



Auditor of Public Accounts  
Mike Harmon

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Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
502.564.5841  
502.209.2867

### **Harmon Releases Audit of Laurel County Sheriff's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2020 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.

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 have strong controls over disbursements:** Internal controls over disbursements were not operating as intended during calendar year 2020. The following exceptions were noted:

- The sheriff's office did not advertise for bids and spent over the bid threshold amount for the following: Uniforms from one vendor for \$96,480, emergency equipment for new police

cruisers from one vendor in the amount of \$44,687, and the purchase of guns from two vendors in the amount of \$49,135.

- Three invoices were paid 30 days after the date on the invoice.

These deficiencies were allowed to occur due to lack of oversight and proper review of supporting documentation.

By limiting competition or not receiving bids at all, the sheriff's office may not get the benefits of the best price available. Competitive bidding ensures the sheriff's office procures equipment and services at the best price available.

KRS 424.260(1) states, in part, "[e]xcept where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or 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 (\$30,000) without first making newspaper advertisement for bids."

KRS 65.140 requires "invoices to be paid within 30 days of being received."

We recommend the sheriff monitor disbursements to ensure procurement procedures are followed and implement proper internal controls over disbursements and ensure they are operating effectively.

*County Sheriff's Response: The sheriff did not provide a response.*

**The Laurel County Sheriff did not have a written collateral security agreement with depository institution:** The sheriff's bank account balances exceeded the \$250,000 Federal Deposit Insurance Corporation (FDIC) coverage provided by his bank. The bank had obtained pledges for the sheriff's accounts, however, he did not have a pledge agreement making the pledges valid. On December 31, 2020, the sheriff's bank balances were \$1,928,103. FDIC coverage through his bank was \$250,000, leaving \$1,678,103 unsecured.

The sheriff and bookkeeper were unaware they needed to sign a written collateral security agreement for the new bank they started using during calendar year 2020.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. \$1,678,103 of the sheriff's deposits were at risk with no agreement with the bank.

The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Manual* strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by FDIC insurance (\$250,000). In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the

depository institution, signed by both parties that is (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 a pledge agreement be obtained from the bank for the bank account balances exceeding the \$250,000 FDIC coverage. If the bank is unable or unwilling to do this, then uncovered accounts should be moved to another bank that will meet the requirements.

*County Sheriff's Response: The sheriff did not provide a response.*

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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