



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Former Bullitt County Sheriff's Office**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2016 financial statements of former Bullitt County Sheriff Dave Greenwell. 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 statements presents fairly the receipts and disbursements – regulatory basis of the former Bullitt County Sheriff and the receipts, disbursements, and fund balances of the former Bullitt County Sheriff's operating fund and county fund – regulatory basis in accordance with accounting principles generally accepted in the United States of America. The sheriff's financial statements did not follow this format. However, the sheriff's financial statements are 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 internal control over financial operations and reporting.

The audit contains the following comments:

**The former Bullitt County Sheriff did not have a written collateral security agreement to protect deposits:** This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The former Bullitt County Sheriff did not have a written collateral security agreement with one of his banks. The former Bullitt County Sheriff failed to get a written agreement with a depository institution when he opened multiple accounts with them. By not obtaining a collateral security agreement, the former sheriff's deposits were uncollateralized and uninsured as of January 5, 2016 and December 31, 2016, by \$4,388,509 and \$3,665,974, respectively.

According to 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. We recommend the sheriff's office enter into a written agreement with the depository institution to adequately pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

*Former Sheriff's Bookkeeper's Response: We have a written collateral security agreement now.*

**The former Bullitt County Sheriff had weak controls over payroll processing:** The following weaknesses were noted during payroll testing:

- The former sheriff's office lacked proper segregation of duties over payroll processing. The office manager prepared the excel file for each pay period to calculate payroll and uploaded it to the Kentucky Human Resource Information System (KHRIS) for payroll processing with no independent review to ensure pay rates were correct and payroll was calculated correctly.
- The former chief deputy did not have a timesheet for either pay period tested.
- Sick leave and vacation balances for employees were not maintained.
- Pay rates for employees were not entered into KHRIS.
- Seven timesheets were not signed by the employee's supervisor.
- Four employees' pay rates tested were documented in their personnel file, but there was no evidence of the former sheriff's approval of their pay rates.
- Seven employees' pay rates tested were not documented in their personnel file and there was no evidence of the former sheriff's approval of their pay rates.
- Four employees did not have evidence of their authorization for one or more payroll withholding amount.

The weaknesses over payroll processing occurred because the former sheriff did not implement control procedures over the payroll process to ensure time worked was documented and verified, withholdings were authorized, leave balances were tracked and accounted for, pay rates were authorized and documented in KHRIS, and payroll was calculated accurately. When controls over payroll are weak, employees can be paid incorrectly, either by incorrect hours or using a pay rate that is not authorized. Also, leave balances can be misstated.

KRS 337.320 states in part, "[e]very employer shall keep a record of: (a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee" and "[s]uch records shall be kept on file for at least one (1) year after entry." Strong internal controls dictate that timesheets should be kept for payroll verification, as a record of leave time used and overtime paid, and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. Furthermore, these documents are necessary to support accurate reporting to the Kentucky Retirement System and state and federal taxing authorities. Also, segregation of duties over payroll processing is essential to ensure correct pay rates are used and payroll is calculated correctly.

We recommend the sheriff's office implement procedures to ensure:

- Payroll is calculated by one employee and the sheriff or his designee reviews the calculations to ensure pay rates are correct and calculations are correct and that payroll is correctly entered into KHRIS.
- All employees submit timesheets each pay period.
- Sick leave and vacation leave balances are maintained for each employee by pay period.
- Pay rates for each employee are entered into KHRIS documenting each pay rate change throughout the year.
- Pay rate changes are documented in the employee's personnel file with evidence that the sheriff has authorized any pay rate changes.
- Supervisors sign all of their employees' timesheets each pay period.
- Withholdings authorizations are maintained for each employee to support the amounts withheld on their paychecks.

*Former Sheriff's Bookkeeper's Response: I think there is adequate control over Payroll.*

Auditor's Reply: Strong controls over payroll dictate the following: (1) a segregation of duties over payroll functions between the input of hours worked, calculation of payroll checks, changes in pay rates in the payroll system, and the issuance of payroll checks. If these controls are not segregated, to reduce the risk of misstatements in payroll due to errors or fraud, it is important that independent reviews be implemented and evidenced by reviewer's initials or signature; (2) all pay rate changes should be approved by the sheriff, with the approval evidenced in writing; and (3) all withholdings made from employees' payroll checks should be adequately supported and evidenced by written approval of the employee.

