



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Knox County Sheriff Mike Smith. 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 Knox 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 did not segregate accounting duties or document compensating controls: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The sheriff's office did not segregate accounting duties. In addition, no documentation was provided as evidence that compensating controls were implemented. The sheriff's office manager collects payments from customers, prepares bank deposits, issues checks, and posts to the receipts and disbursements ledgers. The sheriff's part-time bookkeeper prepares bank reconciliations, prepares payroll, and occasionally collects payments from customers. Front line office personnel prepare their own deposits but the office manager takes them to the bank. Neither the office manager nor the part-

time bookkeeper are authorized check signers but both are responsible for preparing monthly and quarterly reports. No evidence was found that the sheriff or an employee who did not prepare the report provided oversight over any of these activities. Additionally, the sheriff hired an outside Certified Public Accountant (CPA) to review the quarterly reports for accuracy, but no evidence of the review was found.

The sheriff stated this condition is the result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government (DLG).

Proper segregation of duties over various accounting functions such as opening 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.

We recommend the sheriff separate the duties involved in receiving cash, posting to ledgers, and preparing reports. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure. For example, the sheriff could instruct a person independent of receipts posting and bank reconciliation to compare bank deposit ticket to daily checkouts and show evidence of this review by initialing the deposit ticket and the daily checkout. Additionally, the sheriff or someone independent of report preparation could compare the monthly/quarterly reports to the supporting documentation.

County Sheriff's Response: Due to a limited budget, the sheriff's office is restricted on the number of employees that can be hired.

The sheriff does not have proper controls over payroll: The Knox County Sheriff does not have sufficient controls over payroll disbursements. The following deficiencies were noted while testing one pay period:

- The sheriff did not pay an employee for 8 hours worked during the pay period.
- The sheriff improperly paid overtime to two employees that was not earned due to holiday during the pay period.
- The sheriff submitted a court service claim to the Finance and Administration Cabinet for hours not worked.
- One employee's vision insurance plan was not deducted from their wages.

These deficiencies were caused by the lack of review and segregation of duties. Multiple employees were not properly compensated during the pay period tested. Additionally, the sheriff's office was improperly reimbursed by the Finance and Administration Cabinet for hours not worked. Discrimination in benefits existed in the sheriff's office as a result of an employee receiving free benefits that were not afforded to anyone else. Also, one employee was receiving vision insurance without paying their portion of the premium.

Segregation of duties along with properly designed and implemented internal control procedures allow employees to detect errors with payroll and ensure all time worked is calculated correctly and employees pay for extra insurance benefits not provided by the county.

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 forty (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 Fair Labor Standards Act states, “Unless exempt, employees covered by the Act must receive overtime pay for hours worked over 40 per workweek (any fixed and regularly recurring period of 168 hours - seven consecutive 24-hour periods) at a rate not less than one and one-half times the regular rate of pay. The FLSA does not require overtime pay for work on Saturdays, Sundays, holidays, or regular days of rest, unless overtime is worked on such days.

The official’s administrative code, KCSO-4a D. states, “When it is essential for an employee to work on a declared holiday, he/she shall be compensated for actual hours worked at regular rate.”

We recommend the sheriff ensure timesheets and reimbursement claims support hours worked and hours paid. Furthermore, the sheriff should follow all applicable statutes and the official’s administrative code regarding overtime pay. We also recommend the sheriff ensures employees are paying their portion for insurance benefits not provided by the county.

County Sheriff’s Response: Additional procedures have been implemented to ensure accuracy regarding these minor bookkeeping issues.

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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