



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Adair County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Adair County Fiscal Court for the fiscal year ended June 30, 2015. 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 Adair 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 non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting. The Adair County Fiscal Court received a qualified opinion on the compliance requirements that are applicable to Adair County's major federal program: Community Development Block Grant/State's Program (CFDA #14.228).

The audit contains the following comments:

**The Adair County Fiscal Court failed to implement adequate internal controls over federal funds.** Adair County Fiscal Court lacks adequate internal controls over federal funds. The fiscal court hired the Lake Cumberland Area Development District (LCADD) to act as grant administrator over Community Development Block Grant (CDBG) awards in the amount of \$1,000,000 and Appalachian Regional Commission (ARC) awards totaling \$298,024. During Fiscal Year 2015, CDBG funds totaling \$871,169 and ARC funds totaling \$298,021 were expended. The fiscal court placed complete reliance upon the LCADD for ensuring compliance

with all applicable federal requirements. These federal funds were not budgeted by the fiscal court and no grant records were maintained at the county level (See Finding 2015-002). Additionally, grant expenditures were not reviewed and approved for payment by the fiscal court (See Finding 2015-006). OMB A-133 section 300(b) states that it is the auditee's responsibility to maintain internal controls over the Federal programs that provide reasonable assurance that the auditee is in compliance with the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The fiscal court relied solely on LCADD to monitor all applicable compliance requirements and had no controls in place to ensure they were met. The fiscal court also had little to no knowledge of what was being done at the LCADD to ensure compliance.

The lack of monitoring resulted in material noncompliance with two compliance requirements, procurement and reporting. Noncompliances can result in the fiscal court being responsible for repaying of federal funds. Additionally grant agreements for the CDBG funds require the fiscal court to monitor grant activities for future years to ensure facilities constructed with federal funds are used for the intended purposes. We recommend the fiscal court implement adequate internal controls to ensure federal compliance requirements are met.

*County Judge/Executive Michael Lee Stevens's response: "In the past grant administration has been out sourced to the LCADD who controlled the application, awarding, and processing. We were under the impression LCADD monitored for compliance and all reports was LCADD responsibility. Any future grants will be maintained by the CJE office and monitored by treasurer for content provisions, agreements, & compliance."*

**The Adair County Fiscal Court did not budget, record, or report activity of two federal grants.** The fiscal court contracted with the Lake Cumberland Area Development District (LCADD) to administer the Appalachian Regional Development and Community Development Block grants. The fiscal court maintained separate bank accounts for these funds, but these funds were not included in the original budget or any amendments to the budget. In addition, the receipt and disbursement of the federal grants were not recorded on the ledgers or reported on quarterly financial reports. The fiscal court was under the impression since they contracted with the LCADD, they did not need to budget, record, or report these funds. However, the fiscal court cannot contractually give away their responsibilities. As a result, total receipts and disbursements were materially understated by \$1,169,341 and \$1,169,245, respectively, on the fourth quarter financial report. In addition, the beginning and ending balances for the Senior Citizens Fund were misstated by \$14,900 and \$14,996, respectively, on the fourth quarter financial report.

According to KRS 68.240(1), “The county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year.” All funds of the fiscal court are required to be budgeted and reported on the quarterly financial reports according to the *County Budget Preparation and State Local Officer Policy Manual*, issued by the Department for Local Government (DLG). KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. In addition, all funds should be recorded in receipts and appropriation ledgers. The fiscal court may have to amend the budget to reflect the receipt and expenditure of funds received through a federal grant if that grant was not part of the original budget.

We recommend the fiscal court ensure all funds are properly budgeted or prepare budget amendments if necessary. We also recommend the fiscal court record all funds to the ledgers and report the receipt and disbursement of all funds as well as the beginning and ending fund balances on the quarterly financial reports.

*County Judge/Executive Michael Lee Stevens’s response: “Implementing new accounting process which will include separate accounts and line items to monitor and record all receipts & expenditures for proper budgeting of Grant funds.”*

**The Adair County Public Properties Corporation did not maintain proper accounting records.** The Adair County Public Properties Corporation did not maintain the proper accounting records for the Public Properties Corporation (PPC) fund. The PPC made all bank statements available, but they did not maintain receipt and disbursements ledgers or prepare a financial statement and bank reconciliation. According to the county treasurer, he thought he did prepare a financial statement for Fiscal Year 2015 for the PPC fund. However, the consolidated statement made available to the auditors reported amounts for Fiscal Year 2014. As a result, the receipts and disbursements on the financial statement for Fiscal Year 2015 were materially adjusted by \$914,425 each. Since the fiscal court is financially accountable and legally obligated for the debt of the PPC, the PPC fund is an unbudgeted fund of the fiscal court. The PPC should maintain receipts and disbursements ledgers, reconcile the account monthly, and prepare a financial statement. We recommend the PPC prepare receipts and disbursements ledgers, reconcile the account monthly, and prepare a financial statement for the PPC fund.

