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Harmon Releases Audit of LaRue County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the LaRue 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 LaRue 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 LaRue County Jailer did not prepare daily checkout sheets for all receipts received and did not deposit all monies received into the inmate account: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The LaRue County Jailer did not prepare daily checkout sheets for two of five days tested. Also, inmate monies collected by bookkeeper were not deposited daily. When an inmate is arrested and booked, the cash on the inmate is collected, put in an envelope, and placed in the safe. The bookkeeper deposits the money from the safe on Mondays and Fridays. Therefore, if an inmate is released before monies are deposited, the bookkeeper will contact the inmate. However, if the inmate doesn't return to collect the monies, the monies will stay in the safe. The bookkeeper does not document her attempts to contact the inmate. The June 30, 2021 inmate account bank reconciliation included outstanding

checks that date back to February 27, 2019. Total stale dated checks for inmate refunds are \$6,437 as of June 30, 2021. The bookkeeper did not transfer money abandoned by inmates after their release from the inmate account to the commissary account.

The LaRue County Jail used this money as a petty cash fund during Fiscal Year 2021. As of March 17, 2022, the balance of the petty cash fund in bank bag was \$2,522. The bookkeeper maintains a folder with copies of invoices and receipts for the fund; however, no log was kept documenting each transaction that went through the fund. The source of the petty cash fund mainly came from inmate monies not disbursed after an inmate was released from jail. The bookkeeper would wait between six months to a year to transfer the monies from the safe to the petty cash fund. In addition, reimbursements for inmate transports and recycling receipts were included in petty cash. The petty cash fund was used to make purchases. To make a purchase out of the petty cash fund, an employee would either go to the bookkeeper and tell her what they were purchasing or bring a receipt back to the bookkeeper to be reimbursed. The bookkeeper then would take monies out of the bank bag that contained the cash and give it to the employee. The employee would bring the bookkeeper back the receipt and change from the transaction. The bookkeeper and either jailer or major would sign off on the purchase. Additionally, inmate refunds were made in cash without maintaining any documentation. On March 17, 2022, the bookkeeper deposited \$2,728, which consisted of all the money that was in bank bag and the money in the safe.

The jailer and bookkeeper were not aware all receipts should be documented, accounted for on a daily checkout sheet, and deposited daily. The bookkeeper stated she started the petty cash fund in 2019 with funds from released inmates that had monies in the safe but had not come back and collected those monies from the jail. The bookkeeper and jailer were unaware that the bookkeeper couldn't keep cash and had to deposit all monies to an official bank account. They also weren't aware all expenditures were to be paid by check and not by cash, including refunds to inmates. In addition, the jailer did not have a policy to handle outstanding stale dated checks.

When deposits are not made timely intact and checkout sheets are not prepared daily, the risk of misappropriation of funds and the opportunity for theft is increased. Since no documentation was maintained for all receipts, the petty cash fund as of June 30, 2021, may not be correct. In addition, having a petty cash fund allowed the following to occur:

- The cash was available for the jailer or other employees to access at any time.
- All receipts were not included on the financial statement since they weren't deposited and recorded daily.
- The jailer paid for disbursements by cash; therefore, they were not recorded and included on the financial statement.
- By not handling inmate refunds correctly, the chance of errors or fraud increases. Also, the jailer can miss out on monies that could be transferred to the commissary account a year after the date the check is mailed or an attempt to call is made.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires "[d]aily

deposits intact into a federally insured banking institution.” It also states for jail commissaries that, “[d]aily deposits are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet.” Additionally, good internal controls over receipts dictate that deposits should be made daily to reduce the risk of misappropriation of cash, which is the asset most susceptible to possible theft.

KRS 441.137(1) states, “[f]or any moneys in an inmate account or prisoner canteen account of a jail that are not returned to a prisoner at the time he or she is released from jail, the jailer shall transmit a check for the balance of the moneys by first class mail to the released prisoner at his or her last known address. If the check is returned as undeliverable, then the jailer shall attempt to contact the prisoner at a telephone number on file, if any, to arrange the return of the moneys. If the moneys are not claimed after the jailer fulfills these requirements of this subsection, the moneys shall be presumed abandoned after one (1) year after the date the check is mailed or, if an attempt to call is made, the date of the phone call.” KRS 441.137(2) states, “[a]ny abandoned moneys as set out in subsection (1) of this section shall, if in a prisoner account, be transferred into the canteen account if these are two (2) different account, or shall remain in the canteen account and be available for the purposes set out in KRS 441.135.”

