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Harmon Releases Audit of Former Carroll County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of former Carroll County Sheriff Jamie Kinman. 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 statement presents fairly the receipts, disbursements, and excess fees of the former Carroll County Sheriff in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statement did not follow this format. However, the sheriff'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 all 120 sheriff 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 former sheriff did not pay all disbursements timely. During testing, we noted three instances in which operating disbursements were paid more than 30 days past the date on the invoice, resulting in noncompliance with KRS 65.140(2). Furthermore, payroll reimbursements were not paid timely to the fiscal court on four separate occasions during calendar year 2015. KRS 65.140(2) states that payments should be made to vendors within 30 business days of receipt. The former sheriff's office did not have a procedure in place to ensure payments were made timely. Failure to pay bills within 30 days results in amounts not being recorded timely on

the disbursements ledger and can result in payment of finance charges and late fees. We recommend the sheriff's office implement procedures to ensure all payments are made timely.

Former Sheriff's response: Will make all attempts to make all payments in a timely manner.

The maximum amount for the former sheriff's deputies' salaries was not set by the fiscal court for calendar year 2015. The fiscal court approved the former sheriff's budget for 2015, however, the fiscal court did not set a salary cap for the former sheriff's deputies and assistants in accordance with KRS 64.530(3). The former sheriff did not have a policy that ensured the "Annual Order Setting Maximum Amount for Deputies and Assistants" form was approved by the fiscal court. This statute requires the fiscal court to set the maximum amount for the deputies and assistants salaries annually, including fringe benefits, and allows the sheriff to determine the number to be hired and individual compensation of each deputy or assistant.

By not submitting the "Annual Order Setting Maximum Amount for Deputies and Assistants" form to the fiscal court, the former sheriff was not in compliance with KRS 64.530(3). We recommend the sheriff's office complete the "Annual Order Setting Maximum Amount for Deputies and Assistants" form provided by the Department for Local Government, and submit with the next budget to ensure fiscal court approves a salary cap as required.

Sheriff's response: Been fixed.

The former sheriff's office lacked segregation of duties related to controls over receipts, disbursements, and reconciliations. During our review of controls, we noted a lack of segregation of duties related to several significant financial reporting areas. Due to the entity's diversity of official operations, small size, and budget restrictions, the former sheriff had limited options for establishing an adequate segregation of duties. The bookkeeper received cash from customers, prepared the daily checkout sheet, counted cash/checks, prepared the deposit, took the deposit to the bank, prepared checks for payments, posted receipts and disbursements to the ledgers, and prepared the bank reconciliations.

When controls procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to error or fraud that could occur without being detected. Proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If staffing does not allow for segregation of duties, strong management oversight should be implemented.

The former sheriff's office had compensating controls in place to offset these control weaknesses including: the other office staff person compared daily checkout sheets to the deposits, supporting documentation to checks written, and the bank reconciliation prepared by the bookkeeper. The review was documented by initials on the daily checkout sheet and checkbook register.

However, we noted that the former sheriff was not involved in day-to-day revenue collections or disbursements on a regular basis. We were informed the former sheriff inquired of deposits and verbally approved payments. Reviews and approvals should be evidenced by initials or

signatures on supporting documents. We recommend the sheriff's office implement the following procedures to improve the sheriff's involvement in day-to-day revenue collections and disbursements on a more frequent basis:

- Recount and take the deposit to the bank, initialing the deposit ticket to document the performance of recounting the deposit.
- Perform random cash counts, initialing the daily checkout sheet to document the cash being counted.
- Review checks prepared for payment of significant purchases, initialing the invoice to document the review.
- Review daily deposits agree and are posted to the receipts ledger.
- A different person than the person that performs bank reconciliations should review the bank reconciliations for accuracy. This review should be evidenced by signature or initials of the reviewer.

Former Sheriff's response: No Response.

The former sheriff did not implement procedures to analyze operating needs of the office during the year to ensure disbursements are made only when funding is available. As of December 31, 2015, the former sheriff's office did not have the funds to repay the remaining balance owed for the state advancement and had a deficit of \$10,067. On May 24, 2016, the Carroll County Fiscal Court contributed \$10,067 to the former sheriff's office for the repayment of the state advancement. The former sheriff's office did not budget for the hiring of an additional deputy. The former sheriff's office overspent the budget approved for deputies and assistants' salaries by \$11,398.

Failing to monitor allowable operating disbursements results in expending more on allowable operating disbursements than income earned and in expending funds on disallowed disbursements. Good accounting and budgeting practices dictate that the sheriff closely monitor disbursements to ensure there are sufficient funds available before disbursements are made and that unnecessary fees are not paid. We recommend the sheriff's office implement procedures to review the operational needs throughout the year to ensure disbursements are made only when funding is available.

Former Sheriff's response: Will work with this

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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