Auditor of Public Accounts
Adam H. Edelen

FOR IMMEDIATE RELEASE **Contact: Stephenie Hoelscher**
stephenie.hoelscher@ky.gov
502.564.5841
502.209.2867

Edelen Releases Audit of Former Harlan County Sheriff's Office

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the 2014 financial statement of former Harlan County Sheriff Marvin Lipfird. 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 Harlan 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 Harlan County Sheriff's office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. The former Harlan County Sheriff's office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. These control deficiencies existed because the bookkeeper's responsibilities included preparing daily checkout sheets, posting daily checkout sheets to the receipt ledger, preparing and posting disbursements to the ledger, signing checks, preparing the quarterly reports, and reconciling the ledgers to bank records. Although the former Sheriff had implemented some compensating controls to help offset this weakness, those controls were not effective enough to prevent or

detect errors and misstatements in a timely manner, such as disallowed disbursements in comment #2014-002.

A proper segregation of duties of over accounting duties is essential for preventing asset misappropriation and/or inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Budget restrictions may limit the number of staff the Sheriff can hire. As a result, it may not be feasible to segregate accounting duties to different employees. In this situation, strong oversight over receipts, disbursements, and reconciliations should be performed by an employee not currently performing any of those processes. The former Sheriff should have segregated duties or implemented effective compensating controls to offset this weakness. If compensating controls had been implemented, the former Sheriff should have documented his oversight on the appropriate source document. The following are examples of other controls the Sheriff could have implemented:

- The former Sheriff could have periodically recounted and deposited cash receipts. This would have been documented by initialing the daily checkout sheet and deposit ticket.
- The former Sheriff could have examined checks prepared by the bookkeeper and compared to proper documentation. This would have been documented by initialing the supporting documentation.
- The former Sheriff could have received bank statements unopened and reviewed the statements for any unusual items prior to giving them to the individual performing the bank reconciliations.

Former Sheriff's response: No response.

The former Harlan County Sheriff should not have spent fee receipts or drug account funds on disallowed disbursements. The former Harlan County Sheriff disbursed funds from the official fee account and the drug account for disallowed expenses. Disbursements for personal expense, purchases not properly supported by receipts, and late payment fees are summarized below:

	Fee Account	Drug Account
Not Reasonable or Necessary:	$ 1,900	$
Food Items, including cigarettes	5	51
Minimum payment due on credit card:	201	
Cell Phone Expenses:		1,787
Total Not Reasonable or Necessary:	$ 2,106	$ 1,837

	Fee Account	Drug Account
Inadequate Documentation:	$ 314	$
Late Fees:		17
Total Disallowed Disbursements	$ 2,420	$ 1,854

In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Disbursements documented above were not in compliance with Funk v. Milliken; therefore resulting in disallowed disbursements. The former Sheriff did not have controls in place to ensure that all disbursements were in compliance with Funk v. Milliken, which could have prevented disbursements that were not adequately documented, necessary, or reasonable in amount.

The former Sheriff should personally reimburse the 2014 official fee account a total of $2,420 and the drug account a total of $1,854 for these disallowed expenses. Once the reimbursements are made, the former Sheriff should then pay any additional excess fees to the Fiscal Court.

Former Sheriff's response: No response.

Cell phone disbursements have resulted in disallowed disbursements totaling $1,787. During calendar year 2014, the Harlan County Sheriff's office paid for six (6) cell phones. Of the 6 cell phones with cell phone providers, the Sheriff's office identified Sheriff's office employees as users for four cell phone numbers, but was unable to identify users for the remaining two lines. Review of the usage of the two unidentified user lines noted that both of these lines were not being used. Charges for the unused lines totaled $1,727 for monthly contract costs for calendar year 2014. These lines were cancelled in December 2014 and incurred a $60 fee for early termination of the cell phone contract. As a result, the Sheriff's office incurred a total of $1,787 for unused cell phone charges and early termination fees, which are considered disallowed disbursements. These expenses were paid from the drug account.

