



Auditor of Public Accounts  
Mike Harmon

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Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
502.564.5841  
502.209.2867

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

**FRANKFORT, Ky.** – State Auditor Mike Harmon has released the audit of the financial statement of the Grayson 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 Grayson 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 Grayson County Jail lacks adequate controls over their bid process and was not in compliance with bid laws:** The Grayson County Jail did not properly bid out inmate food. The jail paid an invoice from a vendor in the amount of \$184,593 for inmate food. On the invoice there were charges for detergent, sodium hydroxide, and other nonperishable food items. According to the county jailer, KRS 424.260 says that perishable items are exempt from bid requirements.

Since bidding procedures were not followed, it is possible that the county jail did not get the lowest rate for inmate food. This also puts the county at higher risk for potential fraudulent purchases. Additionally, the jail is not in compliance with KRS 424.260.

Strong internal controls require management to monitor disbursements and purchase orders to ensure compliance with bid laws, and to keep good records of all bid transactions. KRS 424.260(1) states, “[e]xcept 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 thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.” Also, according to the Grayson County Administration Code section 4.2 (C.) “When an expenditure exceeds \$30,000.00 in cost, the Judge/Executive and/or designee shall place an advertisement in the newspaper of largest circulation in the county at least once, not less than seven, nor more than twenty-one days, before bid opening.”

We recommend the Grayson County Jail monitor all disbursements to ensure that bidding procedures are followed for all qualifying disbursements. The fiscal court should also document these procedures in the fiscal court minutes.

*County Jailer’s Response: It is the Jailer’s intent is to follow all laws and regulations. Moving forward, the Jailer will follow bid requirements.*

**Debt balances do not agree to the long-term liabilities on the fourth quarter report:** The Grayson County Fiscal Court’s liabilities schedule that was presented to the Department for Local Government (DLG) was materially misstated due to an error. The fiscal court did not report all debt of the county due to this error. Series 2015 Lease Revenue Refunding Bonds - Judicial Center were overstated by \$699,906.

According to the finance officer, she mistakenly subtracted the interest amount instead of the principal amount from the outstanding balance. By not accurately reporting debt, the county is not in compliance with KRS 68.210. In addition, because principal and interest was overstated, the county is not providing a complete overview of their debt.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per DLG’s *County Budget Preparation and State Local Finance Officer Policy Manual*, all county money is to be reported on the financial statement whether it is included in the budget or not. Documentation of the county’s liabilities must be submitted to the state local finance officer. Also, good internal controls dictates proper recording of transactions and financial reporting.

We recommend the county ensure all debt has been disclosed and the balances are accurate when reporting the county’s liabilities on the fourth quarter report submitted to DLG.

*County Judge/Executive’s Response: Finance officer will have someone to check debt schedule balances for accuracy.*

**The Grayson County Fiscal Court did not properly budget and account for all debt activity:** The Grayson County Fiscal Court did not properly budget and account for a truck purchased in the

amount of \$283,598. This caused the emergency health & 911 fund total budget and the budgeted line item, general health and sanitation, to be overspent by \$283,598.

The vendor was paid \$283,598 directly by the Kentucky Association of Counties (KACo). The county treasurer failed to include the amount of the vehicle receipt and disbursement in the county's accounting ledgers. Receipts and disbursements on the fourth quarter financial statement for fiscal year ending June 30, 2021, were understated by \$283,598.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires the fiscal court to properly budget and account for all expenditures of the fiscal court. The uniform system of accounts requires revenues to be recorded when received in total and expenditures to be recorded at actual cost when paid. All borrowed money received and repaid must be reflected in the county budget. Additionally, good internal controls dictate that all county financial activity be properly accounted for in the budget and on the financial statement.

We recommend the Grayson County Fiscal Court properly budget and account for all debt service payments, all borrowed money, and any related purchases.

*County Judge/Executive's Response: Moving forward, we will try and have all lease proceed payments sent directly to us so the receipt and disbursement will be recorded in our accounting ledger. The \$283,598 debt activity was listed as a debt on our 6-30-21 long term liability schedule.*

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

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