



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, 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 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 findings:

**The Graves County Fiscal Court did not have adequate controls over disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2021-002. During Fiscal Year 2022, the Graves County Fiscal Court had material weaknesses in internal controls and noncompliances over disbursements. The following findings were noted regarding Graves County Fiscal Court's disbursements:

- The Graves County Fiscal Court's purchase order system did not function as designed; purchase orders were either not issued, or for many disbursements, were issued after the

invoice was received. We tested 76 transactions totaling \$2,484,758 and noted the following:

- Twenty-two invoices totaling \$1,012,300 did not have purchase orders.
- Twenty-seven invoices totaling \$1,286,605 had purchase orders that were issued after the invoice date.
- Five disbursements totaling \$99,618 did not have documentation to support the validity of the disbursement.
- Fourteen disbursements totaling \$253,635 were not paid within 30 working days of the invoice.
- Encumbrances were not properly recorded on the fourth quarter financial statement.
- One check did not have dual signatures.
- Two travel reimbursements used the incorrect per diem rate.
- The fiscal court did not ensure bidding procedures were followed for purchases made by the Agency for Substance Abuse Prevention (ASAP), nor did fiscal court review the invoices.

According to county staff, individuals sometimes make purchases prior to requesting purchase orders. In these instances, the fiscal court will prepare purchase orders when invoices are received. ASAP purchases were not reviewed and bid out because the county does not view these purchases as county obligations.

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.

Strong internal controls require purchase orders to be requested, approved, and issued prior to items being ordered and expenses being incurred to ensure available line-item appropriations exist and adequate supporting documentation is maintained for all disbursements.

KRS 68.210 gives the state local finance officer the authority to prescribe a system of uniform 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* 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 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.

Moreover, 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.

KRS 65.140(2) states, “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice[.]”

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:

- (a) Materials;
  - (b) Supplies, except perishable foods such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits;
  - (c) Equipment; or
  - (d) Contractual services other than professional;
- involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids. This subsection shall not apply to the transfer of property between governmental agencies as authorized in KRS 82.083(4)(a).”

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. We also recommend that encumbrances be reported accurately on the quarterly financial statements. We also recommend the Graves County Fiscal Court maintain supporting documentation for all disbursements and ensure all invoices are paid within thirty days. Furthermore, we recommend the Graves County Fiscal Court implement internal controls over ASAP disbursements.

*County Judge/Executive’s Response: Graves County Fiscal Court began using a new software July 1, 2022 with expectations of improvement in the Purchase Order System, disbursements, receipts and overall day to day operations to help alleviate any problems for the future.*

**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 2021-001. During Fiscal Year 2022, the Graves County Fiscal Court failed to approve cash transfers prior to them being made by the county treasurer. We tested thirteen cash transfers

totaling \$1,415,000. Eight cash transfers totaling \$869,000 were transferred without prior approval; however, they were subsequently approved by fiscal court. Five transfers totaling \$546,000 were approved by a blanket approval order passed by the fiscal court on January 10, 2022, and then individually at each subsequent fiscal court meeting.

According to county personnel, the county was not aware that interfund transfers needed fiscal court approval prior to funds being moved. 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 oversee the movement of funds in order to decrease the risk of misappropriation. Additionally, it is the responsibility of fiscal court to make financial decisions for the county, such as transferring cash between funds.

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 Graves County Fiscal Court authorized the County Treasurer to make transfers within the budget as needed with the approval of the transfers taking place at the next Fiscal Court Meeting.*

**The Graves County Fiscal Court lacks adequate controls over the fourth quarter financial statement:** There were five instances on the fourth quarter financial statement in which appropriations for the total available budget line items did not cross-foot. This resulted in the total available budget line on the fourth quarter financial statement for three funds being inaccurate. The general fund total was understated by \$827,972; the road fund total was understated by \$6,900, and the Disaster and Emergency Services (DES) fund was understated by \$1,075.

When comparing the amount spent per the fourth quarter financial statement with approved budget and budget amendments, three funds overspent the approved budget. The road fund was overspent by \$938,179; the jail fund was overspent by \$153,092, and the DES fund was overspent by \$4,406. It was noted when comparing the budget to actual, that total budget transfers did not zero out. It appears that \$2,140,385 in budget transfers were taken out of the general fund but were not recorded in the other funds. This resulted in the road, jail, and DES fund budgets being overspent.