KRS 441.135(2) allows the canteen account to be used, “[f]or the benefit and to enhance the well-being of the prisoners” and “[t]o enhance safety and security within the jail.”

We recommend the jailer deposit all funds intact daily, prepare daily checkout sheets for all monies collected in both commissary and inmate accounts, and pay all disbursements including inmate refunds with checks instead of cash. We also recommend the jailer document the dates and contact method for each inmate’s outstanding balance and follow the requirements of KRS 441.137.

County Judge/Executive’s Response: No Further Comment. Jailer is responsible for Commissary Account.

County Jailer’s Response: Any and all types of money received on a daily basis is deposited on (daily basis) including money put in safe. (Safe money was only checked on deposited on Mondays and Fridays).

The LaRue County Jailer failed to report funds in the correct accounts: The jailer failed to account for profits from commissary sales and reimbursements from a staffing agency in the correct accounts. The jailer maintains two separate bank accounts, the inmate account and the commissary account, to account for funds received from inmates. As of June 30, 2021, the inmate account had a reconciled balance of \$122,948. Based on the June 30, 2021 printout of the inmate account balances, the inmate bank account has \$17,057 belonging to inmates as of June 30, 2021, leaving \$105,891 in the inmate bank account that are profits from commissary sales that have not been transferred to the commissary bank account. In addition, during Fiscal Year 2021, the jailer deposited \$12,789 of receipts to the commissary bank account that should have been deposited to the jail fund. These funds were reimbursement from a staffing agency for expenses incurred transporting prisoners for work release.

This deficiency was able to occur due to the lack of oversight and review of the monthly reconciliations. By paying expenditures other than for inmates from the inmate account, private monies could be used for a public purpose leaving inadequate funds to pay balances to the inmates. Additionally, the balance of the inmate account, commissary account, and jail fund are misstated by leaving commissary profits in the inmate account and the reimbursements for staffing in the commissary account. This deficiency results in receipts and ending balance of the jail commissary fund and the jail fund being misstated on the financial statement. These misstatements are not material and have not been adjusted in the financial statement. This deficiency also allows an opportunity for cash to be diverted or misappropriated.

Good internal controls dictate that separate bank accounts be maintained for restricted funds. The inmate account should be used for all inmate moneys received and disbursed as refunds or transfers to the commissary account for commissary purchases by the inmates and jail fees collected from the inmates for payment to the county treasurer. No other receipts should be deposited into this account and no other disbursements should be made from it. Deposits to the commissary account should only consist of transfers from inmate accounts for commissary purchases and any other monies relating to commissary activity. Any monies collected for reimbursement of disbursements should be deposited to the account that made the disbursements. In addition, KRS 64.850 states “[i]t shall be unlawful for county official to deposit public funds with individual or private funds in any bank or other depository or for any such official to withdraw public funds for any purpose other than which they were received and deposited.”

We recommend the jailer avoid comingling inmate, commissary, and jail fund collections by depositing inmate moneys only to the inmate account and issuing checks from the inmate account only for refunds, payments to the county treasurer, and transfers to the commissary account for profits from commissary sales. All other receipts should be deposited to the commissary account or jail fund and all other disbursements should be made from the commissary account by check. In addition, we recommend the jailer transfer \$105,891 profits from commissary sales from the inmate account to the commissary account and transfer \$12,789 reimbursement of expenses from the commissary account to the jail fund.

County Judge/Executive’s Response: No Further Comment. Jailer is responsible for Commissary Account.

County Jailer’s Response: At the time of finding, was fixed immediately. Revenue from certain sales was kept in same trust account. Transferred to Revenue/Profit Acct.

The LaRue County Jailer’s year end commissary financial report and bank reconciliations were not accurate: The jailer presented an annual summary for the jail commissary fund to the county treasurer as required; however, it did not contain sufficient detail to meet the requirements prescribed by the Department for Local Government (DLG). The report only included a total for receipts and disbursements from the inmate account which included some credit card deposits twice and included activity that wasn’t needed. In addition, only the commissary activity of the inmate account was included. The annual summary did not include the commissary activity from the commissary account. In addition, the jailer’s bank reconciliations were not accurate. Items were included on the reconciliations that had previously cleared the bank prior to June 30, 2021 or

had been voided. Bank reconciliations should account for only outstanding checks and deposits in transit that have not cleared the bank as of June 30, 2021.