*County Judge/Executive Michael Lee Stevens’s response: “Adding new process to ensure proper recording of all receipts and expenditures for PPC.”*

**The Adair County Fiscal Court did not maintain complete and accurate capital asset records.** The fiscal court did not have a completed capital asset schedule listing for the fiscal year ending June 30, 2015. A list of capital asset additions and disposals was not maintained. The fiscal court lacks adequate controls over reporting of capital assets. Due to this lack of controls and unclear responsibilities over this area, physical inventories could not be reconciled to the capital asset listing since the listing was not prepared.

Capital asset additions in the amount of \$1,926,007 and construction in progress in the amount of \$281,395 were not included on the capital asset schedule. The additions not included consisted

of a \$32,000 land acquisition for the E-911 building, \$351,744 in building improvements to the jail, \$373,669 in building improvements in progress to the Christian Life Center/Senior Citizens Center, seven vehicles and equipment purchased by various departments totaling \$124,811, and \$1,043,783 in infrastructure. Two pieces of equipment purchased could not be traced to the fiscal court's insurance policy. The amount spent on the Christian Life Center/Senior Citizen Project was not ever included on the capital asset schedule. Therefore, auditors were unable to determine the actual amount spent for improvements in prior years. In addition, a capital asset disposal of \$42,501 for land sold was not removed from the capital asset schedule. If construction in progress for energy efficiency upgrades to the jail had been included on the capital asset schedule, they should have been included in disposals and reclassified as building improvements since the upgrades were completed in the current fiscal year. By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset schedule. The fiscal court also cannot properly determine insurance needs without proper documentation being maintained.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. The manual further states that capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, and proceeds from sale or disposal of assets.

We recommend the fiscal court maintain a complete and accurate capital asset schedule to comply with the Department for Local Government's requirements. Invoices for any asset acquisitions and documentation for any asset disposals should be kept on file and used to maintain the capital asset schedule. In addition, the fiscal court should reconcile capital asset records to actual physical inventory with each department at least yearly to ensure all assets meeting the fiscal court's capitalization policy threshold are included and accurate.

*County Judge/Executive Michael Lee Stevens's response: "Treasurer will work with staff to monitor and update Capital Assets list. It will be reconciled annually and reviewed by CJE and treasurer."*

**The Adair County Fiscal Court failed to implement controls over payroll information processed by a service organization.** The fiscal court uses a local accountant to process all payroll transactions. The accountant is considered to be a service organization. At the end of each payroll period, the accountant receives the necessary information from the finance officer to process the payroll, including the official's salary information, hours for which each employee is to be paid, hourly rates, and a listing of required and authorized withholdings. The accountant processes this information and generates a payroll report which the fiscal court relies on to issue payroll checks and transfer monies from respective funds to the payroll revolving account. In addition, the accountant prepares all monthly and quarterly withholding reports which the fiscal court relies upon to pay state, city, and federal withholding amounts due, maintains individual earnings records, and prepares W-2 forms for the fiscal court employees. The fiscal court had no evidence of any controls in place to ensure amounts calculated by the accountant are accurate.

Payroll disbursements are material to the fiscal court's financial statement representing approximately 40% of total disbursements for Fiscal Year 2015.

The fiscal court relies on controls of the service organization to prevent or detect misstatements; therefore, they did not implement controls over payroll. Without adequate controls in place to ensure all information processed by the accountant is accurate, the risk that payroll disbursements could be misstated or fraud relating to payroll could occur increases. If a service organization is used to process transactions on behalf of an entity, the entity should establish controls over the submission and receipt of the information that could prevent, or detect and correct, misstatements. Even though this information is generated by the service organization, the entity is responsible for the accuracy of that information because it is included in their financial statements.

We recommend the fiscal court implement internal controls to ensure that all calculations for payroll disbursements are correct. The fiscal court could, at least on a spot basis, review and recalculate amounts on the report generated by the accountant to ensure their accuracy. This review should be documented.