**The former Bullitt County Sheriff lacked adequate controls over drug buy funds:** The following control weaknesses were noted during the review of controls over and testing of drug buys:

- No independent reviews of balance sheet for drug buys.
- No independent cash counts were performed.
- No support for two withdrawals of cash from the former sheriff's bank account for drug buys; \$2,000 in August 2016, and \$4,000 in December 2016.
- The \$4,000 withdrawn for buy money, mentioned previously, was in the form of a check written to the lieutenant colonel for buy money, not to the bank or for cash.
- Some deputies had small amounts of cash they were holding for drug buys with no official policy on how much to keep, where to secure it when not in use, etc.
- No record or ledger is kept for each deputy performing drug buys to document and track how much money each deputy has on hand for drug buys, resulting in confusion over whether or not a deputy had \$1,000 to use on drug buys. The balance sheet maintained for funds received and used did not provide accurate descriptions for funds being given to a deputy to use and funds being returned when not used.

- The lieutenant colonel, who oversees drug buys, kept a balance in his records for each deputy for cash on hand, but did not maintain support for these balances.
- There was an error in tracking the use of \$1,000 for drug buys on July 29, 2016.

The former sheriff was not aware of significant controls needed over cash used for drug buys which should include:

- having ledgers prepared and maintain to document deputies' use of funds for drug buys to reflect the amount they have on hand,
- having ledgers reviewed for accuracy and completeness,
- having supporting documentation reviewed to ensure there is adequate documentation to show how funds are used, including if a deputy returns funds he has out for drug buys, and
- perform and document random cash counts, agreeing cash on hand to amount reported on the ledgers for that date.

Without implementing controls over cash used for drug buys, there is a significant risk that cash used for drug buys may be misappropriated. Strong internal controls dictate that cash used for drug buys and related transactions should be recorded accurately on ledgers, adequately supported with documentation showing use of funds or return of funds by deputy, and to ensure that cash on hand is secured in the sheriff's office, and agrees to the supporting ledgers.

We recommend the sheriff's office:

- Develop and implement policies to document how much funds each deputy performing drug buys is permitted maintain on hand at a time, including that the funds held should be maintained and secured in the sheriff's office at all times,
- Develop and implement a document for the lieutenant colonel to complete to request funds from the sheriff's bank account to use for drug buys.
- Ensure checks for drug buy funds are written to cash or to the bank, not a specific person.

We recommend the following for the sheriff or his designee:

- Develop and maintain ledgers for each deputy who performs drug buys, to calculate the balance of cash available, including the date and amount of each transaction they complete for drug buys and if they return any funds not used,
- Conduct and document independent reviews of the drug buy ledgers for each deputy to ensure they are complete and accurate, and
- Conduct and document independent cash counts for funds held by the deputies for drug buys.

*Former Sheriff's Bookkeeper's Response: A program was put into place by [sheriff's employee] and [sheriff's bookkeeper] where [sheriff's employee] is the only person to get money and has to keep records on who he gives money to. Both parties have to sign off on the receipts.*

**The former Bullitt County Sheriff had weak controls over secondary employment:** The former Bullitt County Sheriff did not maintain disclosures of outside employment for employees as is required by his office policy on secondary employment. The auditor was told by a sheriff's employee that he and another employee had outside employment in 2016. Upon review of the outside employment disclosures, the auditor did not find disclosures for those two employees. There were a few disclosures provided by the chief deputy, additional disclosures provided by another sheriff's employee, and a few noted in personnel files.

The former Bullitt County Sheriff did not adhere to his office secondary employment policy, resulting in increased risk that sheriff's employees worked outside employment and did not notify and receive approval from their supervisors, and that the employees could have worked their outside employment while reporting that they worked time for the sheriff's office so they could have been paid by both employers for the same hours worked.

The former sheriff's secondary employment policy requiring those deputies with outside employment to provide written notice to describe the type of work performed and the maximum number of hours per week the employee will engage in the outside employment. Also, the policy required the employee to receive approval of the employment through their chain of command and final approval by the sheriff. (Section IV, B, C).

We recommend the sheriff's office review the secondary employment policy with all employees and ensure that each employee who has outside employment completes a disclosure and obtains written approval from the supervisor and the sheriff, according to the policy. We also recommend the sheriff ensure all outside employment disclosures are kept on file for all employees.

*Former Sheriff's Bookkeeper's Response: We now have a plan in place to control outside employment.*

**The former Bullitt County Sheriff issued a \$3,000 check to the former chief deputy:** The former Bullitt County Sheriff issued a check in the amount of \$3,000 to the chief deputy in January 2016 from the state drug fund bank account. The check did not have any supporting documentation. The chief deputy's employment was terminated in October 2016. The former Bullitt County Sheriff did not have procedures in place to ensure that all checks written were supported by reasonable and adequate documentation.

Strong internal controls dictate that all checks issued should have supporting documentation maintained on file that reasonably and adequately supports the expenditure. We question the legitimacy of this payment and we recommend the sheriff's office implement a policy to ensure all checks issued have reasonable and adequate supporting documentation on file.

*Former Sheriff's Bookkeeper's Response: This process now has a procedure to keep this from happening again.*

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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