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### Harmon Releases Audit of Bullitt County Sheriff's Office

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Bullitt County Sheriff Walt Sholar. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account, and the other reporting on the audit of the fee account used to operate the office.

Auditing standards require the auditor's letter to communicate whether the financial statements present fairly the receipts and disbursements of the Bullitt County Sheriff and the receipts, disbursements, and fund balances of the Bullitt County Sheriff's operating fund and county fund in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statements did not follow this format. However, the sheriff's financial statements are fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff 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 Bullitt County Sheriff's Office does not have adequate segregation of duties over receipts and reconciliations:** The Bullitt County Sheriff's Office does not have adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, issues receipts, posts transactions to the receipts ledger, prepares the quarterly reports, and performs the monthly bank reconciliations. Daily checkout sheets are prepared by a deputy clerk who also collects payments from customers and prepares the deposit tickets. Oversight by either the sheriff or another employee was not always documented for these activities.

According to the sheriff, this is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as Department for Local Government (DLG).

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts, reconciling monthly bank statements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff should separate the duties involved in receiving cash, preparing deposits, posting to receipts ledger, preparing monthly bank reconciliations and comparing financial reports to ledgers. If due to limited staff this is not feasible, cross checking procedures could be implemented and documented by the individual performing the procedure.

*Sheriff's Response: The sheriff's office agrees to the audit findings. To address audit finding #1 we have implemented a procedure for comparing the daily bank deposit to the daily checkout sheet and reviewing the monthly bank reconciliations. This will be accomplished by having the individual who completes the daily deposit initialing the deposit slip before it goes to the bank. Then the office manager, who enters the daily deposit information into the accounting software will initial on the daily check out sheet to indicate the deposit has been reviewed. The deposit is signed out daily by a sworn deputy and taken to the bank. The office manager will prepare the monthly bank reconciliations. The sheriff or his designee will compare the bank reconciliation to the balance in the checkbook and reconcile any differences and document this by initialing the bank reconciliation.*

**The Bullitt County Sheriff's Office did not have adequate controls over disbursements:** The following deficiencies were noted:

- Invoices were not date stamped when received.
- Invoices were not effectively canceled in order to prevent duplicate payments.
- Fuel credit card receipts were not maintained and not compared to the monthly fuel invoices.
- A check written from the DARE account cleared the bank without required signatures.

These deficiencies were caused by a lack of internal controls and a lack of oversight over disbursements procedures. Failure to maintain adequate supporting documentation for disbursements could result in disallowed disbursements, requiring personal funds to be deposited into the account. Failure to properly maintain the original invoice, to document the date received, and to effectively cancel invoices, as required by the Department for Local Government (DLG), could lead to fraudulent invoices being paid or duplicate payments. The *Financial Operations Manual for Over 70K Counties* requires the official to attach the vendor's original bill or invoice, with the date stamped on the lower left hand corner and retain a copy for their own records. Strong

internal controls dictate that invoices or other documents should be effectively cancelled in order to prevent duplicate payments.

We recommend the sheriff's office ensure all original invoices are maintained and are properly date stamped when received in the lower left hand corner as required by the *Financial Operations Manual for Over 70K Counties* issued by DLG. Original invoices should be effectively cancelled to prevent duplicate payments. Additionally, we recommend the sheriff implement a policy to ensure that all fuel bill original receipts are turned in to the deputy in charge of the monthly fuel bill reconciliation. These receipts should be compared to the monthly credit card invoice and evidenced by initials or a signature. All checks written should be reviewed for required signatures prior to payment.

*Sheriff's Response: The sheriff's office agrees to the audit findings. To address audit finding #2 we are implementing a process of date stamping all invoices when they arrive in the office in the lower left corner. In addition, we have been "effectively canceling" invoices by stamping them paid since January 2020 and we will continue this process. To address a check clearing the bank without signatures we will be following up with [name redacted] bank to determine how this could have occurred and what steps can be taken to prevent any re-occurrence. We also currently have a policy in place that all checks require two signatures before they are mailed out.*

*To address the audit finding around needed to have the original gas receipts to compare to the monthly invoices we plan to thoroughly explore the best options for collecting and maintaining the receipts. With a large number of vehicles in our fleet this may require a new policy to be drafted, reviewed by the county attorney, approved, and put into place to ensure compliance.*

**The Bullitt County Sheriff's Office internal controls over payroll processing were not adequate:** The sheriff's office lacks a segregation of duties over payroll processing. The employee in charge of payroll prepares the excel file for each pay period to calculate payroll, uploads it to KHRIS for payroll processing, and posts leave with no independent review to ensure pay rates are correct, payroll is calculated correctly, and that leave taken was recorded correctly.

The lack of management oversight allowed the control weaknesses over payroll processing to occur. All timesheets were reviewed for one pay period and the following were exceptions:

- Three employee's leave balances were not reduced by leave taken per timesheet submitted.
- One employee received overtime pay not entered on timesheet.
- Five employees overtime hours worked were difficult to calculate based on procedures used to determine overtime hours earned with employees receiving overtime when taking personal leave.

When controls over payroll are weak, employees can be paid incorrectly, either by incorrect hours or using a pay rate that is not authorized. Also, leave balances can be misstated.

Strong internal controls dictate that payroll processing functions should be segregated between data entry, approval of payroll before checks are direct deposited, withholdings taken are documented and verified, pay rate changes are documented in personnel files and authorization is

documented. In addition, leave balances should be verified by an employee independent of payroll record keeping.

We recommend the sheriff implement the following procedures to strengthen internal controls over payroll:

- Payroll is calculated by one employee and the sheriff or his designee reviews the calculations to ensure pay rates are correct, calculations are correct, and payroll is correctly entered into KHRIS.
- Pay rate changes are documented in the employee's personnel file with evidence that the sheriff has authorized any pay rate changes.
- Overtime paid should agree to administrative code or office policy to include whether it is earned during a pay period when other leave was taken.
- Withholdings authorizations are maintained for each employee to support the amounts withheld on their paychecks.
- Leave taken by employees for each pay period be verified by sheriff or his designee to ensure it's entered correctly and accurate leave balances are kept.

*Sheriff's Response: The sheriff's office agrees to the audit findings. To address finding #3 we have already put into place a system of checks to vacation and leave balances. We currently have one person enter the deductions from the vacation and leave balances and then it is doubled checked by the office manager. This was not being done in 2019 due to fluctuations in office staff due to the previous office manager's retirement. Also in 2019 our office discovered that there had been miscalculations on time sheets due again to the fluctuation of office managers. This was corrected in 2019 by implementing a system of checks on payroll processing. Currently time sheets are calculated by one person and then reviewed by the office manager. The time sheets are then input into the payroll spreadsheet by one person and the spreadsheet is checked by the office manager. The dispatch portion of the spread sheet is also sent to the dispatch director or their designee for approval as well. The spread sheet is then uploaded to the KHRIS system by one person and doubled checked by the office manager. All pay rate changes are documented in an employee's personnel file via letter signed by the sheriff or his designee.*

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

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

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