Auditor of Public Accounts
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Harmon Releases Audit of Former Franklin County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the January 1, 2018 to January 6, 2019 financial statement of former Franklin County Sheriff Pat Melton. 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 Franklin County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former 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 former sheriff did not manage financial activities of his office: The former Franklin County Sheriff did not manage financial activities of his office as evidenced in the issues noted concerning the fourth quarter report and the lack of pertinent records related to financial operating activities during calendar year 2018. The fourth quarter report's receipts were overstated by $6,077 and the report's disbursements were overstated by $47,116 in comparison to the receipts and disbursements ledgers respectively. The former sheriff did not maintain the following pertinent financial records related to calendar year 2018 operating activity:

- Invoices for fee account operating disbursements, check stubs, blank checks, and voided checks.
- February to December 2018 fee account bank statements and bank reconciliations; these bank statements were provided to the auditor upon request to the bank.
- January to December 2018 bank account statements and bank reconciliations for the asset forfeiture account, the donation account, the operation lifesaver account, and the confiscation account; these bank statements were provided to the auditor upon request to the bank.
- Invoices or supporting documentation for disbursements from the confiscation and forfeiture account, and the state forfeiture account.
- Court orders to support deposits to the forfeiture account.
- Supporting documentation for a $5,000 donation deposited to the donation account.
- Timesheets for employees for 11 months of the year (February to December 2018); however, the auditor verified with the county payroll officer that she maintained copies of timesheets for the former sheriff's employees so the auditor was able to access copies of all twelve months' timesheets,
- Supporting documentation for highway safety federal grant disbursements and copies of the grant agreements.
- Lease agreement for copier payments.

The former sheriff did not have controls in place to ensure that financial operating activities and transactions were accurately reported on the ledgers and fourth quarter report. The former sheriff did not have controls in place to secure and maintain supporting pertinent records related to the operations of his office. The lack of supporting documentation for transactions and inaccurate reporting on the fourth quarter report evidenced the former sheriff's inability to ensure that financial data was recorded, processed, and reported in an accurate and reliable manner to third parties i.e., the Department for Local Government (DLG) and the Franklin County Fiscal Court. Also, these weaknesses in internal controls significantly increase the risk that funds were used inappropriately, and the risk of material misstatement caused by error or fraud.

Strong internal controls dictate that all pertinent financial records should be maintained to support operating disbursements, including invoices, contracts and agreements, bank statements and bank reconciliations, any voided checks, and blank checks. Although some financial records for the former sheriff's fee audit were obtained by auditors from other sources, it is the sheriff's responsibility to maintain all records to support the financial activity of his office. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements that bank reconciliations should be done. KRS 134.160(4) states, "[t]he sheriff shall obtain a receipt for all disbursements made by the sheriff." KRS 218A.420 requires proceeds from sales of forfeited property to be used for direct law enforcement purposes.

KRS 61.310(8)(a) states, "[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum: 1. The name and address of the donor; 2. A general description of the donation; 3. The date of acceptance of the donation; 4. The monetary amount of the donation, or its estimated worth; and 5. Any purpose for which the donation is given. The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours."

KRS 337.320 requires the sheriff's office to keep a record of the amount paid each pay period to each employee and the hours worked each day and each week by each employee. These are to be kept on file for at least one year.

We recommend the sheriff's office ensure all pertinent financial records are maintained for all receipts, disbursements, and reconciliations to ensure compliance with state regulations. We also recommend the sheriff's office ensure the fourth quarter report is accurate, based on supporting ledger amounts and pertinent financial records underlying those ledger entries.

Former County Sheriff's Response: No response provided.

The former sheriff's office lacked segregation of duties: The former sheriff's office lacked adequate segregation of duties over the accounting and reporting functions of the office. The bookkeeper, other office staff, and two deputies were responsible for receiving cash. One office staff person completed daily checkout sheets and prepared daily deposits. The former sheriff, or an office staff person who collects receipts, would take the deposit to the bank. The bookkeeper reviewed the daily checkout sheets and deposit, signed the daily checkout sheet and deposit ticket to evidence her review, and posted receipts to the ledger. The bookkeeper received invoices for disbursements, prepared checks, and posted the disbursements to the ledger. The former sheriff reviewed the invoices and signed the checks. The auditor could not determine if the invoices were reviewed by the former sheriff because there were no invoices available for operating expenditures. The bookkeeper prepared the bank reconciliations. The former sheriff indicated he reviewed the bank reconciliations; however, there were only a few bank statements and reconciliations available on which the auditor did not see evidence of the former sheriff's review.

