



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Jessamine County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Jessamine 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 Jessamine 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 Jessamine County Jailer did not have adequate internal controls, segregation of duties, or management oversight over jail commissary fund accounting functions: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. A lack of segregation of duties existed over the jail commissary fund and inmate account 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 without any documented oversight.

The lack of segregation of duties existed due to the inadequate design of controls over the jail commissary fund and inmate account accounting functions and insufficient oversight by management. These issues were compounded due to management's and accounting personnel's lack of training, skills, and knowledge about how to properly record the entity's financial transactions or prepare the financial statement.

A lack of internal controls, segregation of duties, and management oversight increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. The deficiencies in internal controls led to the following errors and exceptions in the accounting and financial statement preparation process:

- Amounts for revenue totaling \$3,914 were correctly posted to the receipts ledger but not included on the annual jail commissary fund summary and reconciliation submitted to the county treasurer.
- The bank statement contained \$1,384 of receipts that were not posted to the receipts ledger and also not included on the annual jail commissary fund summary and reconciliation submitted to the county treasurer.

These errors resulted in the financial statement amounts not agreeing to the ledger amount and the ledger not agreeing to the bank reconciliation.

Good internal controls dictate adequate controls and sufficient review are 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 check out 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.
- Pre-numbered receipts in triplicate should be written and maintained for all money collected at the jail outside the kiosk system. (See related Finding 2021-002)
- Receipts should be batched daily and total collections for the day should be agreed to total receipts posted to the ledger. (See related Finding 2021-002)
- Checkout sheet should be prepared daily and should agree to batched receipt tickets, reports from kiosk for monies processed through kiosk system, bank deposits, and the receipts ledger. (See related Finding 2021- 002)
- Bank statements should be reviewed by a person independent from the accounting function.
- Deposits should be agreed to daily check out sheets and receipts ledger by a person independent of the accounting function. (See related Finding 2021-002)

- The jailer, or his designee, should complete bank reconciliations or review the bookkeeper's reconciliation for accuracy.
- 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 Judge/Executive's Response: With critically low staffing issues, this will be corrected once the jail is up to full staff. Hopefully with a raise in starting salaries, other staff will be brought in to help with accounting procedures to be put in place so Chief [name redacted] has more segregation of duties.

Jailer's Response: Currently, Major [name redacted] is the only employee with many of the responsibilities of accounting. We plan to move Captain [name redacted] from the Jail's drug testing and home incarceration office to an administrative assistant role to assist Major [name redacted] with many of these functions.

The Jessamine County Jailer lacks internal controls over jail commissary and inmate receipts: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The jailer has responsibility for collecting certain monies, including monies from and for inmates of the jail. The majority of monies collected at the jail are inmate monies. Most deposits to inmate accounts are completed through a kiosk system and are not handled by the jailer or his staff. Deposit kiosks are maintained in the lobby and booking area of the jail. Individuals can deposit money into an inmate's account via the kiosk in the lobby or funds possessed by inmate upon being incarcerated can be deposited via the kiosk in the booking area. The kiosk will print a receipt that can be retained by the person depositing the money. Jail staff do not retain receipts for any funds deposited into the kiosks. Deposits made via the kiosk system automatically update the inmate's ledger. Deposits from the kiosks are handled by a service organization. Receipts received through the mail or when kiosks are not in service are accounted for manually by the jail staff. Receipts of this nature are entered into the accounting system and placed in a lockbox maintained at the jail. No receipts are issued for manual deposits received. The bookkeeper compares the monies in the lockbox to what was entered into the computer system for deposit. The monies accounted for manually are not deposited daily when received. No reconciliation is performed to compare the monies received via the kiosks to the bank statement and the reports from the kiosks and no daily check out sheet procedures were performed to reconcile kiosk and manual receipts.

The jailer did not have internal controls in place to ensure that staff knew the requirements and the jailer did not monitor or review financial reports and data to make sure requirements were met for handling inmate funds.

When internal controls over receipts are not implemented or monitored to ensure the proper handling of funds, the risk of misappropriation of assets due to errors in financial reporting and theft of funds significantly increases.

Adequate controls over receipts are essential to reduce the risk of misstatement or errors and to ensure compliance with applicable laws and regulations. KRS 68.210 gives the state local finance

officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires that pre-numbered receipt forms should be issued for all receipts. A copy of each receipt in sequential order should be attached to the daily check out sheet. The daily check out sheet should agree to the required daily deposit and receipts ledger. A monthly bank reconciliation should be completed and agreed to the underlying accounting records.

We recommend the jailer implement internal controls to ensure that all forms of monies received at the Jessamine County Detention Center are accounted for and reconciled appropriately as required by KRS 68.210.

Judge/Executive's Response: [name redacted] will begin completing daily checkout sheets of all funds from jail receipt and disbursement.

Jailer's Response: To correct this measure Major [name redacted] will begin completing daily checkout sheets of all funds the jail receives and disburses.

The Jessamine County Jailer failed to properly implement controls over the inmate trust account financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2020-003. The jailer failed to implement controls over the inmate trust account, activity of the account, and bank reconciliations that resulted in inaccurate financial reporting. This account is a custodial fund 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. 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 upon their release. The following deficiencies were noted:

- Inadequate monitoring over the removal, deposit, and recording of cash from kiosk machines by the service provider existed. Amounts collected via the kiosk were not documented and agreed to bank records during the daily checkout sheet and monthly bank reconciliation process. (See related Finding 2021-002)
- Receipts for monies processed outside the kiosk system were not batched and deposited daily. (See related Finding 2021-002)
- Daily checkout sheets to account for all inmate trust fund deposits were not prepared. Daily checkout sheets which included amounts for both the jail commissary fund and the inmate trust fund account, when prepared, did not total and agree to the total deposits made into the two accounts. (See related Finding 2021-002)
- 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.
- There is no documentation maintained by the jail that provides support that upon release the inmates did in fact receive the monies due to them.

- The majority of refunds remitted to inmates were completed via the issuance of a debit card to the inmate. There were no controls over the issuance of the refunds issued with a debit card or any reconciliation of the refunds issued via debit cards to the accounting records.

The jailer failed to properly implement internal controls and provide sufficient management oversight over kiosk machine processes, deposits, disbursements, and refunds of the inmate trust account.

A lack of internal controls over the accounting functions for the inmate trust account could allow undetected errors to occur. In addition, a lack of internal controls over this process increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations. In addition, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly cash reconciliations, daily checkout sheets, and disbursement ledgers. DLG requirements assist jailers in ensuring that records are complete and accurate.

We recommend the jailer implement procedures to strengthen internal controls over the inmate account and associated accounting functions. The following procedures should be implemented to strengthen internal controls over the inmate account:

- Appropriate oversight and documentation should be maintained over the withdrawal of inmate monies 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.
- A deposit ticket 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.
- 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.
- All disbursements should be reviewed by a person independent of the accounting function. The jailer should implement procedures to require the inmates to sign a receipt documenting the return of their fund balance held upon release.
- Controls over refunds issued via debit cards should be implemented and monitored.

County Judge/Executive's Response: Major [name redacted] will start a dual control check out system each time the [service organization name redacted] empties from the kiosk with Captain [name redacted].

Jailer's Response: Major [name redacted] assisted by Captain [name redacted] will begin running a kiosk empty report every time that [the service organization name redacted] empties money from the kiosk.

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

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