



Auditor of Public Accounts
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Harmon Releases Audit of Metcalfe County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Metcalfe County Sheriff Rondal Shirley. 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 Metcalfe 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 non-compliance 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 paid \$65 in disallowed disbursements for penalties and interest. During calendar 2015, the sheriff paid out of his 2015 fee account penalties and interest payments of \$16 and \$49 to the Internal Revenue Service and the State Treasurer, respectively.

Lack of internal controls and oversight of the payroll wage/withholding reporting process contributed to wages being incorrectly reported to tax agencies. Paying penalties and interest fees which are not necessary or beneficial to the public reduces the amount of operating funds for the sheriff's office, or reduces the amount of excess fees paid to the fiscal court, or both. The

penalty and interest charges paid are unnecessary and not beneficial to the public. As a result, they have been disallowed.

Good internal controls dictate that the sheriff should monitor all disbursements to ensure compliance with state laws and regulations and to ensure payments are timely and accurate to avoid penalties. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursement of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend the sheriff deposit personal funds of \$65 to reimburse his 2015 fee account for these disallowed disbursements. We also recommend in the future the sheriff's office disburse funds for official purposes and that these disbursements be necessary for the operation of the office, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature.

Sheriff's response: This money will be paid back into the account. New payroll program will eliminate this from happening again.

The sheriff's office lacks internal controls and adequate segregation of duties over the payroll process. The sheriff's office manager/bookkeeper prepares individual earning records, all payroll checks, all withholding and wage reports, and all payments to the appropriate agencies.

The sheriff's withholding and wage reports and payments for calendar year 2015 contained the following errors:

- Individual earnings records did not agree to the withholdings/wages reported and paid to the fiscal court. Insurance withholdings were underpaid by \$805, retirement withholdings were underpaid by \$46. These amounts were turned over with excess fees and /or adjusted on financial statement. In addition, county taxes were overpaid by \$2.
- The individual earning records did not agree to the withholdings/wages reported and paid to the Internal Revenue Service for federal and FICA withholdings, the state of Kentucky for state taxes, and the City of Edmonton for city taxes. The sheriff overpaid the Internal Revenue Service by \$83, overpaid the State of Kentucky by \$187, and the City of Edmonton by \$16.

In addition, the sheriff's office does not have a written policy regarding employee vacation and sick leave earned and used during the year.

The sheriff's office lacks proper controls and oversight over the preparation of payroll and withholding reports and payments. Failure to reconcile total payroll amounts each month to the individual earning records and monthly reports has resulted in under/over reporting of wages and payment of withholdings to the appropriate agencies.

KRS 141.330 states that every employer who fails to withhold or pay the department any sums required to be withheld and paid shall be personally liable. In addition, segregation of duties over payroll preparation and wage/withholding reports and payments, or the implementation of compensating controls, is essential to protect from asset misappropriation and inaccurate financial reporting. Proper segregation of duties also protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff strengthen internal controls over the payroll process. This includes separating the duties of preparing payroll, payment of payroll, reporting wages/withholdings to appropriate agencies and payment to those agencies. If that is not feasible due to a limited budget and staff, cross checking procedures on wage/withholding reports with individual earning records before payments are made could be implemented and documented by the individual performing the procedure. In addition, the sheriff should implement a written policy over vacation and sick leave and track leave balances. The county attorney could review the policy for compliance with laws and regulations.

Sheriff's response: We have new payroll system that will take care of these kind of errors.

The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and the reconciliation process. The sheriff's office has a lack of segregation of duties over receipts, disbursements, and the reconciliation process. The office manager/bookkeeper collects receipts, prepares deposits, prepares daily checkout sheets, prepares and signs checks, and prepares financial statements and monthly reports. She also posts to the ledgers and reconciles the bank statements. The sheriff has instituted some review processes such as periodic documented reviews of daily checkouts and deposits by other office staff. However, no documented evidence was found of reviews of ledgers, monthly reports, and bank reconciliations.

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

The 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 involving receipts, disbursements, preparation of monthly reports, preparation of financial reports, and bank reconciliations. If that is not feasible due to a limited number of staff, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the sheriff could also provide the oversight. The individual providing the oversight should initial source documents as evidence of this review.

Sheriff's response: No 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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