



Auditor of Public Accounts  
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FOR IMMEDIATE RELEASE

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### **Harmon Releases Audit of McCracken County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the McCracken County Fiscal Court for the fiscal year ended June 30, 2020. 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 McCracken 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 McCracken County Jail lacks adequate internal controls over the inmate fund:** This is a repeat finding and was included in the prior year audit report as Finding 2019-002. During the 2020 fiscal year, the McCracken County Jail changed third-party commissary companies to oversee and maintain the inmate fund. From July 1, 2019 to January 8, 2020, there were no controls over the commissary account. The inmate fund was maintained solely by the commissary company. The commissary company received cash, made the deposits, posted transactions to the inmates’ accounts, posted to the ledgers, prepared checks, and reconciled the account. Employees of the jail did not have access to any accounting records of the inmate fund, including resident transaction reports and bank statements. From January 9, 2020 to June 30, 2020, the new

commissary company was in place and the McCracken County Jail employees had access to accounting records, including resident transaction reports and bank statements.

Rather than implement internal controls over the inmate fund, the McCracken County Jail relies on the commissary company to oversee all accounting functions of the fund.

A lack of adequate internal controls increases the risk that undetected fraud or errors could occur.

The jailer is responsible for the inmates of the county so it is imperative for the jailer to provide sufficient oversight of all accounts associated with the inmates, including the inmate fund.

We recommend the jailer implement internal controls over the inmate fund. These controls should include the jailer or designee reviewing the inmates' accounts to ensure correct fees are being charged, deposits are being posted correctly, and inmate balances are being refunded properly upon release of the inmates.

*County Jailer's Response: This has been corrected during fiscal year ended June 30, 2020.*

**The McCracken County Fiscal Court did not approve cash transfers prior to making them:** This is a repeat finding and was included in prior year audit report as Finding 2019-004. During testing of transfers, there were two cash transfers that were made prior to being approved by the fiscal court. These transfers were made on August 27, 2019 and September 30, 2019.

The treasurer underestimated the disbursements in the sheriff's fund and made transfers to avoid a negative cash balance.

Due to lack of controls over cash transfers, the county's funds were at an increased risk of misappropriation.

Strong internal controls require oversight over the movement of funds in order to lower risk. The fiscal court is responsible for providing oversight to the treasurer and making the county's financial decisions.

We recommend that all cash transfers be approved and documented in the fiscal court minutes before the transfers take place.

*County Judge/Executive's Response: Treasurer has implemented a process where cash transfers are approved by fiscal court prior to those cash transfers being made.*

**The McCracken County Jail purchased vehicles with canteen funds for inmate transport:** This is a repeat finding and was included in the prior year audit report as Finding 2019-008. During testing, it was noted that the McCracken County Jail purchased two vehicles with jail canteen funds. Thereby, logbooks were requested but they were not able to be provided. Per discussion with the jailer on October 7, 2020, the vehicles are utilized for transportation of prisoners for work programs, medical and dental Appointments, as well as transfers to and from other facilities.

The jailer believes that these vehicles are being used in accordance with the KRS.

The jail commissary funds are being used for purchases that should be paid from the jail fund which reduces the amount of canteen funds available to make purchases that benefit and enhance the well-being of the prisoners. KRS 441.505(1) states, in part, “[t]he fiscal court of each county shall provide for the transportation of prisoner’s as necessary from the jail budget.” KRS 441.135(2) states, in part, “[a]ll profits from the canteen shall be used: (a) For the benefit and to enhance the well-being of the prisoners[.]”

We recommend the McCracken County Jail keep logbooks in all vehicles. Keeping logbooks will provide documentation to support the proper use of any vehicles purchased with canteen funds. In addition, all prisoner transportation that is not recreational, vocational, or medical in nature should be done with vehicles that have been purchased by the jail fund. Therefore, we recommend that the fiscal court and the jailer agree on a percentage amount that the vehicles were being used for inmate transport and that percentage will be used to calculate that amount of reimbursement the jail fund owes the commissary account.

*County Jailer’s Response: The [vehicle brand redacted] were brought for and assigned to the work program. Because of the COVID restrictions they were never used and ultimately sold.*

**The McCracken County Fiscal Court submitted ineligible expenses for reimbursement from the Coronavirus Relief Fund:**

*Federal Program: 21.109 COVID-19-Coronavirus Relief Fund*

*Award Number and Year: 2100000800, 2020 Reimbursement #1*

*Name of Federal Agency: U.S. Department of the Treasury*

*Pass-Through Agency: Commonwealth of Kentucky, Department for Local Government*

*Compliance Requirements: Activities Allowed/Unallowed, Period of Performance*

*Type of Finding: Material Weakness and Material Non-Compliance*

*Amount of Questioned Costs: \$156,367*

The McCracken County Fiscal Court submitted payroll expenses incurred prior to March 1, 2020, for reimbursement from the Coronavirus Relief Fund (CRF) administered by the Commonwealth of Kentucky’s Department for Local Government (DLG). The ineligible expenses were for the county sheriff department’s payrolls that were paid on March 6, 2020 and March 20, 2020. These payroll submissions included payroll costs incurred from February 9, 2020 through February 29, 2020, which was outside the CRF’s prescribed period of performance.

Questioned costs were determined based upon the inclusion of the sheriff department’s payrolls which were incurred from February 9, 2020 through February 28, 2020. These payroll costs were paid on March 6, 2020 and March 20, 2020 respectively. The amount of the sheriff department’s payroll for the days in February being questioned is \$156,367.

The McCracken County Fiscal Court lacked sufficient internal controls over the period of performance. The county believed that the hours worked from February 9, 2020 to February 29, 2020 were within the period of performance of the grant. The fiscal court operates on a regulatory

basis that closely resembles cash basis and the check dates were March 6, 2020 and March 20, 2020. These two factors led the fiscal court to believe that these costs were eligible for reimbursement under CRF.

As a result, the county submitted a request for reimbursement that included days worked from February 9 through February 29, 2020, which was outside the grant's period of performance and resulted in \$156,367 of questioned costs.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the Coronavirus Relief Fund (the "Fund") and appropriated \$150 billion for payments by Treasury to States, tribal governments, and certain local governments. The CARES Act provides that payments from the Fund may only be used to cover costs that—

1. Are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
2. Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
3. Were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021.

Initial guidance released on April 22, 2020, provided that the cost of an expenditure is incurred when the recipient has expended funds to cover the cost. Upon further consideration and informed by an understanding of state, local, and tribal government practices, Treasury clarified that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need not be made during that time (though it is generally expected that this will take place within 90 days of a cost being incurred).

Additionally, CFR 200.303 states: "The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the McCracken County Fiscal Court contact DLG for guidance on how to resolve this issue. We also recommend the McCracken County Fiscal Court strengthen internal controls over federal awards by implementing review processes to catch and resolve these matters going forward.

*County Judge/Executive's Response: McCracken County believed they were following DLG guidance and were in compliance with all Federal and State requirements. Amended request and backup documentation has been submitted to DLG and no monies will be returned.*

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

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