



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Powell County Sheriff's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Powell County Sheriff Danny Rogers. 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 Powell 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 was not sufficiently involved in the daily financial activities of his office:** This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The sheriff was not sufficiently involved in the financial daily activities of his office. Numerous weaknesses in the control environment of the Powell County Sheriff's Office significantly increase the risk of fraud and misappropriation of funds, and decrease the accuracy of records provided.

This condition is a result of poorly designed policies and procedures; inconsistent, incomplete, and inaccurate implementation of controls; and lack of management oversight and involvement. As a result, we have noted the following deficiencies:

- A lack of segregation of duties over receipts and disbursements.
- A final settlement was not presented to the fiscal court and excess fees were not paid timely for 2018.
- Quarterly financial reports were not submitted to the Department for Local Government (DLG).
- Prior year accounts have not been settled and amounts due to the fiscal court have not been paid.
- Inadequate controls over disbursements.
- Disallowed disbursements totaling \$2,357.
- Invoices were not paid timely.

Management has a responsibility to design and implement internal controls that provide reasonable assurance regarding the reliability of financial reporting. Internal control is a management process for keeping an entity on course in achieving its business objectives. Internal controls should ensure resources are protected from waste, loss, and misuse and ensure reliable data is obtained, maintained, and fairly disclosed. Entities are required to establish controls to provide reasonable assurance that the recording, processing, and reporting of data is properly performed within the framework of financial management systems.

The following recommendations are supplemented by additional recommendations presented throughout this report:

- The sheriff should provide direct oversight of financial reporting for all receipts and disbursements.
- The sheriff should implement internal controls over the financial accounting system that ensure an adequate internal control structure, including management oversight; provides reasonable assurance that assets are safeguarded and transactions are processed in accordance with applicable laws and regulations; and transactions are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial data.
- The sheriff should segregate duties so that no one person can both create and conceal fraudulent activity or commit an undetected material error.
- The sheriff should implement sufficient supervisory review of key functions and activities. All supervisory reviews should be evidenced in writing.

*County Sheriff's Response: I disagree that the sheriff was not involved in the daily financial activities of his office. Someone could not make that assumption only by being here a couple of times a year. I do discuss daily activities with my staff however it may not be documented by handwriting but I am involved in my office and the activities. I not only work the road but I do help in the office taking payments and preparing receipts for fees and property taxes. At what point would auditors consider me being involved in my office daily?*

*We are a small office and the daily duties are shared.*

*We will try to present final settlement to the fiscal court in a more timely manner.*

*All quarterly reports have been forwarded to DLG.*

*Some of the prior year accounts have been settled but we have been waiting for the fiscal court to pay refund in order to settle the 2015 tax account. Once that is done we should be able to settle those out.*

*We have since terminated the school resource contract and that has helped with finances. Also we have been receiving franchises from the county clerk on time and that has helped with money coming into our office more frequently.*

Auditor's Reply: The number and severity of findings indicate lack of management oversight and involvement in daily operations. Sufficient involvement by an official would be achieved by correcting all known prior year findings and limiting the number of findings in any current audit period. Most of the findings in this report have been repeated for several years.

**The sheriff's office lacks adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities.

The sheriff indicated this was caused by a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

Segregation of duties over various accounting functions such as opening the 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.

The sheriff should separate the duties involved in receiving cash, preparing deposits, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible, due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure.

*County Sheriff's Response: See response 001. We would love to hire more employees however they do not stay here due to not being able to compete with other counties salaries and their benefits.*

*I go over bank statements along with both clerks each month when accounts are reconciled dated and initialed by myself and both clerks if able.*

