



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Former Pendleton County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the January 1, 2018 – January 6, 2019 financial statement of former Pendleton County Sheriff Craig Peoples. 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 former Pendleton County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former 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 former sheriff exceeded approved budgeted appropriations for both official expenses and salaries for deputies and assistants in calendar year 2018: The former Pendleton County Sheriff's operating expenditures exceeded the budgeted amount approved by the Pendleton County Fiscal Court for calendar year 2018. The fiscal court approves the sheriff's budget by line item. The following expenditure line items exceeded the budget:

Expenditure Account

Amount Over Budget

- Sheriff's Gross Salary \$1,822
- Training Fringe Benefit 85
- Deputies' Gross Salaries 10,378
- Overtime Gross Salaries 1,966
- Transport Salaries 793
- School Resource Officer 17,639
- Court Security Salary 1,613
- KLEFPF 874
- Vehicle Maintenance and Repairs 8,972
- Gasoline 1,331
- Miscellaneous 5,457
- Computer and Copier 34
- Courthouse General Fund 220
- Payments to County Treasurer 8,027
- CCDW Fees 735

The former sheriff also exceeded the maximum salary limitation established by the fiscal court for the salaries of deputies and assistants by \$32,495. The salary limitation was set at \$386,903 for calendar year 2018; however, the former sheriff expended \$419,398.

The former sheriff did not adequately monitor his budget throughout the year ensuring that budgeted expenditures were within prescribed limits. Failure to monitor the budget throughout the year led to the former sheriff overspending his approved budget. Failing to properly monitor budgets could also lead to cash deficits in the sheriff's operating account.

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 fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year.

KRS 64.530(3) states, "the fiscal court shall fix annually the reasonable maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." The sheriff is to ensure that salaries for deputies and assistants do not exceed that fixed amount.

We recommend the Pendleton County Sheriff's office properly monitor expenses related to operations and payroll to ensure they do not exceed budgeted amounts that have been approved or fixed by the fiscal court for the calendar year. If the sheriff anticipates the necessary expenses of the office are going to exceed the budgeted amounts, we recommend that he obtain an approved budget amendment from the fiscal court prior to the end of the calendar year.

Former Sheriff's Response: All budget overages expenditures were approved by the fiscal court by amendment. At the time the budget is approved the sheriff's salary is based on current year

until DLG puts out a new salary in February. During the year an additional SRO was hired and approved by fiscal court.

Auditor's Reply: The budget amendments provided were approved after the end of the calendar year. As recommended, the sheriff's office should monitor the budget throughout the year and have all amendments approved before the end of the calendar year.

The former sheriff's office lacked adequate segregation of duties over receipts and disbursements: During our review of internal controls, we discovered the former sheriff's office lacked adequate segregation of duties over receipts and disbursements. All employees of the former sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements ledger. The former sheriff and office manager are the only authorized check signers. The former sheriff does not require dual signatures on checks; however, the office manager generally signs checks. This is a repeat finding and was included in the prior year audit report as Finding 2017-001.

According to the former sheriff, due to the office having a small staff comprised of three full time employees, it is very difficult to segregate duties over receipts and disbursements. Lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, the risk that undetected errors or fraud could occur increases. This could also result in inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. If adequate segregation of duties is not possible, compensating controls by means of strong official oversight can be implemented to mitigate risks associated with the weakness. Examples of official oversight are:

- The sheriff could periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger when prepared by another employee. The sheriff would document this review process by initialing the daily checkout sheets and deposit slips.
- The sheriff could review the quarterly financial report and compare amounts reported on the receipts and disbursements ledger.
- Bank statements could be reconciled regularly by another person. If this is not possible, the sheriff could review the bank reconciliation and document the review process by dating and initialing the bank statement, along with the reconciliation sheets.

We recommend the sheriff's office adequately segregate duties over receipts and disbursements as outlined above. If the sheriff cannot feasibly separate the processes, we recommend that he implement compensating controls to offset this weakness with strong management oversight.

Sheriff's Response: This information will be passed on to new sheriff. As this office also does law enforcement duties it is not always feasible for someone to do what is outlined. Any check written for over \$500.00 had the sheriff's signature. I always reviewed the monthly receipts and disbursement reports as well as the quarterly reports.

The former sheriff expended funds for unallowable purposes, and also had unsupported expenditures resulting in disallowed expenditures of \$4,491: Over the past years, the former sheriff operated and maintained a Cop & Court account that he stated was for the Shop With a Cop Program. During calendar 2018, this account had a beginning balance of \$3,096, deposits of \$2,860, which the sheriff stated were probably donations, interest of \$5, and disbursements of \$5,961. The disbursements consisted of two donations to the Kentucky Sheriff's Boys and Girls Ranch totaling \$1,660, and one check, payable to "Cash", in the amount of \$4,301 to close out the account.

The amount received by the sheriff for donations did not have any supporting documentation on who the donations were from, what they were to be used for, and were not accounted for in any type of ledger. The check written to cash did not have supporting documentation on how \$2,831 was spent, what it was used for, or where the funds went. Subsequent to the exit conference, the former sheriff provided supporting documentation for \$1,470 of expenditures, leaving \$4,491 of personal funds due to the fee account.