*County Judge/Executive Michael Lee Stevens's response: "Treasurer will balance all payroll records processed by accountant for accuracy. Including employee earnings, taxes, quarterly and annually and W-2's. This moved from Finance Officer duties immediately."*

**The Adair County Fiscal Court failed to implement sufficient controls over expenditures.** Controls associated over disbursements were not operating as intended. Disbursements were not properly authorized, supporting documentation was not maintained and appropriate, and proper procedures were not followed. These deficiencies were able to occur due to lack of monitoring of controls and diminish the effectiveness of the controls put in place over disbursements by fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

As a result of the deficiencies noted above, the following exceptions occurred:

- The fiscal court approved claims and made appropriations in excess of budgeted appropriation amounts during the fiscal year without requesting budget transfers prior to overspending. Nine instances were noted where claims were paid even though the budget line had a negative balance when payment was approved and made.
- Fifteen instances were noted where disbursements were made and not approved by the fiscal court prior to payment or included on the annual standing order to pre-approve certain recurring expenses. One of these instances included a payment made for health insurance, and 11 of these instances were for federal grant disbursements in the amount of \$871,169.
- Two disbursements were not paid within 30 days. One of these was a debt payment made on the Rescue Land which resulted in a late payment of \$241.
- Five instances were noted where detailed receipts were not maintained and paid by statement or sufficient supporting documentation was not maintained to determine what was purchased.

- Three credit card disbursements totaling \$4,397 did not have supporting documentation or invoices to support transactions due to the finance officer not being able to find the file folder for this vendor.
- One grant disbursement totaling \$34,996 did not have supporting documentation for auditors to review.
- Six instances were noted where disbursements did not have purchase orders attached to the invoice.
- Numerous instances were noted where purchase orders were dated after the date of the invoices or receipts. Therefore, items could have been ordered or services rendered without prior approval to ensure adequate funds were available in each account.

Proper internal controls over expenditures are important to ensure purchase orders are created with sufficient funds available, are approved by fiscal court, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, "[p]urchases shall not be made prior to approval by the judge/executive (or designee) and/or a department head." In addition, 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 the budget appropriation, shall be void." KRS 68.275 requires claims that are within budget line items and authorized by the fiscal court be paid by the county judge and co-signed by the county treasurer. KRS 68.275 also requires the county judge/executive to present all claims to the fiscal court for review prior to payment unless the expenses are included on a standing order adopted by the fiscal court to preapprove the payment of certain claims such as monthly payroll and utility expenses. Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

*County Judge/Executive Michael Lee Stevens's response: "Treasurer will monitor budget line items for funds availability of funds budgeted prior to issuing PO. Will ensure Fiscal Court Approval Prior to processing expenditures and processing of payments."*

**The Adair County Fiscal Court did not follow proper bid laws and regulations.** The fiscal court did not bid purchases from seven vendors for over \$20,000 each. These disbursements during the current fiscal year consisted of crushed stone, petroleum products, chipping oil, and two Mack trucks purchased for the Road Department at \$270,509. These purchases also included food and cleaning supplies for the jail, and a \$351,744 energy efficiency upgrade at the jail. Additionally, the fiscal court did not provide any bid documentation for one vendor used to purchase a \$34,996 skid steer for the Recycling Center. Asphalt and a boom mower for the Road Department were properly bid, but the fiscal court did not provide the newspaper advertisements for these bids.

The fiscal court did bid some purchases over \$20,000, but sufficient internal controls were not in place over the bidding process to ensure items were not purchased from vendors without first

advertising or receiving bids when necessary on all purchases required to be bid. By limiting competition or not receiving bids at all, the fiscal court may not get the benefits of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available. Maintaining proper bid documentation also ensures all bids are considered on an equal basis and ensures all bids meet the minimum specifications of the fiscal court.

KRS 424.260(1) states, “Except 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 twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.”

We recommend the fiscal court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260. We further recommend the fiscal court maintain all required bid documentation to improve controls over the bidding process.

*County Judge/Executive Michael Lee Stevens’s response: “CJE & Treasurer will work together to ensure proper bid process in place, including bid documentation, advertising, and awarding bids compliant with KRS 424.260 Dept. in treasurer’s office.”*

**The Adair County Fiscal Court did not properly maintain monthly retirement reports and supporting documentation for employer share of retirement.** The fiscal court does not have support for the employer share of retirement reported to the Kentucky Retirement System (KRS). The employer share of retirement is not reported on the payroll register or any other reports in order to verify the accuracy of the monthly retirement reports prepared by the finance officer. In addition, six monthly retirement reports needed for reconciling the county’s net pension liability could not be located. Employer share of retirement is automatically calculated when the monthly wages for each employee are entered into the KRS report template online. The fiscal court relies on this calculation to determine how much to remit to KRS monthly.

