



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Grant County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Grant County Fiscal Court for the fiscal year ended June 30, 2014. State law requires annual audits of county fiscal courts.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements and changes in cash and cash equivalents of the Grant County Fiscal Court in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Fiscal Court 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 audit contains the following comments:

The Grant County Detention Center should improve controls over collections for the Jail Commissary and Inmate Trust Funds. The Grant County Detention Center did not comply with the State Local Finance Officer Policy Manual. Due to (a) poorly designed policies and procedures, (b) inconsistent, incomplete, and inaccurate implementation of controls, (c) and lack of management oversight/involvement, we noted the following issues with receipts of jail fees and inmate monies:

- Deposits were not made daily. A total of \$53,121 of cash was found in a locked desk drawer; \$17,781 on November 20, 2014 and \$35,340 on December 12, 2014, with receipts dating from June 2011 to November 2014.

- Receipts were not issued in numerical sequence, were not batched daily, and were not being accounted for.
- Receipts were not maintained for all collections. Receipt books had missing receipts/pages.
- Daily Checkout Sheets were not prepared, not agreed to receipts, and not used to make daily deposits.
- A receipts journal for the jail commissary accounting for all receipts collected separated into appropriate categories was not maintained. Six months after year-end, journals were recreated based on bank statements rather than receipt books. Receipts were not recorded by source (i.e. work release, drug testing, etc).
- Bank reconciliations were not prepared for the Jail Commissary account or for the Inmate Trust Fund account.
- Auditors could not reconcile the Inmate Trust Fund account for year-end and could not determine actual outstanding checks for that account.
- Auditors reconciled the Jail Commissary account based on bank statements; however, without accurate ledgers, bank reconciliations, complete and accurate receipt books, or daily checkouts sheets, ending cash balance could not be reconciled to book balance and therefore is unreliable.

Based on the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210, the jail should maintain daily checkout sheets and a jail commissary receipts journal. Daily deposits and daily checkout sheets are required. At the end of each business day, receipts should be separated into categories listed on the checkout. The total of each category should be entered in the appropriate space provided. The daily checkout total should equal the amount of money on hand at the end of each day, less startup cash. When total collections match the total cash on hand, receipts should be posted to the Jail Commissary account receipts journal and on a daily basis. The total amount category should agree with the deposited amount on the daily checkout sheet. KRS 68.210 also requires bank reconciliations be performed at least monthly. Financial institution bank statements should be reconciled to the respective book balances for all accounts to ensure bank funds are reflected accurately on the financial records of the Jailer.

The cumulative effect of the control weaknesses and the scope limitations due to lack of records increase the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office. We will refer our audit of the Grant County Detention Center to the Office of the Attorney General for further investigation. We recommend the following:

- All collections should be deposited each day that the commissary is open.
- Prenumbered receipts in triplicate should be written and maintained for all collections at the jail.
- Receipts should be issued in numerical sequence and properly accounted for.
- Receipts should be batched daily and total collections for the day should be agreed to total receipts.
- Checkout sheets should be prepared daily and should agree to batched receipt tickets, bank deposits, and the receipts journal.

- All collections should be accounted for on the receipts journal.
- Bank reconciliations should be prepared for all accounts monthly.

Former County Judge/Executive Darrell Link's response: No response.

County Judge/Executive Stephen Wood's response: No response.

Former County Jailer Terry Peebles' response: No response.

County Jailer Chris Hankins' response: As of June 5, 2015, we are in compliance with all procedures recommended.

The Grant County Detention Center should improve controls over disbursements for the Jail Commissary and Inmate Trust Funds. The Grant County Detention Center (GCDC) did not comply with the State Local Finance Officer Policy Manual. Due to (a) poorly designed policies and procedures, (b) inconsistent, incomplete, and inaccurate implementation of controls, (c) and lack of management oversight/involvement, we noted the following issues with disbursements of jail fees and inmate monies:

- Out of our sample of forty disbursements, seven invoices, totaling \$152,628, were not paid timely, including invoices that were paid 8 months after their due date.
- Of that same sample, three had no supporting documentation.
- No sales tax was paid between July 1, 2013 and March 1, 2014. These taxes due were paid in December 2014. The late payments resulted in \$2,115 fines and penalties. The GCDC has been billed an additional \$1,015 for fines and penalties. The Jailer is attempting to get these fines waived.
- Disbursements to inmates for closeout did not have inmate or employee signatures.
- A disbursements journal accounting for the jail commissary disbursements was not maintained. Six months after year-end, journals were recreated based on bank statements rather than check registers.

