



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Jackson County Sheriff Paul Hays. 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 Jackson 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 Jackson County Sheriff's Office does not have adequate segregation of duties over receipts, bank reconciliations, and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The sheriff's bookkeeper is responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The sheriff or another employee did not document oversight of bank reconciliations. The sheriff's bookkeeper is also responsible for preparing purchase orders, preparing checks, and signing checks. The sheriff has implemented compensating controls, including having an outside bookkeeper review monthly ledgers and bank statements and the

sheriff dual signing all deposits and checks after comparison to daily checkout sheets and invoices. However, these controls do not address the lack of segregation of duties of the same employee collecting receipts, making deposits, posting to ledgers, preparing purchase orders, and preparing checks.

According to the sheriff, the lack of segregation of duties is a result of a limited budget; which restricts the number of employees he can hire and delegate responsibilities to. A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government (DLG). The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the sheriff should continue with, and strengthen established compensating controls to help mitigate any weakness.

County Sheriff's Response: The Jackson County Sheriff's Office operates under very limited staff budget. We have previously introduced compensating control measures to minimize the potential for mismanagement of funds received or disbursed. Through the tax collection season we employ additional personnel to allow our office manager more time to focus on segregated duties. We are in communication with auditors to solicit additional ideas and measures that will improve our procedures, with consideration of our budget limitations.

The Jackson County Sheriff materially misstated his fourth quarter report: The Jackson County Sheriff hires an outside CPA to complete his quarterly reports for his fee account. During our review of the sheriff disbursements ledger and fourth quarter report it was determined that the CPA submitted the sheriff's fourth quarter report that did not include disbursements for the fourth quarter. This mistake went over looked by the sheriff and the county judge/executive.

Additionally, the Jackson County Sheriff failed to properly get approval for a budget amendment of \$30,000 on the total receipts for calendar year 2020. The sheriff's original budget was approved on December 30, 2019, with \$433,750 for total receipts. The sheriff's fourth quarter financial report showed total budgeted receipts as \$463,750, a \$30,000 increase when compared to the original budget. Through inquiry with the sheriff's bookkeeper and observation of the fiscal court minutes, there was no attempt to have a budget amendment approved with the fiscal court for calendar year 2020.

The sheriff did not have controls in place to ensure that his financial statement was materially accurate. Failure to include the disbursements for the fourth quarter, resulted in the sheriff's fourth quarter report to be materially inaccurate by \$198,435. A misstatement could result in an increased risk of uncorrected errors, theft, loss or misappropriated assets.

Furthermore, the sheriff's fourth quarter report had an additional \$30,000 of budgeted receipts that was not documented by approval of a budget amendment by the fiscal court.

KRS 134.192(11) states, in part, "(a) A complete statement of all funds received by his or her office for official services, showing separately the total incomes received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) A complete statement of all expenditures of his or her office[.]"

We recommend the Jackson County Sheriff post all disbursements on his quarterly reports. We further recommend the Jackson County Sheriff have all budget amendments approved by the fiscal court.

County Sheriff's Response: The 4th Quarter Report was completed by an outside Accounting Service. This service was employed as a compensating control which, due to budget shortfalls, provides some additional controls in this process. Inadvertently, a 'Down Level' version of the report was received from the accounting service and approved by the Sheriff and through Fiscal Court without noticing the error. Once the error was noticed by the Audit team, the 'Final Report' was immediately forwarded with all accurate receipts and expenses included. All funds received and disbursed were accounted for and balanced back to the bank statements.

The Jackson County Sheriff did not follow proper procurement procedures for purchases over \$30,000: The Jackson County Sheriff did not advertise for bids on all expenditures exceeding \$30,000. The sheriff paid \$45,223 to lease two vehicles during December 2020, which were also paid off that same month. These items were not bid by the sheriff. The sheriff was unaware of the bidding requirements regarding his leasing of two vehicles. Payment of both leases in full exceeded the bidding threshold, resulting in the sheriff being noncompliance with KRS 424.260.

KRS 424.260(1) states, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids."

The Jackson County Administrative Code regarding bidding procedures notes that the bid threshold is set at \$30,000. It further states the bidding process includes the following: advertisement for the bid, bids are opened publically, and the approval of the bid by the fiscal court.

We recommend any disbursements that exceeds the bidding threshold be subject to the bidding process or the disbursement be purchased via the state contract. We further recommend the Jackson County Sheriff comply with the county administrative code regarding the bidding process.

County Sheriff's Response: As a result of the 'Cares Grant', funding become available to upgrade our fleet. The decision was made to lease two new vehicles for the Jackson County Sheriff's Office

at a price per year well under the \$30,000 limit. The Jackson County Sheriff paid the total lease cost for the three-year plan up front, while funding was available, instead of making monthly payments. We believed we were making a sound business decision, but did not realize paying the total for the three-year lease would place us in violation of established procedures. Future purchases will be made in consult with auditors and these comments will be documented prior to any lease or purchase.

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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