Without proper supporting documentation, amounts could be improperly reported and remitted to KRS. In addition, the actual retirement payments reported per the fiscal court’s fourth quarter financial report did not reasonably reconcile to the amount used for the fiscal court’s net pension liability calculations. Good internal controls dictate payroll reports are adequately supported, compared to the disbursements ledger, and reviewed for accuracy.

We recommend the fiscal court maintain retirement reports and supporting documentation each month. We also recommend the fiscal court implement procedures to account for the employer share of retirement outside the retirement database. Wages and employee and employer contributions per the retirement reports should be reconciled to supporting documentation each month to ensure their accuracy.

*County Judge/Executive Michael Lee Stevens’s response: “Treasurer will create separate worksheet for retirement report, balanced & checked monthly for accuracy. Documents kept in treasurer’s office and balanced to KRS. This moved from finance officer duties immediately.”*

**The Adair County Jailer's weak internal controls over the reconciliation process resulted in a deficit in the inmate account.** Reconciliations for the Inmate Account were not prepared correctly. They did not include any deposits in transit, receivables, or liabilities, so they did not accurately reflect the account balance. This account is used to account for funds deposited by or on behalf of inmates. 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. The monthly bank reconciliations should include the ending bank balance, deposits-in-transit, receivables, outstanding checks, and all other liabilities. The remaining book balance should agree to the total of all inmate balances. The inmate balances as of June 30, 2015 totaled \$374. The bank reconciliation prepared for June 30, 2015 had an ending reconciled balance of \$11,871. However, receivables totaling \$2,161 were not included on the reconciliation. Additionally, one voided check in the amount of \$5,183 was included as outstanding in error, and liabilities totaling \$21,262 were not included resulting in a deficit book balance of \$2,421 in the Inmate Account.

As of December 8, 2014, the Inmate Account was overdrawn by \$91, and the bank charged an overdraft fee of \$25. The total of the inmates' balances per jail records on December 8, 2014 was \$388. At a minimum, the Inmate Account should have had \$388 in the bank account at that time. In addition, payments due to the fiscal court were reduced in six different months by a total of \$475. Per the bookkeeper, the payments were reduced to avoid overdrawing the Inmate Account. These unpaid amounts are included in the liabilities amount reported above. Additionally sales taxes totaling \$1,763 due for April through June 2015, which should have been paid out of the Inmate Account, were paid out of the Jail Commissary Fund due to the insufficient funds in the Inmate Account.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires jailers to maintain monthly cash reconciliations. In order to reflect an accurate book balance, this reconciliation should include a complete and accurate listing of all outstanding checks as well as all receivables and liabilities. When these items are not accurately included, the jailer cannot be sure that the Inmate Account does not have a negative book balance and the likelihood increases that fraud could occur and go undetected.

We recommend internal controls over the Inmate Account reconciliation process be strengthened to ensure that all outstanding checks, deposits-in-transit, receivables, and liabilities are accurately reflected on the monthly bank reconciliations. The jailer or another independent employee should review the monthly bank reconciliations prepared by the bookkeeper to ensure they are accurate. This review could be documented by the reviewer signing the bank reconciliation. The reconciled bank balance should then be agreed to the total inmate balance for the reconciliation period. We also recommend the fiscal court transfer \$2,421 from the fiscal court's Jail Fund to the jailer's Inmate Account to eliminate the deficit.

*County Judge/Executive Michael Lee Stevens's response: No Response.*



*Jailer Joey White's response: "Our contractors (Name Withheld) was not pulling the money out of the Kiosk on a timely manner. It was only being pulled once a week Resulting in a negative balance at times for accounts. This is why sometimes there were no funds available at times. We have changed systems and now are with a different company that is handling all accountables making sure everything is accounted for. The jailer and paid administration is checking this information as well."*

**The Adair County Jailer did not maintain proper accounting records for the jail commissary fund.** During the Fiscal Year ended June 30, 2015, two bank accounts were maintained which had activity related to the Jail Commissary Fund. These included the Jail Commissary Account which is used to account for the receipt and disbursement of profits from commissary sales, and the Inmate Account which is used to account for inmates' monies as well as commissary sales, purchase of commissary inventory, and payment of sales tax. Although computerized records were maintained for the both accounts, jail personnel did not have a sufficient understanding of the computer system to print out detailed receipts and disbursements ledgers. Although deposits were made, receipts were not batched and daily cash checkout sheets were not prepared for the Jail Commissary Account. Receipts were batched and daily cash checkout sheets were prepared for the Inmate Account for July through December 2014 only. However, these daily cash checkout sheets did not include batched totals, and deposits were not made daily.