Based on the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210 and 64.840, the jail should maintain a jail commissary disbursements journal. Every check written must be posted to the proper category listed (i.e. inmate account refund, entertainment expenses, etc). KRS 65.140(2) states, unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice. All disbursements should be for allowable disbursements, be properly authorized, and be adequately documented. KRS 441.135 concludes that all profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. Allowable disbursements from the commissary account shall include, but not be limited to recreational, vocational, and medical purposes.

The cumulative effect of these control weaknesses increases the risk of material misstatement caused by error or fraud. This risk results in the need to alert management of the necessity to improve controls over the financial activities of the office. We recommend the following:

- All invoices should be paid within 30 days of receipt of invoice.

- Disbursements should be adequately documented and supported.
- Disbursements of the Jail Commissary should be for allowable expenditures, for the benefit and well-being of the inmates only.
- All disbursements should be properly authorized.
- All checks should be accounted for on the disbursements journal.

Former County Judge/Executive Darrell Link's response: No response.

County Judge/Executive Stephen Wood's response: No response.

Former County Jailer Terry Peeples' response: No response.

County Jailer Chris Hankins' response: New administration is in compliance with the disbursements.

The Jailer should acquire Fiscal Court approval for all contracts, turn over all commissions to the Treasurer, and obtain Fiscal Court approval for all disbursements. In January 2011, the Grant County Jailer, without fiscal court approval, executed a telephone contract with a telephone service provider for the provision of telephone service for the inmates at the jail. The Jailer negotiated with the telephone service provider for the provider to purchase a new computer system and software program for the jail to use for the commissary fund. As an incentive for the jail to enter into the contract, the telephone service provider agreed to purchase the needed equipment upfront for the jailer, but included in the contract a provision that the service provider would deduct a monthly amount from the telephone commission checks for 48 months until the total equipment expense in excess of \$67,000 was paid for. The equipment purchased was not bid out and was not for the telephone system; rather it was accounting software to be used to account for the jail commissary receipts and disbursements.

By doing this, the Jailer is, in effect, expending county funds without them being budgeted and approved by fiscal court as a part of the jail fund. Jailers do not have authority to expend county funds from the jail fund without approval of fiscal court, per KRS 441.225.

We recommend that the Jailer acquire fiscal court approval of all contracts, turn over all commissions to the County Treasurer, and obtain Fiscal Court approval for all disbursements.

Former County Judge/Executive Darrell Link's response: No response.

County Judge/Executive Stephen Wood's response: No response.

Former County Jailer Terry Peeples' response: No response.

County Jailer Chris Hankins' response: Jailer is aware all contracts need to be approved by fiscal court.

The Grant County Detention Center did not deposit \$56,612 of abandoned inmate monies and \$31,640 of commissary profits into the Jail Commissary Account. The Grant County Detention Center (GCDC) did not deposit all funds belonging to the Jail Commissary account into that account:

- The Grant County Detention Center did not deposit \$56,612 of abandoned inmate monies into the Jail Commissary account as required by KRS 441.137. The GCDC maintains a separate account for the inmate trust fund. This fund accounts for funds received from the individuals residing in the Detention Center. The GCDC has not been able, since before 2011, to provide supporting documentation detailing which inmates that \$77,227 belonged to. On September 11, 2014, \$56,612 of the abandoned inmate monies was distributed to the fiscal court, who subsequently deposited the funds into the Jail Fund. The remaining \$20,615 was properly deposited into the Jail Commissary account.
- The Grant County Detention Center's commissary is operated by a third party who periodically sends them checks for profits earned. These checks should be deposited into the Jail Commissary account for the purposes set out by KRS 441.135. In May 2014, the third party commissary administrator mailed three profit checks made payable to the Grant County Fiscal Court, totaling \$31,640, to the office of the County Judge/Executive. Believing the money belonged to the fiscal court, the former County Judge/Executive deposited the money into the Jail Fund. Upon determination that the checks belonged to the Jail Commissary account, the former Jailer agreed, via email correspondence with the former County Judge Executive, for the County to keep the commissary profits belonging to the Jail Commissary account.

Per KRS 441.137, any monies in an inmate account or prisoner canteen account of a jail that are presumed abandoned (one year after the date the check is mailed or, if an attempt to call is made, the date of the phone call) shall be transferred into the Jail Commissary account and be available for the purposes set out in KRS 441.135. Further, all profit checks from commissary sales shall also be deposited into the Jail Commissary account.

