



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2021 financial statement of Grayson County Sheriff Norman Chaffins. 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 Grayson 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.

Finding 3 will be referred to the Kentucky Education and Labor Cabinet, Division of Wages and Hours for further review.

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 Grayson County Sheriff's fourth quarter financial report was materially misstated: The Grayson County Sheriff's fourth quarter financial report submitted to the Department for Local Government (DLG) was materially understated. Loan proceeds of \$118,062 from a promissory note and the subsequent purchase of four vehicles with those funds was not included in the financial statement.

In addition, the liabilities section of the fourth quarter financial report includes \$300,000 outstanding for the sheriff's advancement that was paid off in December 2021 and does not include the outstanding balance of \$88,554 for the mentioned promissory note.

This omission was caused by the funds not being deposited or disbursed directly from the sheriff's fee account. The money was given directly from the bank to the car dealer, so the sheriff did not believe it needed to be recorded as part of the fee activity. The errors on the liabilities section were an oversight of the office.

By not including these totals on the quarterly report, the financial statements presented to DLG and available to the public are materially incorrect and might not present a fair and accurate representation of the financial status of the office.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to submit quarterly reports to DLG by the 30th day following the close of each quarter. The quarterly report submitted to DLG should be materially accurate.

Good internal controls also dictate that controls be in place to show all financial activities undertaken by the office. This would include any transactions made on behalf of the fee account that might not be processed through the fee bank account. All transactions should be included in the quarterly report to ensure accurate information is being provided to DLG and to the public.

We recommend the sheriff ensure all financial activity related to the fee year is included on the quarterly reports submitted to DLG.

County Sheriff's Response: It should be noted that all money was accounted for. This finding occurred because money was paid directly to the car dealership where vehicles were purchased instead of being deposited into our fee account and then dispersed accordingly. We will take the advice of the auditors to prevent this from happening again.

The Grayson County Sheriff did not follow proper bidding procedures: This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The Grayson County Sheriff purchased four vehicles from a single dealership totaling \$123,834 during the year and purchased \$33,851 of equipment for the vehicles from a single vendor. Neither of these purchases were obtained through the required bidding procedures.

This was partly caused by a misunderstanding of the KRS bidding requirement. The office believed that an individual item needed to be over the \$30,000 limit to be bid. The fourth vehicle purchased was just an oversight by the office.

By not bidding out required items, the elected official cannot guarantee that the money is being spent in the best way. Bidding procedures allow for the official to receive multiple offers for similar items and determine which offer best suits the need while offering transparency over the purchase. By not bidding out these items the sheriff is also in violation of KRS 424.260.

KRS 424.260(1) which 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: (a) Materials; (b) Supplies, except perishable food such as meat, poultry, fish, egg products, fresh vegetables, and fresh fruits; (c) Equipment; or (d) Contractual services other than professional; involving an expenditure of more than thirty thousand dollars (\$30,000) without first making newspaper advertisement for bids.” Also, according to the Grayson County Administration Code section 4.2 (C.), “[w]hen an expenditure exceeds \$30,000.00 in cost, the Judge/Executive and/or designee shall place an advertisement in the newspaper of largest circulation in the county at least once, not less than seven, nor more than twenty-one days, before bid opening.”

Also, strong internal controls require management to monitor disbursements to ensure compliance with bid laws and to keep good records of all bid transactions.

We recommend the sheriff comply with the requirements of KRS 424.260 and the county’s administrative code by making proper advertisements for all applicable expenditures or contracts exceeding \$30,000.

County Sheriff’s Response: The vehicles purchased were actually purchased at a cheaper price than the state contract. However, we will ensure that the proper bidding process is followed for future purchases.

The Grayson County Sheriff did not properly compensate employees for overtime: During testing of payroll, we found that four deputies’ timesheets documented the employees had worked more than 40 hours in a workweek.

- One employee’s timesheet showed 42 hours worked in a workweek with no overtime or compensatory time paid.
- Two employees’ timesheets showed 60 hours worked in a workweek with no overtime or compensatory time paid.
- One employee’s timesheet showed 56 hours worked in a workweek with no overtime or compensatory time paid.