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 Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. This manual includes the following accounting and reporting standards:

**DAILY CHECK-OUT SHEET** - Daily 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. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal.

**JAIL COMMISSARY RECEIPTS JOURNAL** - Receipts should be posted to this journal on a daily basis. The total amount category should agree with the amount deposited line on the Daily Check-Out Sheet.

**JAIL COMMISSARY DISBURSEMENTS JOURNAL** - Each check written must be posted to the proper category listed on the form. Checks should be issued for all expenditures made.

**JAIL COMMISSARY SUMMARY AND RECONCILIATION** - The year to date summary section of this report will provide a cash balance at anytime [sic] during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The Reconciliation section of this report reconciles the bank balance to the cash balance. . . . A monthly cash reconciliation shall be maintained. This report may be used for the year-end report submitted to county treasurer pursuant to KRS 441.135(2).

We recommend the jailer comply with the guidelines prescribed by the State Local Finance Officer by maintaining at least the required minimum records. Daily cash checkout sheets should be prepared and deposits should be made intact daily. In addition, we recommend jail personnel obtain an adequate understanding of the computerized systems used in order to prepare monthly and annual reports that comply with these minimum requirements.

*County Judge/Executive Michael Lee Stevens's response: No Response.*

*Jailer Joey White's response: "With our new commissary system through (Name Withheld) things are more user friendly so there is a better understanding of the monthly reports and reconciliations."*

**The Adair County Jailer did not submit sales tax reports for jail commissary sales timely.** Quarterly sales tax reports for three quarters of the fiscal year ended June 30, 2015 were not submitted timely. Reports for the quarters ended December 31, 2014, March 31, 2015, and June 30, 2015 were prepared and submitted on April 9, 2015, May 20, 2015, and November 24, 2015, respectively. As a result of the current jailer's failure to prepare and submit these reports timely, penalties totaling \$62 were paid from the Jail Commissary Fund during the fiscal year ended June 30, 2015. These penalties were for the quarters ended December 31, 2014 and March 31, 2015. As of February 3, 2016, the jailer had not received any notice of additional penalties due for the quarter ended June 30, 2015. KRS 139.540 and KRS 139.550 requires sales tax to be reported and paid to the Kentucky Department of Revenue monthly on or before the twentieth day of the next month. However, KRS 139.590 permits the Kentucky Department of Revenue to require returns and tax payments for other periods. The Adair County Jailer is required to submit returns and pay sales taxes quarterly; therefore, reports and taxes are due on or before the twentieth day of the month following the end of the quarter. We recommend the jailer avoid paying penalties by submitting quarterly sales tax reports timely. Additionally, we recommend the fiscal court transfer \$62 from the fiscal court's Jail Fund to the jailer's Jail Commissary Fund to reimburse for the penalties paid.

*County Judge/Executive Michael Lee Stevens's response: No Response.*

*Jailer Joey White's response: "The reason for having to write the check out of commissary funds was due to our former contractor not having money in the account in order to write the check because the Kiosk was not being pulled but one time a week."*

**The Adair County Jailer entered into contracts and expended county funds without fiscal court approval.** The jailer entered into two contracts without obtaining the fiscal court's

approval. On March 5, 2015, the jailer entered into a 48 month agreement with a telecommunications vendor to provide inmate telephone services. On May 9, 2015, the jailer entered into a contract with another vendor to provide jail commissary services.

The agreement for inmate telephone services included a signing bonus commission in the form of a \$40,000 tech grant which is maintained by the vendor. The vendor allows the jailer, without obtaining the fiscal court's approval, to order goods and services. The costs of items ordered are then paid by the vendor and deducted from the grant balance. Terms of the agreement stipulate the tech grant is to be used over the term of the agreement and will be prorated over the 48 month period. If the agreement is terminated early, the prorated amount will be due back to the vendor within 15 days of termination notification. During the fiscal year ended June 30, 2015, the jailer ordered supplies, computer equipment, computer software, and cameras at a total cost of \$8,573. The jailer subsequently ordered and received an emergency restraint chair at a cost of \$1,950, and a bumper cover and paint job for a 2002 Ford vehicle at a cost of \$1,200. These items were paid for by the vendor and the cost was deducted from the grant balance.