Failure to deposit all abandoned inmate monies and commissary profits into the Jail Commissary account results in noncompliance of KRS 441.137. We recommend the Grant County Detention Center deposit all abandoned inmate monies and all commissary profits into the Jail Commissary account as required by KRS 441.137.

Former County Judge/Executive Darrell Link's response: No response.

County Judge/Executive Stephen Wood's response: No response.

Former County Jailer Terry Peebles' response: No response.

County Jailer Chris Hankins' response: We are aware of the abandoned money and where it is to be placed in one account.

The Grant County Detention Center should immediately comply with applicable laws and regulations. Numerous weaknesses in the control environment of the Grant County Detention Center significantly increase the risk of fraud and misappropriation of funds, and decrease the assurance of accuracy of records provided. The noted weaknesses could affect the Jailer's ability to ensure that financial data is recorded, processed, and reported in an accurate and reliable manner. In addition, the instances noted where effective internal controls, software changes, and

access were not implemented may impact the Jailer's ability to ensure that assets were sufficiently safeguarded.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. This management control system should ensure resources are guarded against waste, loss, and misuse, reliable data is obtained, maintained and fairly disclosed. Agencies are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems. Agency accounting systems must contain internal controls which operate to prevent, detect, and correct errors and irregularities which may occur anywhere in the chain of events from transaction authorization to issuance of reports. Because the Grant County Detention Center has such significant internal control weaknesses, the Jailer should implement the following as soon as possible. The following recommendations are supplemented by additional recommendations presented throughout this report. The Jailer should:

- Implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight, provides reasonable assurance that assets are safeguarded, transactions are processed in accordance with applicable laws and regulations, transactions are recorded, reconciled, processed and summarized to permit the preparation of reliable financial data.
- Segregate duties so that no one person can both create and conceal fraudulent activity or commit a material error that would go undetected.
- Train employees to ensure that each employee understands both the activities and the accounting principles needed for their positions.
- Implement sufficient supervisory review of key functions and activities, and ensure managers clearly understand their roles in the supervisory process. All supervisory reviews should be evidenced in writing.

Former County Judge/Executive Darrell Link's response: No response.

County Judge/Executive Stephen Wood's response: No response.

Former County Jailer Terry Peebles' response: No response.

County Jailer Chris Hankins' response: We go over financials at the end of every month to make sure no discrepancies exist as well as our receipt books.

The Grant County Detention Center should submit an annual commissary report to the County. The Grant County Detention Center did not prepare or submit a year-end commissary report to the County as required. Due to a lack of records and inadequate controls, a report was not prepared or submitted to the County. Pursuant to KRS 441.135(2), the Jailer is to prepare and submit an annual canteen report to the fiscal court. The year-to-date summary section should be compiled using totals from the receipts and disbursements journals. Failure to submit an annual report results in non-compliance of KRS 441.135(2). We recommend that the Jailer submit an annual commissary report reflecting all activity for each fiscal year ended.

Former County Judge/Executive Darrell Link's response: No response.

County Judge/Executive Stephen Wood's response: No response.

Former County Jailer Terry Peeples' response: No response.

County Jailer Chris Hankins' response: We will provide an annual commissary report.

The County should bid all disbursements over \$20,000 and ensure all contracts are approved by Fiscal Court. The County did not bid all items over \$20,000. During fiscal year 2014, the County paid \$493,738 to the medical service provider for the Grant County Detention Center inmates without advertising for bids. The Grant County Jailer, without fiscal court approval, entered into and executed a medical contract with the medical service provider. By not ensuring that proper bidding procedures have been followed prior to authorization and payment of invoices exceeding \$20,000, the County was not in compliance with KRS 424.260.

KRS 424.260 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 for 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 that the County ensure all purchases exceeding \$20,000 be made in compliance with KRS 424.260. A copy of the applicable contract should be kept on file in the Fiscal Court files and original bid documents should be maintained in bid files. We further recommend that the Jailer acquire fiscal court approval of all contracts.

Former County Judge/Executive Darrell Link's response: I categorically concur with the auditors' findings and recommendations and advocate instantaneous execution without equivocation.

County Judge/Executive Stephen Wood's response: I have directed that all contracts be presented to the Fiscal Court for approval and that in any incident where we have reason to believe disbursements to any vendor in a fiscal year will exceed \$20,000, those services or items will be submitted for public bidding.

Former County Jailer Terry Peeples' response: No response.

County Jailer Chris Hankins' response: As of May 27, 2015, we will be in compliance with all contracts that should be bid out and approved by fiscal court.

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

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