



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Scott County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2021 financial statement of Scott County Sheriff Tony Hampton. 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 Scott 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 findings:

The Scott County Sheriff does not have adequate segregation of duties: The sheriff's bookkeeper prepares daily check-out sheets, prepares daily deposits, prepares and signs disbursement checks, posts transactions to the receipts and disbursements ledger, reconciles monthly bank statements, and prepares quarterly reports. Occasionally the bookkeeper will also collect payments from customers when front line staff coverage is inadequate. Deposits are taken to the bank by someone other than the bookkeeper, although there is no documentation of who makes the deposits. Disbursements are limited to monthly fee pooling remittances to the fiscal court and preapproved refunds; checks are getting a second signature by the sheriff or office

manager, although it is not required to validate the check. Further, there is no documentation of review of daily checkout sheets, deposit slips, the receipts and disbursements ledger, bank statements, or bank reconciliations.

The sheriff has a small administrative staff and the bookkeeper has been delegated to execute most accounting functions. The sheriff has not implemented compensating controls sufficient to offset the control weakness noted. The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. The same employee primarily performing related functions without sufficient oversight and review increases the risk that errors or fraud may go undetected. Additionally, proper segregation of duties and oversight and review protects employees in the course of performing their daily responsibilities.

Segregation of duties and the implementation of compensating controls when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having all the significant roles over various accounting functions. Strong internal controls dictate oversight and review procedures to ensure accountability for public funds.

We recommend the sheriff implement the segregation of duties over custody of assets, recording function, authorization of disbursements, and reconciliation of books to bank. If these duties cannot be segregated, then the sheriff should implement compensating controls to strengthen oversight of duties performed by the same person. This could include but is not limited to the following:

- The sheriff (or designee) should review and initial the daily checkout sheet to agree to the daily deposit and initial the deposit slip.
- The sheriff (or designee) should review and initial the monthly receipts and disbursements ledger and agree to and sign disbursements checks.
- The sheriff (or designee) should review and initial the monthly bank statements and reconciliations.
- The sheriff should sign the quarterly financial statements and annual settlement and agree to receipts and disbursements ledger.

Sheriff's Response: Due to the small administrative staff within the Scott County Sheriff's Office, there is one employee responsible for both the bookkeeping and accounting responsibilities, which has resulted in this comment each year. To provide both transparency and efficiency, within our organization, and to be compliant with the State Auditor's Office, we are presenting the following recommendations be made to our Fiscal Court:

Invest in an additional position within the Scott County Sheriff's Office that is responsible for the accounting duties apart from the Bookkeeper. There is a definite demand for this designated role within our institution and will only become more evident as our county continues to thrive and prosper.

The Scott County Sheriff does not have adequate internal controls over forfeiture funds: The sheriff did not have adequate internal controls over forfeiture funds to ensure they were properly

accounted for and maintained in compliance with applicable laws and regulations. The sheriff is not maintaining supporting documentation for receipts to and disbursements from forfeiture accounts to substantiate compliance with judicial orders, relevant statutes and regulations, and federal awards of equitable sharing funds. The sheriff deposited restitution payments to the state drug forfeiture account that should have been deposited in the fee account. The sheriff is not maintaining receipts and disbursements ledgers for these accounts and did not consistently reconcile these accounts to their bank statements. Also, the sheriff did not complete an Equitable Sharing Agreement and Certification (ESAC) form, or a Schedule of Expenditures of Federal Awards (SEFA) as required for federal forfeiture funds.

The sheriff has a small administrative staff. For the first nine months of calendar year 2021, the sheriff delegated management of these accounts to a captain that had many other competing priorities and failed to keep detailed records and take timely actions to ensure compliance. The sheriff has since redelegated the management of these accounts to the bookkeeper. The bookkeeper has been manually noting reconciliation notes on the bank statement but has not established receipts and disbursements ledgers for these accounts. The sheriff and bookkeeper were not aware that federal forfeiture funds are required to be reported on an ESAC form and SEFA.

When appropriate supporting documentation for forfeiture accounts are not maintained, compliance with relevant laws and regulations cannot be determined and can potentially expose the sheriff to the risk that funds may be misappropriated and inaccurately reported. When bank reconciliations are not regularly completed and ledgers are not maintained to compare to bank statements, the risk of fraud due to theft and reporting errors significantly increases because receipts can go undeposited and disbursements can go without being made. Without proper oversight over bank account activity, these problems can go undetected. Failure to complete and submit an ESAC form and complete a SEFA puts the sheriff in noncompliance with federal reporting requirements for federal forfeiture funds and exposes him to the risk of loss of current and future federal forfeiture funds.

