the KY State Supreme Court: "532.358 makes it clear that the sentencing court is the only entity able to order the reimbursement and billing of incarceration fees, not the county jail." Per our jail inspector, we have been advised to wait until the new ruling and language has been okayed before pursuing inmate fees. Pay my jailer has been in contact and is ready to start back up.

The Graves County Fiscal Court submitted unsubstantiated jail payroll costs for reimbursement from the Coronavirus Relief Fund and lacks internal control over jail payroll: The Graves County Fiscal Court submitted unsubstantiated jail payroll expenses for reimbursement from the Coronavirus Relief Fund (the Fund) administered by the Commonwealth of Kentucky's Department for Local Government (DLG) during fiscal year 2021. Two of the three

reimbursement requests the fiscal court sent to DLG, that included jail payroll costs, were tested. Testing of these two reimbursement requests yielded that five jail employees did not keep timesheets. There were also two instances where jail employees' timesheets did not match their payroll summaries, there were 44 instances where jail employees did not sign their timesheet to indicate the time reported was time they worked, and there were 55 instances where jail employees tested did not have adequate supervisor approval. Three instances were also found where, sheriff's office employees didn't document their approval of their timesheets.

Questioned costs of \$55,302 were computed based on the two months of unsubstantiated salary charges for five employees that did not keep timesheets, and the two employees whose timesheets did not match the December 2020 payroll summary

These issues are due to a weakness in the jailer's payroll procedures. The jailer has given authority for a signature stamp to be used by his office staff to approve timesheets when he is not there. The signature stamp does not have controls in place to document who is using it, so supervisor approval cannot be determined. Furthermore, the jailer did not require salaried employees to keep timesheets. The two employees' timesheets that did not match were due to an error made when processing December payroll which was quickly fixed in January; however, it was reimbursed improperly as the hours were not worked during the time period agreed by the grant.

Due to the jail having weak payroll procedures, questioned costs were generated and the risk of improperly paying employees is elevated. Strong internal controls require documented approval of timesheets by both the direct supervisor and the employee. This will protect both parties by ensuring that an employee's hours worked are accurate and agreed upon by both the employee and the office.

2 CFR 200.303 states: "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Additionally, KRS 337.320(1) states, in part, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee[.]"

We recommend the Graves County Fiscal Court implement internal controls over federal award reimbursements and the jail's payroll. Reimbursement request should be properly supported prior to submission. The fiscal court should require the jail strengthen their internal controls over timekeeping records which includes employees' signature on timesheets as well as documented approval of all timesheets. Any deviations should be investigated and cleared prior to processing payroll.

County Judge Executive Response: Graves County was able to work with the Department for Local Government for payroll that was supported according to the 2020 Coronavirus Relief Fund 21.019, 2020 C-070 and C2-280 guidelines. The issue of signed timesheets for all employees has also been reconciled as of May 2022.

Jailer's Response: We were unaware that salaried employees needed to maintain a timesheet for fiscal court, that has since been taken care of.

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

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