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Edelen Releases Audit of Former Clinton County Sheriff's Office

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the 2014 financial statement of former Clinton County Sheriff Ricky Riddle, for the period January 1, 2014 through January 4, 2015. 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.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the revenues, expenditures and excess fees of the former Clinton County Sheriff in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Sheriff 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 former Sheriff should have accounted for all receipts in the appropriate accounts. The former Sheriff engaged in the practice of transferring funds between multiple accounts in order to cover operating expenses of his office. Our examination of receipts and disbursements indicated the following:

a) In January 2014, the former Sheriff transferred $20,000 from the Drug Eradication account to the 2014 fee account to cover operating expenses of his office. However, in December 2014, the 2014 fee account reimbursed the Drug Eradication account.

b) In December 2014, the former Sheriff transferred $5,300 from the Drug Eradication account to the 2014 fee account as a reimbursement for equipment purchases made earlier in the year. However, the former Sheriff could not identify any purchases to support this reimbursement. The $5,300 should be returned to the Drug Eradication account.

Sheriffs may apply for an advancement from the state to help with the necessary expenses and salaries of the office. The former Sheriff did apply for a state advancement; however, he did not receive a payment until March. Since the former Sheriff did not apply and receive the state advancement timely, he transferred funds from the Drug Eradication account to the fee account to cover expenses at the beginning of the calendar year.

KRS 134.160(5) states, "Other than as permitted for investments and expenditures by this chapter, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected." When restricted funds are used for operating expenses, there is a risk the funds cannot be replaced and would have to be repaid personally by the Sheriff.

The former Sheriff should have refrained from making loans to various accounts, and ensured that all receipts were deposited to the appropriate accounts. We recommend the former Sheriff transfer $5,300 from the 2014 fee account to the Drug Eradication Fund.

Former Sheriff's response: No response.

The former Sheriff should reimburse the fee account $1,302 for disallowed expenditures. The former Sheriff had $1,302 in disallowed expenditures from his 2014 official fee account. These expenditures included $1,239 in penalties incurred for late payments and $63 reimbursed to the former Sheriff personally which lacked adequate supporting documentation. Items, such as late payment penalties, are not necessary expenses of the office and reduce the amount of operating funds for the former Sheriff's office or reduce the amount of excess fees paid to the Fiscal Court. In addition, without proper supporting documentation, we could not determine if the remaining expenditures were reasonable or necessary.

In accordance with Funk v. Milliken, 317 S.W.2d 499 (KY 1958), expenses made through the fee account must be necessary for the operation of the office, reasonable in amount, beneficial to the public, not predominately personal in nature, and supported by adequate documentation.

When fee account monies are spent on disallowed expenditures, the Sheriff is required to deposit personal funds in the account to cover these items. We recommend the former Sheriff deposit personal funds of $1,302 in the 2014 fee account for disallowed expenditures.

Former Sheriff's response: No response.

The Former Sheriff should have deposited receipts intact on a daily basis. During the course of the audit, we noted that deposits were not made in a timely manner. There were a total of 173 deposits made into the 2014 fee account. Of these deposits, 121 did not clear the bank within three (3) business days. In addition, the auditor noted that forty-five (45) of the deposits took over nine business days to clear the bank. The former Sheriff lacked controls over the deposit process and did not provide adequate oversight in this area.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Additionally, when deposits are not made timely, the risk that the bank account can be overdrawn is increased.

This noncompliance had been addressed in prior year audits. However, the former Sheriff did not correct this issue. The former Sheriff should have implemented controls over the deposit process to assure deposits were made daily to comply with KRS 68.210.

Former Sheriff's response: No response.

The former Sheriff did not present an annual settlement to Fiscal Court and remit excess fees. During our review of fiscal court orders, we noted the former Sheriff did not present an annual settlement to the fiscal court for calendar year 2014 and remit excess fees as required. The former Sheriff collected total receipts of $326,450 and disbursed $321,947. The remaining balance of $4,503 should have been remitted to fiscal court as excess fees. Without a complete statement of receipts and expenditures, fiscal court cannot be sure that correct excess fees have been submitted.

KRS 64.830(2) states, "Each 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 county official and to obtain his quietus, and immediately thereafter he shall deliver these records to the incumbent county official."

The former Sheriff should have complied with KRS 64.830 and presented his annual settlement to fiscal court. At the time of his settlement he should have remitted all excess fees to the fiscal court. We recommend the former Sheriff remit excess fees of $4,503.

Former Sheriff's Response: No response.

The former Sheriff's did not prepare quarterly financial reports. The former Sheriff did not prepare and submit three quarterly financial reports to the Department for Local Government (DLG) for calendar year 2014. DLG sent a memorandum dated October 8, 2014 to the former Sheriff informing him they had not received the quarterly financial report for the quarter ended June 30, 2014. However, the former Sheriff still did not prepare any quarterly reports after the first quarter. As a result, the auditor recapped receipts and disbursement ledgers to compare to the bank and plan testing.

According to the County Budget Preparation and State Local Finance Officer Policy Manual, "The State Local Finance Officer requires the quarterly report to be submitted no later than 30 days following the close of the quarters ending March 31, June 30, September 30, and December

31." By not preparing and submitting quarterly reports, DLG nor the former Sheriff could monitor expenditures to determine if within budget.

The former Sheriff should have prepared and submitted quarterly reports as required by DLG.

Former Sheriff's response: No response.

The former Sheriff's office lacked adequate segregation of duties over all accounting functions. A lack of adequate segregation of duties existed over all accounting functions. During our review of internal controls, we noted the former Sheriff's bookkeeper was responsible for opening incoming mail, receiving and recording cash, preparing of bank deposits, preparing the daily checkout sheets, posting to the receipts and disbursements ledgers, and preparing financial reports.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Development, which could occur, but go undetected.

Additionally, because a lack of adequate segregation of duties existed and because the former Sheriff did not provide strong oversight over the office, the following occurred:

- All Receipts Were Not Accounted For In The Appropriate Year.
- Receipts Were Not Deposited On A Timely Basis.
- Penalties Were Charged For Late Payment Of Invoices.
- The Receipts And Disbursements Ledgers Required Numerous Adjustments And Reclassifications.
- A 4th Quarter Financial Report Was Not Prepared And Submitted.
- An Annual Settlement Was Not Prepared And Submitted To Fiscal Court For Approval.
- Excess Fees Were Not Remitted To Fiscal Court.
- Employer's Share Of Retirement Was Not Properly Calculated Resulting In An Underpayment Of $188.

A segregation of duties over various accounting functions, such as opening mail, recording cash, preparing bank deposits, posting transactions to ledgers, and preparing financial reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the former Sheriff could have separated the duties involving the opening of mail, depositing of cash, posting of transactions to the ledgers, and preparing financial reports. If, due to a limited number of staff, that was not feasible, strong oversight over these areas could have occurred and involved an employee that was performing any of those functions. Additionally, the former Sheriff could have provided this oversight and noted it on all appropriate source documentation.

Former 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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