



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of former Leslie County Sheriff Delano Huff. 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 Leslie County Sheriff in accordance with accounting principles generally accepted in the United States of America. Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts (APA), Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

The former Leslie County Sheriff did not maintain adequate accounting records to support the financial statements. This prohibited us from applying procedures to obtain sufficient appropriate audit evidence necessary to render an opinion. The financial statement presented within this report is the unadjusted fourth quarterly financial report submitted to the Department for Local Government.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

This audit will be referred to the Leslie County Attorney.

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 Leslie County Sheriff's quarterly report was not supported by accounting records, quarterly reports were submitted late, and he did not make settlement with the fiscal court: The former sheriff's fourth quarterly report was not an accurate representation of the financial activity of the former sheriff's office for calendar year 2018. Multiple items were incorrectly classified, mathematical errors were present, and the same items were posted multiple times. The former sheriff was unable to produce receipts and disbursements ledgers to support the amounts on the report. The fourth quarterly report was dated April 26, 2019, while it was required to be submitted to the Department for Local Government (DLG) by January 30 following the year-end. Also, the former sheriff did not submit his original budget, second quarterly report, or third quarterly reports to DLG. Furthermore, the former sheriff did not make a settlement with the fiscal court.

Due to a lack of financial records, the quarterly report could not be verified; therefore, auditors are unable to express an opinion on the former sheriff's financial statement.

The former sheriff was unable to produce supporting documentation for the fourth quarterly report. The former sheriff's bookkeeper was unavailable, and the former sheriff was unable to obtain any information from the electronic accounting system. Without proper support for reported amounts, the accuracy of the financial report cannot be verified.

Proper accounting procedures and internal controls require that any financial report be supported with underlying accounting records such as receipts and disbursements ledgers. KRS 43.075(3) states in part, "[t]he uniform audit standards and procedures promulgated by the Auditor shall include but need not be limited to the requirement that each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee[.]" The DLG's *County Budget Preparation And State Local Finance Officer Policy Manual*, promulgated pursuant to KRS 68.210, requires quarterly reports be submitted by the 30th day following the close of each quarter. KRS 64.830(2) states in part, "[e]ach outgoing county official shall make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office for all money received by him as a county official[.]"

We recommend the former sheriff make a complete settlement of his accounts with the fiscal court. We also recommend the sheriff's office submit the budget and quarterly reports timely and maintain adequate supporting documentation for the quarterly reports.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff's Office lacked adequate segregation of duties over receipts, disbursements, and reconciliations: This is a repeat finding that was included in the prior year audit report as Finding 2017-003. The former sheriff's office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper was responsible for collecting and issuing receipts, preparing the daily checkout sheet, and preparing the daily deposit. The bookkeeper was responsible for preparing and signing checks, posting to the receipts and disbursements ledgers, and preparing monthly bank reconciliations.

The lack of adequate segregation of duties within the former sheriff's office was the result of limited staff size which prevented the former sheriff from segregating accounting duties to different individuals within the former sheriff's office.

A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

Adequate segregation of duties over various functions such as opening mail, preparing deposits, and recording receipts and disbursements 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.

The former sheriff, or his designee, should have implemented compensating controls to limit the severity of the lack of adequate segregation of duties. Examples of the compensating controls include:

- The former sheriff or his designee could have periodically recounted and deposited cash receipts. This review could have been documented by initialing the daily checkout sheet and deposit ticket.
- The former sheriff could have reviewed supporting documentation for all disbursements. This review could have been documented by initialing the invoice.
- The former sheriff could have required two signatures on all checks, including the former sheriff's signature.
- The former sheriff could have received bank statements unopened, and reviewed for any unusual items prior to giving them to the individual performing the bank reconciliations.

The former sheriff should have implemented compensating controls to mitigate the risk of the lack of adequate segregation of duties if he was limited by staff size.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff has not settled his 2015, 2016, and 2017 fee account receivables and liabilities: The following 2015, 2016, and 2017 fee account receivables and liabilities have not been properly settled:

Cash in Bank: December 2018		\$ 17,496
Uncollected Receivables:		
Tax Commissions	\$ 38,472	
Due from 2018 Fee Account	3,158	
Due personally from sheriff	<u>248</u>	<u>41,878</u>
Total Assets		59,374
Unpaid Obligations		
Excess fees due fiscal court	54,525	
Due to 2016 tax account	305	
Due to 2017 tax account	<u>4,544</u>	
Total Liabilities		<u>59,374</u>
Ending Fund Balance of Prior Year Fee Accounts		\$ 0

The former sheriff did not have any controls in place to ensure that prior year fee accounts were properly settled. He did not receive the payments noted above and did not personally deposit funds to cover the deficit amount noted.

