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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Floyd County Sheriff John P. Hunt. 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 Floyd 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The sheriff did not require the depository institution to pledge or provide additional collateral of $87,766 and the sheriff did not enter into a written agreement to protect deposits. On December 11, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of $87,766.

The depository institution failed to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. Furthermore, the sheriff did not enter into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution.

Without having a pledge or collateral sufficient to secure deposits at all times or a written agreement to secure an interest in the collateral pledged or provided, the sheriff exposed his official account to a potential loss of $87,766.

According to KRS 66.480(1)(d) and KRS 41.240, financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). In addition, in order for the written agreement to be recognized as valid with the FDIC, federal law, 12 U.S.C.A. § 1823(e), states the agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

We recommend the sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the sheriff enter into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution.

Sheriff's Response: The Sheriff's office now contacts the bank directly to ensure the pledges are adequate and receives a written verification for account.

The sheriff's office did not maintain sufficient payroll records or calculate compensatory leave correctly. Our payroll tests revealed the following:

- The report that accounted for the sheriff's employees compensatory leave balances was deleted. Therefore, the sheriff did not know the beginning employee compensatory leave balances. We recapped and reviewed the time sheets of two employees for the entire calendar year 2015 to determine if the employees had a sufficient balance for the compensatory leave taken. The results of our procedures revealed that two employees used 23 and 45 hours more than earned, respectively. We could not include beginning balances in our computation because they were not available.
- Review of an employee's time sheet revealed the employee earned 25 hours of compensatory leave during one work week that was not calculated at the one and one half rate. Based on 25 hours of overtime earned, the employee should have had 37.5 hours added to his balance. The time sheet only reflected 17 hours earned.
- During our review of the time sheets above, we noted compensatory time earned was arbitrarily converted to personal time for the employee by the payroll administrator. There are no federal or state laws, or provisions in the county's administrative code that allow for the conversion of compensatory time earned to personal time. In addition, the sheriff did not have an established policy to address this issue.

The sheriff did not provide sufficient oversight over the preservation of employee compensatory leave balances. Furthermore, the sheriff was unaware of the requirements of KRS 337.285. In addition, the sheriff did not properly review the time sheets prepared even though he initialed each one indicating a proper review had been performed.

Employees with beginning compensatory leave balances did not receive the benefit of the balance that would have accrued to them for calendar year 2015. Furthermore, employees' overtime is not being calculated correctly because the sheriff is not following the requirements of KRS 337.285.

KRS 337.285 requires employees to be compensated for hours worked in excess of 40 per week at a rate of one and one-half times the hourly wage rate. In addition, proper procedures should be in place to preserve payroll reports that compile compensatory leave balances. Without accurate balances, the sheriff cannot determine if employees have reached the accrued compensatory time limits as set out in KRS 337.285.

We recommend the sheriff establish the procedures needed to protect and preserve all payroll reports relating to leave balances. In addition, we recommend the sheriff comply with KRS 337.285 as it applies to calculating overtime. Furthermore, we recommend the sheriff develop a policy for his office that addresses the practice of converting compensatory time earned to personal time. These matters will be referred to the Kentucky Labor Cabinet's Division of Wages, Hours, and Mediation for further review.

Sheriff's response: Comp time was maintained by payroll clerk per payroll period. At year end, comp time was depleted and showed balance of zero hours. Auditor has requested a running balance to review each pay period and that is now our policy. Employees also sign to determine comp time/overtime per pay period.

Auditor Reply: The sheriff did not provide auditors with reports showing beginning compensatory leave balances.

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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