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Harmon Releases Audit of Laurel County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Laurel County Sheriff John Root. 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 Laurel 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.

Finding 1 of the audit report will be referred to the Office of the Attorney General.

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 Laurel County Sheriff's Office did not issue receipts for all auto inspections: The sheriff's office collects \$5 fees for inspecting vehicles during the title application process. These funds are to be deposited into the sheriff's official account and used for the lawful purposes of the office. For the first six months of 2018, auditors were unable to find where any auto inspections performed by a former deputy were deposited into the sheriff's official bank account for two auto dealerships. A sample of the vehicle transaction reports that included the auto inspector's sections were

reviewed during this period and could not be traced to receipts in the sheriff's office for the day the inspections were completed. As an example of days selected for testing, the following were noted:

- On January 3, 2018, 40 auto inspections were performed that could not be traced to the sheriff's pre-numbered receipts. This results in \$200 not being received by the sheriff's office.
- On January 15, 2018, 25 auto inspections were performed that could not be traced to the sheriff's pre-numbered receipts. This results in \$125 not being received by the sheriff's office.
- On June 22, 2018, 11 auto inspections were performed that could not be traced to the sheriff's pre-numbered receipts. This results in \$55 not being received by the sheriff's office.

Auditors also obtained confirmations from the two auto dealerships which confirmed that payments were not made to the sheriff's office during this time period.

The sheriff's office lacked adequate internal controls over the auto inspection receipt process which allowed auto inspections to be performed without issuing receipts to customers and without these funds being deposited.

As a result, the auto inspection receipts were not available to help fund the operations of the sheriff's office. Based on the sample of transactions reviewed and reported above, \$380 was not deposited into the sheriff's official bank account.

KRS 186A.115(2)(b) affixes the fee for automobile inspections at \$5, payable to the sheriff's office. In addition KRS 64.840(1) requires "all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, [to] prepare a receipt that meets the specifications of the state local finance officer[.]"

The sheriff's office should have collected the \$5 receipt for performing auto inspections. We recommend the sheriff implement adequate internal controls to ensure that all receipts of the office are promptly deposited into the fee account and that all deputies are aware of the proper procedures for auto inspections. Furthermore, the sheriff should reimburse the fee account \$380 to cover the amount of undeposited auto inspections. This finding will be referred to the Kentucky Office of the Attorney General.

Sheriff's Response: As stated above this was a former employee, issue has been addressed and corrected.

The Laurel County Sheriff's Office did not comply with competitive bidding requirements for federal awards: The Laurel County Sheriff's Office did not properly procure the purchase of three new vehicles totaling \$162,870. The dealership did not currently have the state bid contract for these types of vehicles. Additionally, for calendar year 2018, the sheriff's office did not properly bid for emergency lighting and equipment that was for police cruisers, totaling \$194,300.

Sufficient internal controls were not in place over the procurement process to ensure items were not purchased from vendors without first advertising or receiving bids when necessary. For the new vehicles purchased, the sheriff thought that the dealership used held the state bid contract. The sheriff did advertise for bids for emergency equipment; however, the submitted bids did not match the paid invoices for the emergency lighting and equipment.

Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the sheriff's office may not get the benefits of the best price available. Also, the sheriff's office may not be in compliance with federal and state requirements.

2 CFR Part 200, Appendix XI Compliance Supplement states, "[w]hen procuring property and services, States must use the same policies and procedures they use for procurements from their non-federal funds."

According to the Laurel County Fiscal Court's Administrative Code, Section 4-2 Selection of Vendors and Contractors states "C. The Judge Executive shall place an advertisement in the newspaper of largest circulation in the county at least once, not less than seven (7) not more than twenty-one (21) before bid opening. The advertisement shall include the time and place they will be opened, and the time and place where the specifications may be obtained. If the durability of the product, the quality of service or other factors are to be considered in bid selection, such factors shall be stated in the advertisement. D) The Judge Executive shall open all bids publicly at the time and place stated in the advertisement; and shall select the lowest and best bid by a qualified bidder. If the lowest bid is not selected, the reasons for the selection shall be in writing." In addition, the Statutory References section of the Administrative Code for Purchases and Contracts references KRS 424.260.

KRS 424.260(1) states, in part, "no city, county...or sheriff, or county clerk may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids."

We recommend the Laurel County Sheriff's office follow proper procurement procedures by either advertising for bids on purchases over the amount specified in KRS 424.260 or making the purchase from the state price contract vendor. Furthermore, the sheriff's office should compare invoices to the submitted bids to ensure they are billed properly.

Sheriff's Response: The dealer was not a state contract bidder but however did give pricing at the state rate or possibly lower. No more money was spent with this dealer than a contracted dealer.

Auditor's Reply: When purchasing using the state price contract, the sheriff is required to use the dealership that was awarded the state price contract. Otherwise, the sheriff should follow the procurement procedures outlined in the county's administrative code.

The Laurel County Sheriff reported an issue pertaining to timesheets to auditors: The Laurel County Sheriff disclosed an issue discovered by his office pertaining to timesheets not being

accurate. During calendar year 2018, the Laurel County Sheriff's Office received reimbursement from the state via federal grant for overtime hours pertaining to highway safety enforcement. Deputies are required to submit activity logs for additional hours worked to the supervisor overseeing the grant reimbursement process and submit timesheets to their direct supervisor. A total of 1,941 hours of highway safety activity were claimed on employees' timesheets; however, only 1,775 hours were documented by employees for a total variance of 166 hours. This is a repeat finding from the prior year audit report in Finding 2017-001.

The Laurel County Sheriff informed auditors that timesheets were not agreed to activity reports for highway safety overtime, and that one employee had falsely claimed hours on timesheets and could not provide supporting documentation. The sheriff indicated this was detected after an employee attended training and heard about possible payroll problems related to grants. This employee took steps to review payroll records of the sheriff's office after this training, which detected the problem. A lack of control over the overtime reimbursement process prior to the issue being detected caused the sheriff's office to pay for overtime without supporting documentation. Employee timesheets were approved and signed by a direct supervisor and sheriff; however, no supporting documentation for reimbursement of overtime was maintained with timesheets. Additionally, employees submitted overtime reimbursement forms without a timesheet to the supervisor responsible for obtaining grant reimbursement for the overtime worked.

Employees of the Laurel County Sheriff's Office receive compensatory time for regular overtime worked and are only paid overtime if it qualifies as part of one of the reimbursement programs. The lack of control over the overtime reimbursement process resulted in the sheriff's office paying for overtime and not being reimbursed. Once detected, the sheriff took action to address this situation, and appropriately reported this weakness to the auditor. In addition, the sheriff implemented additional controls by requiring deputies when they work highway safety overtime to attach the federal overtime request form and a copy of each citation written to their timesheet.

Good internal controls over payroll require supporting documentation for all hours worked and reconciliation of timesheets to overtime reports.

The Laurel County Sheriff's Personnel Policy states, "[c]ompensatory time is paid leave awarded to a full time employee in lieu of overtime pay as compensation of a work week of greater than 40 hours."

We recommend the Laurel County Sheriff continue to strengthen internal controls over the Highway Safety grant payroll reimbursement process by requiring the immediate supervisor to review overtime reimbursement worksheets when approving timesheets and the grant program supervisor to review timesheets when requesting reimbursement of overtime.

Sheriff's Response: As stated above I reported the problem to auditors. I dismissed and prosecuted the employee. Restitution is being made to the office that was ordered by the court. All citations must now be included with overtime requested forms and reviewed by two different individuals.

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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