**The sheriff has not settled prior year accounts:** This is a repeat finding and was included in the prior year audit report as Findings 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, and 2017-008. Per prior year audits 2014 through 2017, the sheriff had various receivables and liabilities to settle the tax and fee accounts for each year. During our audit period, the sheriff settled all significant receivables and liabilities and closed all old tax and fee accounts. The balances in tax and fee accounts for 2014, 2016, and 2017 were transferred to the 2015 tax account, which resulted in an ending balance of \$11,144 in the 2015 tax account. This entire amount is due the fiscal court as additional excess fees resulting from the balances of fee accounts for 2014, 2016, and 2017 being transferred to the 2015 tax account. In addition to the balance in the 2015 tax account, the sheriff personally owes \$9,938 to the fiscal court as additional excess fees due to disallowed disbursements in prior periods as noted in the following table:

<u>Amount due personally from sheriff:</u>			
2017 Fee Audit	\$	1,708	Disallowed Disbursements
2016 Fee Audit		1,154	Disallowed Disbursements
2015 Fee Audit		885	Disallowed Disbursements
2014 Fee Audit		4,075	Disallowed Disbursements
2013 Fee Audit		419	Disallowed Disbursements
2013 Fee Audit		750	Salary overpayment
2012 Fee Audit		947	Disallowed Disbursements
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Total	\$	9,938	

The sheriff did not have adequate controls in place to ensure receivables and liabilities for old accounts were settled correctly and timely. Furthermore, as discussed in finding 2018-001, the sheriff did not implement adequate oversight procedures to follow up on old accounts to ensure corrective action had been taken as instructed in prior audit periods.

As a result, the sheriff has a balance in the 2015 tax account that is actually related to fee account liabilities. The entire balance in the 2015 tax account of \$11,144 (plus any accrued interest), is due to the fiscal court as additional excess fees for 2014, 2016, and 2017 as well as the personal amount due from the sheriff of \$9,938 for disallowed disbursements. In addition to being a violation of statute, failure to settle and close accounts for extended periods of time increases the risk of theft, loss, or misappropriation of funds.

KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year.”

We recommend the sheriff pay the balance in the 2015 tax account to the county treasurer and close the account as soon as possible in order to settle excess fees due for prior years. Further, we recommend the sheriff pay the fiscal court \$9,938 in personal funds to account for additional

excess fees due for prior periods resulting from disallowed disbursements in those periods. This finding is being referred to the Powell County Attorney for further review and collection under KRS 64.820.

*County Sheriff's Response: In response to this finding; if I could get the fiscal court to refund the overpayment I would be able to settle the 2015 tax account. Response to the disallowances will follow.*

Auditor's Reply: Per the finding, all account balances were combined and amounts due are the net still due after all inter-account liabilities and receivables were eliminated. The amount due from the fiscal court was applied to the balance owed by the sheriff to the fiscal court for various tax and fee account liabilities. The fiscal court no longer owes any amount to the sheriff to settle the account as the amount previously owed has been credited against the amount owed by the sheriff to the fiscal court. This consolidated, net amount is in addition to the \$9,938 owed personally by the sheriff due to prior year disallowed disbursements that have not been settled.

**The sheriff did not settle his 2018 fee account and did not present a final settlement to the fiscal court:** This is a repeat finding and was included in the prior year audit report as Finding 2017-003. The sheriff did not settle his 2018 fee account and he did not present a final settlement to the fiscal court for calendar year 2018. In order to settle the account, the sheriff should collect and pay the following:

Account Balance	\$ 7,894
Uncollected Receivables:	
Due from Sheriff - Disallowed Disbursements	<u>2,357</u>
Excess Fees Due Fiscal Court for Calendar Year 2018	<u>\$ 10,251</u>

This is a result of a lack of management oversight by the sheriff as described in finding 2018-001. He did not ensure that an annual settlement was presented to the fiscal court and that excess fees were properly paid. The failure to pay liabilities timely causes the fiscal court to be deprived of funds for significant time periods.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. The version of KRS 134.192(1) in effect during 2018 stated, in part, that the sheriff shall file annually with his or her settlement: (a) "[a] complete statement of all funds received by his or her office for official services, showing separately the total income 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, including his or her salary, compensation of deputies and assistants, and reasonable expenses."

