



Auditor of Public Accounts  
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### **Harmon Releases Audit of Pendleton County Sheriff's Fee Account**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the January 7 – December 31, 2019 financial statement of Pendleton County Sheriff Edwin Quinn. 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 Pendleton 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's office does not have adequate segregation of duties:** The sheriff's office does not have adequate segregation of duties over receipts and disbursements. All employees of the sheriff's office can 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 disbursements including payroll and posts to the disbursements ledger. The sheriff and office manager are the only authorized check signers. The sheriff does not require dual signatures on checks; however, the sheriff generally signs checks.

According to the sheriff, due to the office having a small staff, it is very difficult to segregate duties over receipts and disbursements. By having the same employee primarily perform these functions, the risk that undetected errors or fraud could occur increases.

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, he could implement compensating controls to offset this weakness with strong management oversight.

*County Sheriff's Response: Sheriff to look over daily check outs and compare to deposit slips.*

**The sheriff failed to remit his amended fourth quarter report to the Department for Local Government:** The final fourth quarter report the sheriff presented to the Department for Local Government (DLG) differed from the amended quarterly report presented to fiscal court. Receipts on the fourth quarter report presented to DLG were understated by \$37,319 while disbursements were understated by \$59,560. Controls were not in place to ensure an amended fourth quarter report was submitted to DLG. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to submit quarterly reports to the DLG by the 30<sup>th</sup> day following the close of each quarter. We recommend the sheriff ensure that all quarterly financial reports are accurate prior to submission to DLG. If changes are made and presented to the fiscal court an updated copy should be remitted to the DLG.

*County Sheriff's Response: Act more promptly when submitting reports to Frankfort.*

**The sheriff should not run charitable accounts through his office that do not serve a public purpose associated with a regular function of the sheriff's office:** The sheriff maintains a Cops & Kids account that is run through his office for the Shop with a Cop Program. This account does not serve a public purpose associated with the regular function of the sheriff's office. During testing of expenditures, the auditor noted a check written to cash for use at the Shop with a Cop

event. This account had a beginning balance of \$0. Funds received during the year totaled \$5,705 and expenditures totaled \$2,816 leaving a balance of \$2,889 as of December 31, 2019.

The sheriff wanted collections to be included in an account separate from the fee account. The sheriff is accepting and using donations that do not meet the acceptable uses under law that require donations to a sheriff to only be used to further the public purpose of their office.

KRS 61.310(8)(a) states, in part, “[a] sheriff may accept a donation of money or goods to be used for the public purposes of his or her office[.]” KRS 61.310(8)(c) states, “[a]ll donations made in accordance with this subsection shall be expended and audited in the same manner as other funds or property of the sheriff’s office.”

Accounts should meet the minimum requirements of Funk vs. Milliken. Good internal controls dictate that disbursements be made by check to ensure that all transactions are allowable, necessary, properly supported and reviewed by management. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. Per the manual, “disbursements by check only.”

We recommend this activity not be performed during regularly scheduled work hours and should be operated completely external to the sheriff’s office. The activity could be administered by a private or not for profit entity, such as the Kentucky Sheriff’s Association. We also recommend that the sheriff discontinue writing checks to cash and disbursement should be made by check in accordance with DLG’s manual.

*County Sheriff’s Response: Sheriff will work to close account in the near future in an effort to be in compliance with audits.*

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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