None of these employees were compensated at time and a half in either overtime pay or compensatory time for the hours in excess of 40.

According to the sheriff, he believed that as long as a deputy does not work over 80 hours in a two week pay period, they are meeting all federal and state guidelines for overtime for law enforcement personnel.

By failing to properly calculate overtime earned on each individual week, some of the sheriff’s employees were not properly compensated for work they performed.

KRS 337.285(1) states, “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess

of (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed". The exemption contained in KRS 337.285(13)(a) does not apply since the Grayson County Sheriff's office is not a law enforcement department of a consolidated local government organized under KRS Chapter 67C.

We recommend the sheriff compensate employees with required overtime pay for any hours worked in excess of 40 hours in a week or award them compensatory time at time and a half rates for any time worked over 40 hours in accordance with KRS 337.285. If compensatory time is utilized, all guidance in KRS 337.285 should be followed. This matter will be referred to the Kentucky Education and Labor Cabinet, Division of Wages and Hours.

County Sheriff's Response: The Grayson County Sheriff's Office was under the impression that our office had the authority to utilize an 80-hour two-week period to determine overtime compensation, similar to city police departments, and as authorized by the United States Fair Labor Standard Act Section 7(k), in addition to KRS 337.285(13)(b). Additionally, I sought the advice of a Kentucky Association of Counties attorney who advised me that we could utilize an 80-hour work week. We have been doing this schedule for over 3 years and this is the first finding by the state auditors that we were not in compliance.

The Grayson County Sheriff's Office now understands that KRS 337.285(13)(b) is modified by KRS 337.285(13)(a) and is only applicable to city police departments despite being allowed under federal law for law enforcement agencies. The Grayson County Sheriff's Office has discontinued this method of determining overtime for our employees.

The Grayson County Sheriff's Office does not have segregation of duties or adequate compensating controls: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The Grayson County Sheriff's Office does not have adequate segregation of duties. While the sheriff implemented compensating controls, they were deemed inadequate due to the numerous posting errors. The bookkeeper prepares all checks, records receipts and disbursements on ledgers, reconciles accounts, and prepares financial statements with limited oversight by the sheriff. According to the sheriff, this condition is caused by the diversity of operations with a limited number of staff. The sheriff failed to implement effective compensating controls to offset this deficiency in internal controls. The lack of segregation of duties or strong oversight caused an incorrect financial statement to be submitted to the Department for Local Government (DLG).

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff strengthen the internal controls noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated, strong management oversight and documented review processes should be implemented by the sheriff.

County Sheriff's Response: We hired an additional administrative office specialist and split the tax and fee account duties between two different people. We will continue to double check one another's work and strive to segregate duties among our office staff and deputies.

The Grayson County Sheriff did not pay the balance of the promissory note by the end of the calendar year: On June 11, 2021, the Grayson County Sheriff's Office entered into a promissory note in the amount of \$118,062 from a local financial institution for a three year period to purchase vehicles. During the year, the sheriff's office paid \$29,508 of principal leaving an unpaid principal balance of \$88,554. The length of this loan is longer than what is allowable per KRS 65.7707. This was caused by the sheriff not knowing about the restrictions of KRS 65.7707.

By entering into a long-term loan agreement, the sheriff has allocated future years' revenues before having a budget set. The sheriff has no guarantees that these funds will be included in future budgets. While KRS's 65.7701 through 65.7721 allows for governmental agencies to enter into notes under the Short Term Borrowing Act, these statutes also require that these financial obligations be repaid by the end of the fiscal year. KRS 65.7707 states, "[n]otes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued."

We recommend the sheriff follow KRS 65.7707 and not enter into any loans with a maturity date later than December 31 of the current calendar year.

County Sheriff's Response: We received approval from the Grayson County Fiscal Court to purchase our fleet vehicles using our local bank. We were under the impression that the vehicles were purchased under a lease agreement and NOT on a promissory note. We will ensure that the fleet vehicles purchased from now on are purchased under a "lease agreement" unless they are paid off within the calendar year.

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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