We recommend the sheriff take the necessary steps to ensure the amounts above are collected and paid as soon as possible. We further recommend the sheriff settle his accounts before September 1 of each year hereafter and present the annual settlement to the fiscal court.

*County Sheriff's Response: The 2018 account has not been settled until the audit and once that is done along with 2018 tax it would then be settled and any monies paid out to the proper districts/or fiscal court.*

**The sheriff did not submit the fourth quarter financial report to the Department for Local Government as required:** This is a repeat finding and was included in the prior year audit report as Finding 2017-009. The sheriff did not submit the fourth quarter financial report to the Department for Local Government (DLG) as required. This was caused by the lack of management oversight as described in Finding 2018-001. Failure to comply with these regulations result in violation of statute and a lack of availability of financial records to approving authorities. KRS 68.210 states, “[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 and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, the state local finance officer requires a cumulative quarterly report be submitted by the 30th day following the close of each quarter. We recommend the sheriff provide all financial reports to DLG as required.

*County Sheriff's Response: I have the quarterly report and it should have been sent however time has lapsed and I would not know when or why they did not receive it.*

**The sheriff lacks adequate controls over disbursements:** This is a repeat finding and was reported in the prior year audit as Finding 2017-010. The sheriff's office lacked strong internal controls over disbursements. The lack of adequate controls over disbursements, inadequate segregation of duties, and absence of review procedures, as discussed in Findings 2018-001 and 2018-002, led to multiple discrepancies as follows:

- There were disallowed disbursements totaling \$2,357 (see Finding 2018-007).
- Invoices were not paid timely (see Finding 2018-008).

There were not adequate review procedures in place, as described in Finding 2018-001, to detect, eliminate, or reduce errors. Taxpayer funds were misspent as noted by disallowed disbursements. Invoices and lease payments not being paid timely could result in substantial late fees, penalties, or other ramifications. Strong internal controls require that adequate documentation and sufficient review of all disbursements are necessary to reduce the risk of errors and misstatements. We recommend the sheriff implement procedures that strengthen controls over disbursements to eliminate the exceptions noted above in the future.

*County Sheriff's Response: See previous answers.*

**The sheriff had \$2,357 in disallowed disbursements:** This is a repeat finding and was included in the prior year audit report as Finding 2017-011. The sheriff expended a total of \$2,357 for the following disallowed items:

- Items not necessary for the operation of the sheriff's office totaling \$661 (candy, greeting cards, and knives).
- Interest on bank loans totaling \$1,696.

This is the result of a lack of internal controls over disbursements, as described in finding 2018-006 and lack of management oversight as described in finding 2018-001. The disallowed disbursements result in taxpayer funds being spent inappropriately. In addition, the sheriff personally owes \$2,357 to the 2018 fee account to reimburse these disallowed disbursements.

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

We recommend the sheriff reimburse \$2,357 to the 2018 fee account from his personal funds for these disallowed disbursements. Furthermore, we recommend that the sheriff only expend funds for allowable purposes in the future.

*County Sheriff's Response: As stated in prior audits it is an opinion what is disallowed for purchase.*

*Candy - As addressed many times in prior audits candy was used throughout the year for incentives for school resource, other public services/activities that it was used for and all not used for personal use it was all used for things involving public/community. I know sometimes we used peppermint in the courtroom if needed or if left over it was on counter.*

*Greeting cards - I don't remember the actual receipt it's been several years, however, that was a rare instance due to the fact that [name redacted] or [name redacted] always personally provide those and not sure of the reason it was on that particular receipt. Once again any and all cards were sent from the entire sheriff's department not for personal use and were used for mostly sympathy for people of our county/community or other local agencies or county governments during their loss.*

*Knives are equipment and a useful too. These are good to cut seat belts. These were purchased as equipment and deputy use them on person and are part of their uniform.*

*Please explain why a knife purchase used on person and on equipment a disallowed item?*

*So I do not agree with these items being disallowed.*

Auditor's Reply: As noted in Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. The items noted were not necessary for the operations of the sheriff's office. In addition, the knives purchased are a collectable style of pocket knife not known for tactical uses in law enforcement.