KRS 61.310(8)(a) states:

[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office if the sheriff establishes a register for recording all donations that includes, at a minimum:

1. The name and address of the donor;
2. A general description of the donation;
3. The date of acceptance of the donation;
4. The monetary amount of the donation, or its estimated worth; and
5. Any purpose for which the donation is given.

The register shall constitute a public record, be subject to the provisions of KRS 61.870 to 61.884, and be made available to the public for inspection in the sheriff's office during regular business hours.

Also, KRS 68.210 authorizes the state local finance officer to establish minimum accounting requirements for handling public funds. These requirements include maintaining receipts and disbursements ledgers.

Using donated funds to donate to the Kentucky Sheriff's Boys and Girls Ranch does not meet the criteria of being used for the public purpose of the sheriff's office as required by KRS 61.310(8). Furthermore, without proper supporting documentation, the allowability of a check written to cash cannot be determined. Therefore, the donations made to the Kentucky Sheriff's Boys and Girls Ranch and the check written to cash that lack supporting documentation, are considered

unallowable expenditures and are disallowed. If the former sheriff was collecting donations specifically for charitable purposes rather than public purpose donations contemplated in the statute, those charitable donations are not a function of the sheriff's office and should be handled outside the work of the sheriff's office as private activities.

The sheriff understood the requirements but wanted all collections to be in an account that would be audited.

We recommend the former sheriff deposit personal funds of \$4,491 to reimburse the sheriff's office for these disallowed expenditures. We also recommend the sheriff's office properly account for donations and ensure all expenditures are for allowable purposes and are properly supported. Any charitable activities that are outside the sheriff's statutory duties, should be handled privately, not through public accounts during official business hours.

Former Sheriff's Response:

- *All donations at request of donor were made anonymously.*
- *Funds were received, deposited and expended per donor request with the understanding as to what the donation was for and how it was spent.*
- *No funds for this account were comingled with the sheriff's fee or tax account. This account had no bearing on the day to day operations of the sheriff's office.*
- *All funds were used to foster a relationship with families in the community that were in need and to support the kids from Pendleton County who attended the Kentucky Sheriffs Boys and Girls Ranch. The expenditures in this account does in fact serve the public by forming bonds between law enforcement and our youth.*
- *Neither the sheriff nor anyone with in the office gained financially from the monies in this account.*
- *This account is charitable in nature. However it was more convenient for the donors to come to the office to make their donation. All functions of performing our "shop with a cop" program were done outside of office hours. KRS 61.310(8)(b) states "any donation to a sheriff shall only be used to further the public purpose...". The COPS office states that "Community policing begins with commitment to building trust and mutual respect between police and communities." Which is what our program does therefore serving a public purpose. The account did not support our office in any fashion of its operation but to serve a public need for under privileged children.*
- *All donations were for charitable purposes and with the exception of donors coming to the office to drop off donations and parents dropping off child's name the shopping with the kids took place outside of office hours and outside the scope of our everyday LE activities.*
- *These are not "public funds" for a law enforcement purpose but as a community outreach.*
- *Attached are receipts and letters that our merchants were able to come up with from that date. The purchases are not all inclusive as to the fact some of them were not able to provide us with duplicates from that date.*
- *A police officer is paired with one or more children and is given an envelope for each with a certain amount money inside. The LEO takes the child to which ever and however many stores that they wish or have money for. The officer pays for the item*

until all money is spent, the merchant would mark the receipt as "shop with a cop" should the item need to be exchanged therefore not allowing cash to be returned. This receipt is given to the child/parent and not kept by the officer.

- *Should the incoming sheriff desire to continue with a similar program he will be advised of the issues.*

The former Pendleton County Sheriff did not have adequate controls over receipts: Auditors tested one week of receipts and noted the following issues:

- Collections from April 20, 23, and 24, totaling \$855, were deposited on April 25, 2018;
- Collections from April 25, 26, 27, and 30, totaling \$11,751, were deposited on April 30, 2018;
- Sixteen receipts did not include the date of collections;
- Three receipts did not specify whether payment was by cash or check; and
- One receipt in the sequence was missing.

This is a repeat finding and was included in the prior year audit report as Finding 2017-002.

It was the practice of the sheriff's office to make deposits only when collections were significant, due to limited staff. Controls were not in place to ensure receipts included all information and were maintained in the daily packets.

Failure to properly account for daily receipts increases the risk for misappropriation of assets. This condition could also result in inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, which outlines minimum requirements for handling public funds, requires officials to issue receipts and deposit daily intact into a federally insured banking institution.

We recommend the sheriff's office properly account for daily receipts by ensuring they are batched, posted to a daily checkout sheet, and deposited daily. We further recommend the sheriff ensure all required information is listed on manual receipts and that copies of all receipts are maintained.

Sheriff's Response: At the time of this response I did not have access to the dates of deposits in question, so I cannot speak to this specifically. The new sheriff will be advised of what actions are needed.

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](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

