



Auditor of Public Accounts
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Harmon Releases Audit of Estill County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Estill County Sheriff Gary Freeman. 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 Estill 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 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 sheriff did not deposit funds on a daily basis: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. Receipts were not deposited daily as required. Per discussion with the bookkeeper, receipts were not deposited daily because receipt amounts are not significant in total; therefore, a deposit is made when a large amount is received or at least weekly. By not properly depositing monies received by the office daily, this could result in loss of receipts or misplaced monies.

Under the authority of KRS 68.210, the Department for Local Government (DLG) has established requirements for all local government officials handling public funds in the *County Budget Preparation and State Local Finance Officer Policy Manual*. These requirements include “[d]aily deposits intact into a federally insured banking institution.” We recommend the sheriff adhere to the requirements of KRS 68.210 by depositing all public funds received into an official account on a daily basis.

Sheriff's Response: I understand.

Full-time benefits were provided to an employee who is not a full-time employee: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. One employee does not fit the classification description of a full-time employee according to the county's administrative code. This employee received the same benefits as full-time employees: vacation leave, sick leave, and health insurance. In addition, the sheriff paid health insurance from the fee account on behalf of this employee during a five month period for which the employee was laid off and receiving unemployment benefits. Furthermore, these same benefits were not extended to other part-time or seasonal workers. The sheriff said he was not aware that the employee's current work schedule was not addressed in the administrative code and that the administrative code specifically prohibited benefits being extended to employees who were not full-time employees. The sheriff is not in compliance with the county's administrative code by offering these full-time benefits. Furthermore, improper health insurance payments were made on behalf of the employee. Unnecessary expenditures from the fee account could be the personal responsibility of the sheriff.

The county's administrative code outlines benefits available to full-time workers including health insurance, sick leave, vacation leave, unemployment, etc. The administrative code states, “Full-time employees shall be entitled to all benefits as provided in this Personnel Policy and the Administrative Code. Part-time, seasonal, or temporary employees shall not be entitled to any benefits unless specified by resolution at the time of hiring.” We recommend the sheriff ensure all employees fit an employment classification established in the county's administrative code. We further recommend he ensure all classes of employees receive the same benefits in accordance with the county's administrative code. If necessary, the sheriff should consult with the fiscal court to ensure his unique staffing situations are addressed in the county's administrative code. Lastly, we recommend the sheriff seek guidance from the county attorney regarding this issue.

Sheriff's Response: The sheriff did not provide a response.

The sheriff did not submit quarterly financial reports to the Department for Local Government as required: The sheriff did not submit quarterly financial reports to the Department for Local Government (DLG) as required. This was due to an oversight by management. Failure to comply with these regulations resulted in a lack of availability of financial records to approving authorities and noncompliance with DLG reporting requirements.

KRS 68.210 authorizes the state local finance officer to require officials from local governments to submit financial reports. Quarterly reports for fee officials are to be submitted by the 30th day following the close of the quarter in order to satisfy this requirement. We recommend the sheriff ensure quarterly reports are prepared and submitted by the 30th of the month following the close of each quarter.

Sheriff's Response: I will be more conscience of dates due and ensure that all faxes go through when reports are faxed.

The sheriff's office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The sheriff's office lacks adequate segregation of duties. The responsibilities of recording, depositing, and reconciling cash are delegated to the same individual. The sheriff indicated that this was caused by a limited number of employees that were available to segregate these job duties. Since only one person performs these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement and increases the risk of undetected fraud and errors.

The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk that undetected errors, misstatements, and fraud will occur. If duties cannot be adequately segregated due to a small staff size, the sheriff could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: the sheriff comparing daily checkout sheet to the receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, reviewing invoices prior to payment, and reviewing all financial reports. The sheriff could document his review process by initialing reports and supporting documentation. We recommend the sheriff segregate the duties of receiving, recording, depositing, and reconciling cash or implement and document compensating controls to offset this control issue.

Sheriff's Response: This office has always had this comment over my 20 year career. However, with small staff size and budget restrictions I can't employ enough staff to adequately segregate duties. But, as I stated in the previous audit, I will try to address this with more precaution measures.

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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