Although the jailer can sign contracts, he may only do so after obtaining the approval of the fiscal court. Telephone commissions, including any bonuses, are considered to be receipts of the fiscal court and as such should be budgeted and deposited to the fiscal court's Jail Fund. These funds should be expended only after obtaining the fiscal court's approval. KRS 68.020(1) states, "The county treasurer shall receive and receipt for all money due the county from its collecting officers...." KRS 441.225(1) states, "Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal court shall not withhold approval of payment for jail expenditures which are within the jail budget and not unlawful." The jailer was unaware of these legal requirements until they were brought to his attention by the auditor.

We recommend items ordered by the jailer and charged to the tech grant be paid from the fiscal court's Jail Fund after fiscal court approval. The county treasurer should then submit a reimbursement request to the vendor and deposit the receipts to the fiscal court's Jail Fund. We further recommend the jailer abstain for entering into contracts without obtaining the fiscal court's approval.

*County Judge/Executive Michael Lee Stevens's response: No Response.*

*Jailer Joey White's response: "Jailer was unaware of this until it was brought to his attention by the auditor. Since then proper action has been taken and approved by the fiscal court."*

**The Adair County Jailer did not pay invoices of the jail commissary fund within thirty days.** Eight invoices totaling \$3,854 of the Jail Commissary Fund were not paid within 30 days. These invoices were for inmate purchases of commissary items during May and June 2015. The vendor was paid 49 to 75 days after the invoice date. Per the bookkeeper, invoices were not paid

timely because sufficient funds were not available in the Inmate Account. KRS 65.140 states “(2) Unless 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 except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor. (3) An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor’s invoice by the purchaser.” We recommend the jailer comply with KRS 65.140 by paying invoices within thirty working days.

*County Judge/Executive Michael Lee Stevens’s response: No Response.*

*Jailer Joey White’s response: “The invoices were not paid in a timely manner due to (Name Withheld) not pulling money from Kiosk in a timely manner, Therefore resulting in bills being paid late. We have since then changed to (Name Withheld) which is working better and all bills are being paid in a timely manner”*

**The Adair County Fiscal Court did not properly reconcile the revolving payroll account.**

The payroll revolving account was not properly reconciled. As of June 30, 2015, the book balance in the payroll account was \$8,629, after accounting for all receivables and liabilities. The county treasurer prepared a monthly bank reconciliation, but the reconciliation did not include all liabilities to ensure the proper amounts were transferred from each fund. By not performing this reconciliation, monies that should be allocated to their respective funds remain in the payroll account, and these funds are understated. The payroll revolving account is a clearing account and should be reconciled to a zero balance at the end of each pay period. Therefore, only the exact amount needed to cover payroll disbursements should be transferred to the payroll revolving account.

We recommend the county treasurer reconcile the payroll revolving account and determine what the unexplained \$8,629 balance is and to which fund(s) it should be transferred. In the future, the county treasurer should only transfer enough funds to meet payroll obligations each pay period. We further recommend the county treasurer provide written documentation of the reconciliation between the transfer checks and payroll register.

*County Judge/Executive Michael Lee Stevens’s response: “Treasurer will reconcile payroll account & ensure accurate balance for funds transferred between all funds.”*

**The Adair County Fiscal Court failed to implement adequate internal controls over federal funds (see financial statement finding 2015-001).**

Federal Program: CFDA 14.228 Community Development Block Grant/State’s Program

Name of Federal Agency: U.S. Department of Housing and Urban Development

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon Act; Matching, Level of Effort, Earmarking; Period of

Availability of Federal Funds; Procurement, Suspension, and Debarment; and Reporting

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

**The Adair County Fiscal Court failed to implement sufficient controls over expenditures (see financial statement finding 2015-006).**

Federal Program: CFDA 14.228 Community Development Block Grant/State's Program

Name of Federal Agency: U.S. Department of Housing and Urban Development

Compliance Requirements: Procurement

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

Opinion: Adair County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

**The Adair County Fiscal Court did not budget, record, or report activity of two federal grants (see financial statement finding 2015-002).**

Federal Program: CFDA 14.228 Community Development Block Grant/State's Program

Name of Federal Agency: U.S. Department of Housing and Urban Development

Compliance Requirements: Reporting

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

Opinion: Adair County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

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

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*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.*