According to the treasurer, line items were added to the fourth quarter financial statement, however, due to formula errors that were overlooked, the line items were excluded from the totals. The budget transfers were not recorded correctly due to error in processing. As a result of the errors, decisions were being made based off inaccurate numbers which may have led to overspent line items for the road fund, jail fund, and DES fund.

Strong internal controls require all financial statements be reviewed to ensure the statements are accurate. Furthermore, the reviewer should be separate from the individual charged with creating the statements.

We recommend the Graves County Fiscal Court strengthen controls by requiring all financial statements be reviewed by someone independent of the reporting process. We further recommend that the reviewer compare the quarterly financial statements to the receipts and disbursements ledgers while also ensuring that the quarterly financial statements are mathematically accurate.

*County Judge/Executive's Response: Graves County Fiscal Court began using new software July 1, 2022 with expectations of improvement in the overall day to day operations to help alleviate problems. The financial statements will also be reviewed by someone independent of the reporting to ensure accuracy.*

**The former Graves County Jailer failed to maintain minimum accounting records:** This is a repeat finding and was included in the prior year audit report as Finding 2021-004. The former Graves County Jailer failed to maintain minimum accounting records as prescribed by the state local finance officer (SLFO). The following issues were noted:

- Receipts were not batched and deposited daily.
- Daily checkout sheets were not prepared.
- Receipts and disbursements ledgers were not maintained.
- Monthly bank reconciliations were not performed for the canteen account.

The aforementioned findings occurred due to a lack of knowledge of proper accounting procedures and a lack of understanding of the types of accounting records required for sound accounting practices. Since the former jailer did not follow the minimum accounting requirements, the former jailer was unable to provide complete and accurate financial records for canteen activities.

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 the county treasurer on the canteen account.”

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

We recommend the Graves County Jail batch receipts, prepare checkout sheets, and make deposits each day. We further recommend the Graves County Jail maintain receipts and disbursements ledgers and reconcile the bank account for the canteen account.

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

*Former Jailer's Response: The former jailer did not provide a response.*

**The former Graves County Jailer failed to submit an annual canteen report to the county treasurer:** The former jailer submitted monthly reports to the county treasurer. However, due to a lack of understanding of the types of accounts maintained at the jail, the reports submitted to the county treasurer were for the wrong account. Rather than submitting reports for the canteen account, the former jailer submitted reports for the inmate fund.

Due to a lack of internal controls, an annual canteen report was not submitted to the county treasurer, thus, the former Graves County Jailer was not in compliance with KRS 441.135.

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.”

In addition, good internal controls over the reporting process are vital to ensure the annual canteen report is prepared and submitted to the county treasurer.

We recommend the Graves County Jail strengthen oversight and controls to ensure the annual canteen report is prepared and submitted to the county treasurer.

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

*Former Jailer's Response: The former jailer did not provide a response.*

**The Graves County Jail does not have adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2021-003. The Graves County Jail does not have adequate segregation of duties. Even though the jail has two bookkeepers, they both collect cash, prepare deposits, and post transactions to the inmates' accounts. According to the bookkeepers, they review each other's work, however, 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 segregation of duties is not possible due to the limited number of staff, appropriate management oversight should be provided to the individual performing these duties. This oversight should include a documented review by management.

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

*Former Jailer's Response: The first 3 years audits were done all at once in the fourth year. We were unaware that this was an issue until then. We were attempting to resolve this issue once you made us aware of it. However, it was already in this year, which is a portion of the problem. Also due to the small size of our staff, this was a hard problem to resolve.*

Auditor's Reply: The 2018 audit was performed by a CPA firm and was not completed until December 2021. The APA began the 2019 audit in November 2021. A devastating tornado hit western Kentucky on December 10, 2021 and did much damage to the Graves County Courthouse. The APA paused the audit in order for the county to regroup and deal with the fallout of the catastrophic damage done by the tornado. The county requested auditors restart the 2019 audit as soon as possible and to perform the 2020 audit concurrently with the 2019 audit. The county also requested the APA to do the 2021 audit as soon as was feasible in order to get their audits caught up from the delay caused by the CPA firm.

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

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