**The sheriff did not pay invoices timely:** This is a repeat finding and was included in the prior year audit report as Finding 2017-012. Three invoices in our sample of 32 disbursements were not paid within 30 business days, some several months late. This condition is a result of a lack of internal controls over disbursements as described in Finding 2018-006 and lack of management oversight as described in Finding 2018-001. Failure to pay invoices timely results in noncompliance with statutes and can result in late fees and other penalties.

KRS 65.140 states, “Unless 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 order to avoid late fees and penalties and to comply with KRS 65.140, we recommend the sheriff pay invoices within 30 days.

*County Sheriff’s Response: We have tried to remedy this statement and things have improved since we have gotten franchises on time from the clerk and we no longer have the extra school resource account.*

**The sheriff does not have adequate controls in place over fuel purchases:** This is a repeat finding and was included in the prior year audit report as Finding 2017-013. The sheriff’s office lacks adequate controls over fuel purchases. The sheriff utilizes a third party fuel purchasing system, but does not follow the procedures for fuel purchases the system is designed to monitor. The sheriff receives a monthly invoice from the vendor used for purchasing fuel. These invoices list each person purchasing fuel along with the vehicle mileage, quantity, and price. We noted the following issues regarding fuel purchases:

- Fuel card users routinely did not list the vehicle mileage when purchasing fuel.
- Periodic use of fuel cards by two special deputies (special deputies are sworn officers of the sheriff’s office but are not employees and do not receive wages from the sheriff’s office). The sheriff’s office does not have a policy regarding fuel and vehicle use by special deputies.

The sheriff did not have controls in place to adequately monitor fuel purchases. Besides payroll expenses, fuel purchases are the largest single expense for the sheriff’s office. Without proper documentation of these fuel purchases by vehicle unit number and by the assigned deputy, the risk of fuel being purchased for personal use or by unauthorized users greatly increases.

Good internal controls over fuel purchases require the sheriff to ensure that adequate documentation is maintained to support the disbursement, which includes the odometer readings for all vehicles and the person purchasing the fuel. In addition, the sheriff should have a policy regarding fuel purchases by special deputies or other non-employees. In very rare instances, this might be acceptable but the sheriff should outline the specific situations in which this would be necessary.



We recommend the sheriff properly use this third party fuel purchasing system and ensure that all fuel purchases are properly supported by proper documentation, which includes accurate odometer readings and designation of proper vehicle unit numbers. We also recommend the sheriff review and reconcile the third party fuel reports monthly to note any employees not following proper fuel purchase procedures. Furthermore, we recommend the sheriff establish policies and procedures to address fuel card use by special deputies.

*County Sheriff's Response: To address the fuel issue, sometimes not often there was instance were card wasn't working they may have use another option of charging at a local business.*

*Everyone should be using the correct mileage and card when purchasing fuel.*

*Yes special deputies have fuel cards! Without special deputies it would be hard for small departments to take care of the numerous calls and cases our county taxes care of with limited manpower. They only use cards while they are working for no money serving papers or taking county calls! That is the only time or policy that it can be used.*

*Yes fuel is one of the largest expenses for the sheriff's office and if dispatch logs are needed to verify the back and forth from one end of the county to the other for calls, reports, paper services transports for court, transports to Eastern State and funeral escorts per day are numerous.*

**The sheriff lacked adequate controls over payroll:** This is a repeat finding and was included in the prior year audit report as Finding 2017-016. The sheriff's office lacked adequate internal controls over the processing of payroll, specifically over timesheets and gross wage calculations. Review procedures were in place, however, they were not adequately performed to eliminate or reduce errors. Due to the lack of effective controls, numerous exceptions were noted as follows:

- An office employee's timesheet for one pay period did not add correctly. This employee was paid for 62 regular hours, 18 holiday hours, and 36 overtime hours for the pay period. Based on the timesheet submitted, this employee was overpaid for one hour of overtime.
- Two employees did not have hours listed on their timesheets, but rather just wrote "Salary" on the timesheet.
- Leave balances were not properly maintained. We found that only one full time employee maintained leave balances.