The former sheriff did not have segregation of duties as part of his internal control procedures. A lack of segregation of duties or strong oversight increases the risk that undetected errors could occur. Proper segregation of duties over the accounting and reporting functions, such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the sheriff's office segregate functions on receipts, disbursements, and reconciliations. If that is not done, we recommend the sheriff's office implement compensating controls and ensured they are evidenced on supporting documentation.

Former County Sheriff's Response: No response provided.

The former sheriff's fourth quarter report was not submitted timely: The former sheriff's fourth quarter report was not prepared and submitted within thirty days of the quarter end. The report ending December 31, 2018, was compiled December 31, 2019 by a CPA firm on behalf of the former sheriff. Quarterly reports were submitted for the first three quarters, but the fourth quarter report was not submitted until December 31, 2019. This is due to the former sheriff not including timely preparation of the year-end report as part of the internal controls for the office in 2018. Failure to submit these reports timely increases the risk of inaccurate reporting and prevents the Department for Local Government (DLG) the opportunity to periodically review the sheriff's financial position.

Strong internal controls dictate that financial statements should be prepared timely and submitted to the fiscal court and DLG to ensure financial statements are relevant for decision-making purposes. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for handling of public funds, including requiring the quarterly reports to be submitted no later than thirty days following the close of the quarters ending March 31, June 30, September 30, and December 31. We recommend the sheriff's office ensure quarterly reports are submitted within a timely manner for compliance with state law.

Former County Sheriff's Response: No response provided.

The former sheriff did not have adequate controls over receipts: We tested two weeks of receipts. One week in March 2018, and the second week in September 2018. The following test exceptions were noted of the ten deposits tested:

- Two days were not batched daily. A receipt dated March 15th was included in the batch for March 14th.
- Eight deposits tested had cash and check totals on the deposit ticket that did not agree to the cash and check totals per the recapped receipt tickets for those deposits.
- Four deposits tested had the total of mail in (counter) receipts as the total on the daily collection sheet, even though there were additional receipts included in that deposit evidenced by the batched receipt tickets. Therefore, these daily collection sheet totals did not agree to the receipts ledger totals for each day's collections.

Internal controls regarding daily receipts were insufficient and not maintained, and there was a lack of oversight from management. A lack of internal controls over the receipts function increases the risk that errors could be committed and not detected. Without cash and check marked on each receipt, auditor is unable to determine whether deposits were made intact. Deposits not being deposited daily increases the risk of mistakes and misappropriation of receipts.

Strong internal controls would aid in presenting all pertinent information on receipts, and resolving any discrepancies between individual receipts and the daily summary checkout. KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires intact deposits to be made daily. We recommend the sheriff's office implement internal controls sufficient to ensure that deposits are made intact and on a daily basis.

Former County Sheriff's Response: No response provided.

The former sheriff overspent the approved budget: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The former Franklin County Sheriff overspent the amount fixed by the fiscal court for operating expenses. For calendar year 2018, the former sheriff's operating expenditures exceeded the maximum amount fixed by the Franklin County Fiscal Court by $70,485. This condition is a result of inaccurate financial records and a lack of management oversight. The former sheriff did not properly monitor his budget to actual amounts. Failure to monitor the budget demonstrates the sheriff is spending funds without fiscal court being aware of the additional expenditures that result in reduced excess fees disbursed to the county at year end. It also increases the risk that the expenditures are made for purposes not necessary for the operations of the sheriff's office.

Strong internal controls dictate that disbursements should be monitored and compared to the budget on a regular basis to ensure budgets are not overspent. KRS 64.530(3) states in part "[t]he fiscal court may also fix the reasonable maximum amount that the officer may expend each year for expenses of his office." KRS 68.210 states in part, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe…a system of uniform accounts for all counties and county officials." The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year.

We recommend the sheriff's office not make disbursements that exceed the approved budget. We further recommend the sheriff's office monitor the budget throughout the year and request budget amendments sufficient to cover actual expenses, if necessary, before year-end.

Former County Sheriff's Response: No response provided.

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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