The *Guide To Equitable Sharing For State, Local, And Tribal Law Enforcement Agencies* published by the U.S. Department of Justice and the U.S. Department of the Treasury provides the guidance for the use, accounting, and reporting requirements for federal forfeiture funds provided to sheriff's departments. This guidance provides for federal forfeiture funds to be covered by the same accounting rules as applicable to the agency's general funds, maintenance of supporting documentation, and reporting requirements including the annual submission of the ESAC form and completion of a SEFA.

KRS 218A.420(1) states, "[a]ll property which is subject to forfeiture under this chapter shall be disposed of in accordance with this section." Further, KRS 218A.420(4) states, "[c]oin, currency, or the proceeds from the sale of property forfeited shall be distributed as follows: (a) Eighty-five percent (85%) shall be paid to the law enforcement agency or agencies which seized the property, to be used for direct law enforcement purposes; and (b) Fifteen percent (15%) shall be paid to the Office of the Attorney General or, in the alternative, the fifteen percent (15%) shall be paid to the Prosecutors Advisory Council for deposit on behalf of the Commonwealth's attorney or county attorney who has participated in the forfeiture proceeding[.]"

KRS 532.033 states, in part, “[w]hen a judge orders restitution, the judge shall: (1) Order the restitution to be paid to a specific person or organization through the circuit clerk, who shall disburse the moneys as ordered by the court[.]” There appears to be nothing in this statute, or in any other statutes of which auditors are aware, that authorizes court-ordered restitution payments to be paid to a sheriff’s drug forfeiture account.

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 bank reconciliations to be done monthly. Strong internal controls dictate monthly bank reconciliations to be completed on all bank accounts and receipts and disbursements ledgers be maintained to account for funds.

We recommend the sheriff strengthen internal controls over forfeiture accounts by doing the following:

- The sheriff (or his designee) should maintain supporting documentation for receipts to, and disbursements from, forfeiture accounts to substantiate compliance with judicial orders, relevant statutes and regulations, and federal awards of equitable sharing funds.
- The sheriff (or his designee) should deposit all restitution receipts in his fee account unless he has a court order directing the restitution to be paid to another specified account.
- The sheriff (or his designee) should maintain receipts and disbursements ledgers for forfeiture accounts.
- The sheriff (or his designee) should ensure that monthly bank reconciliations are performed and documented for forfeiture accounts.
- The sheriff (or his designee) should ensure that a ESAC form is submitted annually, and all expenditures of federal funds are included on a SEFA.

Sheriff’s Response: As previously stated, there is limited administrative staff due to space restrictions and budget limitations. The creation of an additional employment position, within the Finance Department, will offset internal controls, and the lack there of.

The Scott County Sheriff does not have adequate internal controls over donated funds: The sheriff did not have adequate internal controls over donated funds to ensure they were properly accounted for and maintained in compliance with applicable laws and regulations. The sheriff is not maintaining a register to document the receipt of donations. The sheriff received a donation of proceeds from a printing company for the creation and sales of advertising on a calendar promoting the Scott County Sheriff’s Office. The sheriff deposited these donated funds directly in a trust set up by a local bank for the benefit of former sheriff’s deputies injured in the line of duty. The sheriff is not maintaining receipts and disbursements ledgers for the donation account and did not consistently reconcile this account to its bank statements.

The sheriff is not in compliance with statutes regarding donations. When bank reconciliations are not regularly completed and ledgers are not maintained to compare to bank statements, the risk of fraud due to theft and reporting errors significantly increases.

KRS 61.310(8)(a) states, “[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum:

1. The name and address of the donor;
2. A general description of the donation;
3. The date of acceptance of the donation;
4. The monetary amount of the donation, or its estimated worth; and
5. Any purpose for which the donation is given.

The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours.”

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 bank reconciliations to be done monthly. Strong internal controls dictate monthly bank reconciliations to be completed on all bank accounts and receipts and disbursements ledgers be maintained to account for funds.

We recommend the sheriff strengthen internal controls over donations by doing the following:

- The sheriff (or his designee) should maintain a register available for public viewing, listing all donations received, including:
 - the name and address of the donor,
 - a general description of the donation,
 - the date of acceptance of the donation,
 - the monetary amount of the donation, or its estimated worth, and
 - any purpose for which the donation is given.
- The sheriff (or his designee) should deposit all funds donated to the Scott County Sheriff's office into the donation account including proceeds from sheriff's calendars.
- The sheriff (or his designee) should ensure that monthly bank reconciliations are performed and documented for the donation account.

Sheriff's Response: As previously stated, there is limited administrative staff due to space restrictions and budget limitations. The creation of an additional employment position, within the Finance Department, will offset internal controls, and the lack thereof.

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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