Due to issues noted with timesheets, payroll has not been documented adequately and may not be calculated correctly. Good internal controls dictate that adequate controls and sufficient review are necessary to reduce the risk of errors and misstatements. One necessary element for internal controls over payroll is that every timesheet list the hours worked each day and each pay period.

KRS 337.320 states that every employer shall keep a record of the amount paid each pay period to employees and the hours worked each day and each week for employees. As a matter of internal control, the hours paid must agree to the hours documented and each timesheet should be signed by the employee and a supervisor.

Further, these issues are in violation of the sheriff's policy manual. Section 9.1(1.) states "Each deputy of this office shall keep an individual timesheet for each pay period. Each member shall use this timesheet to record their hours worked."

We recommend the sheriff review the procedures that are in place and strengthen controls over the payroll process. The sheriff should ensure compliance with the applicable laws and regulations and ensure all hours worked are completely and accurately documented and payroll calculations are accurate. Due to the nature of this finding, it will be referred to the Kentucky Secretary of Labor.

*County Sheriff's Response: Payroll is prepared by the judge executives office.*

*Timesheet issue: this was an oversight and error on paper however, the idea that the employee in question did not work the one hour of overtime. However during that pay period anyone could look at the number of tax deposits which have the dates and times of the reports and that myself and that employee were the only employees taking payments over the holidays and if one could look at the number of deposits and how long it takes to write every check on deposit ticket and add each ticket which sometimes are between one to up to five deposit ticket for one deposit which have approximately around 85 checks per deposit not to mention the cash to take in and make sure each deposit matched correctly I am confident that said employee probably worked more than hours on the time sheet. Someone had to be here to collect over one million dollars during the first month of tax collection.*

*Leave balances for the most part have been updated and is updated by payroll clerk.*

**The sheriff has not resolved a possible conflict of interest:** This is a repeat finding and was included in the prior year audit report as Finding 2017-017. An employee of the sheriff's office is also serving as a magistrate of the fiscal court, which may constitute a conflict of interest.

On June 5, 2012, the sheriff hired an individual to serve as deputy sheriff for the sheriff's office. On January 1, 2015, this person was elected to serve as a magistrate of the fiscal court, an incompatible office. The deputy sheriff did not vacate the first office of employment upon being elected to serve on the fiscal court. The employee chose to accept both positions and did not consult with the county attorney or attorney general regarding the potential conflict of interest in doing so.

When this person accepted an appointment as a deputy sheriff then accepted the office of magistrate, his position of deputy sheriff could be vacated as a matter of law. Any actions he has taken as a deputy sheriff after accepting the magistrate appointment may be null and void.

Per the Attorney General's *Conflicts of Interest and Incompatible Offices Manual*, a county officer may not serve as a county employee. KRS 61.080(2) makes the positions of magistrate (justice of the peace) and deputy sheriff incompatible. Also, KRS 61.090 states, "[t]he acceptance by one (1) in office of another office or employment incompatible with the one (1) he holds shall operate to vacate the first." In addition, this may constitute a common law incompatibility of office

because the office of deputy sheriff as an employee of the county is subordinate to the position of magistrate. OAG 83-252; Hermann v. Lampe, 194 S.W. 122 (Ky. 1917).

We recommend the sheriff seek advice from the county attorney and comply with his recommendations in order to ensure that there are no conflicts of interest.

*County Sheriff's Response: Possible conflict of interest. This has been an on going comment which has been addressed. The employee in question has spoken to county attorney multiple times and was under the understanding that county attorney looked into this matter and discussed with county judge and thought to have all agreed that it was not a conflict. However, since last audit I have been trying to obtain a copy of case law from Clark County attorney that had represented an employee with same circumstance and won case saying that it was not a conflict. I have not been able to get a copy to attach.*

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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