The bookkeeper wasn't aware that her report was required to include all commissary activity. Also, as described in Finding 2021-002, the bookkeeper has incorrectly used the inmate account and did not transfer all profits to the commissary account. As a result, the year-end financial report did not reflect actual receipts and disbursements of the jail commissary fund. Inaccurate bank reconciliations can leave the jail with an inaccurate understanding of its financial position.

KRS 441.135(2)(b) 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 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires a jail commissary fund year to date summary compiled with information obtained from totaled categories from the receipts and disbursements journals. The ending balance reported on the summary is reconciled to the bank balance. This summary is sufficient to use as the year-end report that is submitted to the county treasurer.

We recommend the jailer submit a detailed and accurate annual financial statement to the county treasurer for the jail commissary fund. The financial statement should be compiled using financial information from receipts and disbursement journals, with the ending balance reconciled to the bank balance. We also recommend the jailer prepare bank reconciliations using only items which have not cleared the bank. All items that have cleared the bank should be removed from the reconciliation.

County Judge/Executive's Response: No Further Comment Jailer is responsible for Commissary Account.

County Jailer's Response: Outstanding balances were not removed/deleted from physical accounts. However, balances were always accurate on reconciliations.

The LaRue County Fiscal Court and jailer did not follow bidding procedures required by the model procurement code: The fiscal court and jailer are not in compliance with the model procurement code adopted by the county related to bidding and contracts. The jail did not request bids for the following items for Fiscal Year 2021:

- Disbursements of \$191,194 for the detention center's medical service program.
- Disbursements of \$191,360 for the detention center's food service program.
- Disbursements of \$42,639 for the telecommunication services for inmates' text, picture, and email services.
- Disbursements of \$73,367 for e-cigarettes for inmates.
- Disbursements of \$169,322 for the commissary vendor.

These exceptions occurred due to lack of management oversight over bidding and contract procedures and the jailer was not aware that food services, telecommunication services, and commissary items were required to be bid. Medical services are considered to be a professional service which requires a written determination that competition was not feasible. As a result, the fiscal court and jailer were not in compliance with the model procurement code adopted by the fiscal court related to bidding and contracts. In addition, the fiscal court and jailer may not have received the best value for services or products provided.

The LaRue County Fiscal Court has adopted the provisions of the Kentucky Model Procurement Code under KRS 45A.345 to KRS 45A.460. KRS 45A.365(1) states, in part, “[a]ll contracts or purchases shall be awarded by competitive sealed bidding, which may include the use of a reverse auction, except as otherwise provided by KRS 45A.370 to 45A.385....” The procurements described in this finding did not comply with the requirements of other non-bidding alternatives allowed in 45A.370 to 45A.385.

We recommend the fiscal court follow the model procurement code adopted by the county.

County Judge/Executive’s Response: The LaRue County Fiscal Court will include annual bids each year for all items noted to assist the LaRue County Jailer in proper procurement through the model procurement code.

County Jailer’s Response: Judge Executive will decide on this/take care of.

The LaRue County Jail Commissary lacks segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The LaRue County Jail Commissary lacks adequate segregation over all jail commissary accounting functions. The jailer’s bookkeeper receives the mail, collects cash, issues receipts, prepares and deposit receipts, writes and signs checks, and prepares bank reconciliations. The bookkeeper also posts to the receipts and disbursements ledger. The jailer or major initials bank reconciliations, bank statements, receipts, invoices for disbursements, and daily checkout sheets. While the jail commissary has compensating controls, the controls in place are not effective. The controls in place did not catch errors such as deposits not being made intact daily as in Finding 2021-001, not reporting funds in the correct accounts as in Finding 2021-002, and incorrect bank reconciliations and year-end report as in Finding 2021-003.

According to the jailer’s bookkeeper, this condition is a result of a limited budget, which restricts the number of employees the jailer can hire and limits the delegation of duties. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to the fiscal court.

A proper segregation of duties over the accounting functions or implementing compensating controls, when necessary because of a limited number of staff is essential for providing protection from undetected errors occurring. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the jailer segregate the duties of preparing deposits, recording receipts, preparing the bank reconciliations, and signing checks. If segregation of duties is not feasible due to lack of staff, we recommend the jailer implement effective compensating controls to offset the lack of segregation of duties.

County Judge/Executive's Response: No Further Comment. Jailer is responsible for Commissary Account.

County Jailer's Response: The official did not provide a response.

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

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