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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the October 1, 2018 – January 6, 2019 financial statement of interim Henry County Sheriff Deeanne West. 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 interim Henry County Sheriff in accordance with accounting principles generally accepted in the United States of America. The interim sheriff's financial statement did not follow this format. However, the interim 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 interim sheriff failed to have a written agreement in place to ensure deposits were sufficiently collateralized: The interim sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The interim sheriff failed to have a written security agreement in place to pledge or provide sufficient collateral. On January 6, 2019, the interim sheriff's deposits of public funds were uninsured and unsecured in the amount of $8,936.

The interim sheriff did not put the necessary procedures in place to ensure the protection of public funds from potential loss. As a result, the interim sheriff was not in compliance with KRS requirements on having a written security agreement in place to pledge or provide sufficient collateral. The interim sheriff's deposits would have been at risk on January 6, 2019, should the financial institution have failed.

Good internal controls dictate that the policies and procedures be put in place protect the public funds maintained by the office from potential loss and to ensure compliance with applicable laws and regulations. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the FDIC.

We recommend the sheriff's office implement proper controls to ensure the protection of public funds from potential loss by entering into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 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 further recommend the sheriff's office require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Interim County Sheriff's Response: *Banks have been informed.*

The interim sheriff's office had a deficit of $18,391: The interim sheriff had a deficit of $18,391 in her official 2018 fee account. The deficit was due to the sheriff's office not being able to reimburse the fiscal court for the full amount owed for payroll expenses for calendar year 2018. The interim sheriff paid the payroll reimbursement for the prior sheriff during her term of October 1, 2018 through January 6, 2019. The fiscal court paid the sheriff's office payroll directly from the payroll revolving account and the sheriff's office would reimburse fiscal court when funds were available instead of making bi-weekly payroll payments. By not submitting bi-weekly payroll payments to the fiscal court, the sheriff's office failed to monitor allowable operating expenditures (payroll expenses) that resulted in expending more on allowable operating expenditures than income earned. Thus, funds were not available to settle all payables owed by the sheriff's office to the fiscal court for payroll expenses. Good internal controls dictate the sheriff's office should have monitored operating expenditures to ensure they did not exceed available revenues or have a deficit in the official fee account. We recommend the sheriff's office consult with the fiscal court and county attorney to determine how to eliminate this deficit. We also recommend the sheriff's office submit bi-weekly payroll payments to the treasurer instead of reimbursing payroll at year-end.

Interim County Sheriff's Response: Overspending by the previous sheriff and lack of budgeted receipts from fiscal court led to deficit.

The interim Henry County Sheriff's fourth quarter financial statement was materially inaccurate: The interim Henry County Sheriff's fourth quarter financial statement, for the period October 1, 2018 through December 31, 2018, was materially inaccurate. The receipts and disbursements were both overstated by $343,459. Adjustments were required so that the fourth quarter would match the sheriff's ledgers. This was due to an error when preparing the fourth quarter financial statement that was presented to fiscal court. The financial statement that was approved by fiscal court included the first, second, and third quarters of the year. These receipts and disbursements occurred under the prior sheriff and are reported separately. The fourth quarter receipts and disbursements were accurate, but because the financial statement included the first, second, and third quarters, the financial statement was materially misstated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires the official to certify that the quarterly report is accurate to the best of their knowledge when they sign the quarterly report. Fee officials use a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws. Each period stands alone in accounting for receipts and disbursements and should be accounted for accordingly in each audit period.

We recommend the Henry County Sheriff's office maintain accurate financial reports, and separate receipts and disbursements by audit period in the future.

Interim County Sheriff's Response: Interim sheriff was informed by DLG that she could work from the previous sheriff's budget and was not told until February of 2019 that she could have worked from her own budget.

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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