As a result of not settling the accounts, money due to the fiscal court that could be used for expenses has not been turned over to them.

KRS 134.192(12) states in part, “the sheriff shall pay to the governing body of the county any fees, commissions, and other income of his or her office[.]” Additionally, KRS 64.820(1) states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official” and continues to instruct the fiscal court to direct the county attorney to institute suit for the collection of any amounts if the fiscal court cannot collect the amount.

We recommend the former sheriff work with the fiscal court to settle the above receivables and liabilities. After the receivables are collected, the sheriff should pay obligations and remit any remaining balance to the fiscal court. Furthermore, we will refer this finding to the Leslie County Attorney to determine if further procedures to collect amounts due will be required.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff did not adequately monitor inventory: The former Leslie County Sheriff had various items that belonged to the office of the sheriff such as cruisers, radios, firearms, etc. that are essential to providing services to the citizens of the county. The former sheriff however did not maintain an adequate itemization of inventory.

According to the former sheriff, inventory has never been tracked at the sheriff's office. As a result, the possibility of theft or undetected misappropriation of office inventory could occur.

Effective internal controls over all aspects of the sheriff's office would require that all items belonging to the sheriff's office be tracked and maintained in some type of inventory log.

We recommend the former sheriff work to ensure that no items were missing from his office during the time of his term.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff lacked internal controls over disbursements: During 2018, the following occurred:

- A deputy was reimbursed \$12 for the same meal twice.
- A deputy was reimbursed \$71 for meal costs with no itemized receipt for support.
- One employee received reimbursements for two meals per trip on six occasions totaling \$156.
- Two invoices were paid more than 30 days late.
- Nine invoices totaling \$2,642 were not effectively cancelled to prevent duplicate payments.
- Four instances totaling \$1,873 with no itemized invoice.
- The Kentucky Department of Revenue was paid \$60 from the fee account to settle tax collections.

The former sheriff did not review disbursements adequately before his approval. As a result, there are several disbursements that appear excessive and improper.

Strong internal controls over disbursements require that the former sheriff would thoroughly review all disbursements before payment is made to verify that disbursements are allowable and that vendors are paid timely, etc.

KRS 65.140(2) states, "[u]nless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

We recommend the sheriff's office ensure that all disbursements are reviewed for accuracy, supported by invoices, reasonable, necessary, and paid within 30 days of receipt.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff has not settled his 2018 fee account receivables and liabilities: The following 2018 fee account receivables and liabilities have not been properly settled:

Assets

Cash in Bank		\$	40,058
Collected receivables			559
Receivables:			
October-December 2018 Franchise taxes due from Franchise account	\$	1,957	
October-December 2018 Franchise taxes due from school		1,235	
Telecommunication commissions due from 2011 fee account		<u>2,050</u>	<u>5,242</u>
Total Assets			45,859

Liabilities

Total Paid Obligations			2,518
Unpaid Obligations:			
December 2017 tax commissions deposited in 2018 Fee Account on 1/5/18 - Due to 2017 Fee		189	
Unmined Coal Bill deposited in 2018 Fee on 7/6/18 - Due to Unmined Coal Account		18,286	
2018 Property tax collections deposited in 2018 Fee Account on 11/30/18 - Due to 2018 tax account		9,425	
Extra lake patrol payment from 2016 fee account - Due back to 2016 fee		<u>3,158</u>	
Total Unpaid Obligations			<u>31,058</u>
Total Fund Surplus as of December 31, 2018		\$	<u>12,283</u>

The former sheriff did not have any controls in place to ensure that funds were deposited into the correct accounts, did not receive the payments noted above, and did not personally deposit funds to cover the deficit amount noted.

The former sheriff did not properly pay October through December franchise commissions to the fee account and school. The former sheriff also did not receive telecommunications commissions from another sheriff's account used for electronic receipts. Further, the liabilities exist because funds intended for other accounts were erroneously deposited into the 2018 fee account.

KRS 134.192(12) states in part, "the sheriff shall pay to the governing body of the county any fees, commissions, and other income of his or her office[.]" Additionally, KRS 64.820(1) states, "[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official" and continues to instruct the fiscal court to direct the county attorney to institute suit for the collection of any amounts if the fiscal court cannot collect the amount.

We recommend the former sheriff work with the fiscal court to settle the above receivables and liabilities. After the receivables are collected, the sheriff should pay obligations and remit any remaining balance to the fiscal court.

Former Sheriff's Response: The former 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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