



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Mercer County Sheriff Ernie Kelty. 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 Mercer 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 made expenditures that were unnecessary for conducting business of the office: The sheriff's office was charged and paid \$29 in late fees on a credit card in March 2018. The sheriff's office was also charge and paid a \$39 over limit fee in December 2018.

The sheriff lacks adequate oversight over credit card expenditures to ensure timely payment and that charges were within the credit limit. The sheriff's office was not aware that the credit limit was \$500 at the time that the over limit fee was charged. It has since been increased to \$2,500.

Expenditures for unnecessary fees to run the office were paid, which resulted in noncompliance with state laws.

Per KRS 65.140(2), “[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.”

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky’s highest court reaffirmed the rule that county fee officials’ expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend the sheriff implement procedures to ensure there is oversight on credit card payments being made timely and monitor that expenditures made with credit cards are within the credit limit. We also recommend the sheriff pay back the \$68 to the fee account from personal funds and turn over to fiscal court as additional excess fees.

Sheriff's Response: We will make our best effort to make sure we do not make a late payment on our credit card again. To ensure we do not go over our limit we contacted the credit card company and asked for our limit to be raised and they did. Sheriff Kelty wrote a check to the 2018 fee account that included the \$68 the auditor recommended he pay back.

The Mercer County Sheriff’s Office lacks segregation of duties over receipts: The Mercer County Sheriff’s Office lacks segregation of duties over receipts. The bookkeeper or one of the office staff prepare the daily collection sheet. The bookkeeper prepares the deposit ticket, takes the deposit to the bank, and records the receipts in the ledger. One of the other office staff reviews the daily collection report and compares it to the deposit ticket and ledger, but the review is not evidenced. The sheriff randomly reviews the daily collection report, comparing it to the deposit ticket and initials the deposit ticket. But because the sheriff did not maintain a list of the dates he reviewed, evidence of his reviews could not be verified.

The sheriff’s office has not implemented segregation of duties as part of internal control procedures for the office. The lack of segregation of duties over financial reporting significantly increases the risk of financial misstatement due to error, waste, fraud, or abuse.

The lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Furthermore, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the sheriff adequately segregate the functions related to receipts. If that is not possible, we recommend that the sheriff implement compensating controls with strong management oversight, by the reviewer signing or initialing reviewed documents.

Sheriff's Response: We will have the daily collection sheet and the deposit ticket approved by the sheriff rather than by the office clerk to provide better segregation of duties, as recommended by the auditor. This will be implemented immediately.

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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