



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of former Metcalfe County Sheriff Rondal Shirley. 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 Metcalfe 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 Metcalfe County Sheriff had \$83 in disallowed disbursements: The former Metcalfe County Sheriff paid \$83 in penalties and interest to the Kentucky Department of Revenue during calendar year 2018. These charges are not necessary disbursements in the operation of the former sheriff's office. The former sheriff's bookkeeper stated that a problem with the system of the former sheriff's office in March 2018 prevented her from submitting the payment for state payroll taxes timely for February 2018 resulting in penalties and interest of \$29. She also stated that they were unable to submit state payroll taxes timely for July 2018 due to the state's online system not working correctly in August 2018 resulting in penalties and interest of \$54. Paying

penalties and interest which were not necessary or beneficial to the public reduced the amount of operating funds for the former sheriff's office and also reduced the amount of excess fees paid to the fiscal court.

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Good internal controls dictate the sheriff's office should monitor disbursements to ensure compliance with state laws and regulations and to ensure payments are timely to avoid penalties and interest charges.

The former sheriff reimbursed the 2018 fee account \$83 from personal funds for disallowed disbursements on October 2, 2019. This amount was turned over to the fiscal court as additional excess fees from 2018 on October 4, 2019. We recommend the sheriff's office monitor disbursements to ensure all disbursements are for allowable purposes.

Former Sheriff's Response: There was a problem with the computer system at the former Sheriff's office in March 2018 and also with the reporting site in August 2018. We have sent a request to have these fees waived and when the Sheriff's Office receives this credit the former Sheriff will be reimbursed for the amount he has paid out of pocket. We have learned as a result of this that payments can be made over the phone in the event that this happens again.

The Metcalfe County Sheriff's office lacked adequate segregation of duties over recording, reporting, and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2017-003. The Metcalfe County Sheriff's Office lacked adequate segregation of duties over the recording, reporting, and reconciling process. The former sheriff's office manager/bookkeeper collected receipts, prepared deposits, prepared daily checkout sheets, prepared and signed checks, and prepared payroll. In addition, she posted to the receipts and disbursements ledgers, prepared financial statements and monthly reports, and reconciled the monthly bank statements. However, no review of the ledgers, monthly reports, bank reconciliations or payroll reports was documented.

The lack of segregation of duties occurred because the former sheriff failed to segregate incompatible duties. A lack of oversight could have resulted in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as Department for Local Government (DLG).

Adequate segregation of duties over accounting functions would prevent the same person from having a significant role in multiple accounting functions such as preparing deposits, preparing payroll, posting to the receipts and disbursements ledgers, preparing monthly and quarterly reports, and preparing monthly bank reconciliations. The sheriff can implement oversight when duties cannot be segregated.

We recommend the sheriff's office segregate duties over preparation of ledgers, preparation of monthly reports, and preparation of monthly bank reconciliations. If segregation of duties is not feasible due to lack of staff, then strong oversight over those areas should occur and involve an

employee not currently performing any of those functions. Additionally, the sheriff could provide this oversight. The individual providing the oversight should initial the source document as evidence of the review.

Former Sheriff's Response: Although the staff is small the bookkeeper indicates that the office is currently adding more over sights to their routine. Although we have been checking and rechecking each other's work we have failed to always initial as evidence to the review. Every ledger, monthly reports, bank statements and also the budget quarterly's and final budget will be checked, rechecked and initialed to comply with this recommendation.

The former Metcalfe County Sheriff's fourth quarter financial report was inaccurate: This is a repeat finding and was included in the prior year audit report as Finding 2017-004. The former Metcalfe County Sheriff's fourth quarter financial report was not accurate. The fourth quarter financial report was not reconciled to the receipts and disbursements ledgers or reviewed for accuracy prior to submission to the Department for Local Government (DLG) or the Metcalfe County Fiscal Court. Therefore, total receipts and disbursements per the fourth quarter financial report were not accurate. The following deficiencies were noted:

- Reclassifications were necessary to correct the receipts and disbursements on the quarterly report totaling \$15,411 and \$24,229, respectively.
- Receipts and disbursements were not included on the fourth quarter financial report totaling \$5,630 and \$8,988, respectively.
- Receipts and disbursements were overstated on the fourth quarter financial report due to incorrectly reporting amounts totaling \$31,966 and \$4, respectively.

The reclassifications and errors resulted from a lack of oversight over the financial recording process and preparation of the fourth quarter financial report. Although the fourth quarter financial report was signed by the former sheriff and the county judge/executive, it was inaccurate. Also, no documented review of comparing the fourth quarter financial report to the receipts and disbursements ledgers was noted. The lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as DLG and the fiscal court.

Good internal controls dictate that oversight over all aspects of the financial reporting process be implemented to ensure accuracy. Strong internal controls over financial reporting are vital in ensuring the financial reports of the sheriff's office accurately reflect the financial activity of the sheriff's office. These controls should include an individual independent of the accounting function reviewing the financial reports and comparing amounts reported to the amounts on the ledgers.

We recommend the sheriff's office implement stronger internal controls over the financial reporting process to ensure amounts reported on the quarter financial reports are accurate. Internal controls such as a thorough review of quarterly financial reports by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing book balances between the quarterly financial reports and bank reconciliations, agreeing bank balances per the bank statements to the quarterly financial

reports and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Ledgers should also be reviewed to verify transactions have been recorded to the correct account codes. Once the ledgers and reconciliations are deemed accurate, the reviewer should document that fact and submit the review to the sheriff for approval. By implementing these procedures, the sheriff's office can strengthen its internal control system, and help ensure accurate financial reporting.

Former Sheriff's Response: It should be noted that the monthly bank statements and the quarterly budget reporting were accurate and balanced to the bank statements. The final 4th Quarter errors in reporting were due partially to an operation system failure that occurred when we moved from our former office into the new office and although that is only part of the cause all the reports were lost and had to be manually reentered into the system which resulted in the errors noted. As indicated above stronger oversight measures are being put into place and all reports will be checked and double checked. Every report will be initialed by the preparer and the reviewer.

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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