Unnecessary charges for cell phones are a result of lack of monitoring of cell phone use of the Sheriff's office. In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

The former Sheriff could have initiated controls over cell phone disbursements to ensure services charged were necessary for the Sheriff's office. Cell phones should only be provided to authorized users, and any personal use of department funded cell phones should be reported to the County Treasurer for reporting purposes. The former Sheriff should have developed a written cell phone usage policy and should personally repay $1,787 to the drug account.

Former Sheriff's response: No response.

The former Harlan County Sheriff should have strengthened internal controls over pre-approved overtime request forms. All employees of the former Sheriff's office reported hours worked on an office-wide spreadsheet for each pay period. From this spreadsheet, the bookkeeper calculated regular and overtime hours worked, and prepared an electronic spreadsheet that was submitted to the Treasurer's office for payroll processing. It was the policy of the former Sheriff's office that all overtime be pre-approved by a supervisor, and documented by a signed overtime request form. However, it was noted during review of manual spreadsheets

maintained in the former Sheriff's office that not all overtime hours earned and paid were properly supported by an overtime request form. It was also noted that overtime request forms that had been submitted were not marked approved and were not always signed by a supervisor.

The former Sheriff had properly designed controls to ensure all overtime requests were properly authorized; however these controls did not operate as intended and employees received overtime pay that was not properly authorized and approved. The overtime policy per the Harlan County Sheriff's Office policy and procedure manual for non-exempt employees states, "All overtime work must receive the prior authorization of the employee's supervisor. Failure to work scheduled overtime or overtime worked without prior authorization from the supervisor may result in disciplinary action, up to and including termination of employment." Payroll disbursements for overtime were not in compliance with the overtime policy set by the Harlan County Sheriff's Office policy and procedure manual because all overtime hours earned and paid were not properly supported by an overtime request that was approved and signed by a supervisor.

Procedures for pre-approved overtime authorizations establish oversight for payroll disbursements. The former Sheriff, or a designee, should have verified all overtime hours earned were properly supported by a pre-approved overtime request form prior to payment.

Former Sheriff's response: No response.

The former Harlan County Sheriff should have improved internal controls over budgeting procedures to comply with resolution. The Harlan County Sheriff fee pools with the Harlan County Fiscal Court. On May 21, 2009, the Fiscal Court passed a resolution allowing the Sheriff to fee pool. This resolution permits the Sheriff to spend up to $3,000 per month for a total of $36,000 a year from his official fee account. Although the former Sheriff submitted a budget to the Fiscal Court for calendar year 2014, the approved budget was for anticipated receipts only, and did not include budgeted expenses per resolution approved by the Fiscal Court. This condition is a result of a lack of controls over the budgeting process. By not preparing a budget for disbursements, the former Sheriff could have overspent the amount that he was allowed from his official fee account.

Per Department of Local Government's County Budget Preparation and State Local Finance Officer Policy Manual, "the State Local Finance Officer requires that the fiscal court 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 68.210 states "the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials."

The former Sheriff should have submitted a budget to the Fiscal Court that included budgeted expenses per resolution approved by the Fiscal Court and to comply with KRS. The Fiscal Court would have paid all other disbursements.

Former Sheriff's response: No response.

Internal controls over drug account disbursements should have been strengthened. During the course of the audit, we noted detectives were authorized to make ATM withdrawals in the amount of $1,500 from the drug fund bank account. In addition, deputies were permitted to make miscellaneous cash purchases in the amount of $884 from available drug buy money on hand. This condition is a result of a lack of internal controls over drug account disbursements. These occurrences weaken internal controls over disbursements in which the former Sheriff, or his designee, should have authorized disbursements in advance. Per Department of Local Government's County Budget Preparation and State Local Finance Officer Policy Manual, the State Local Finance Officer requires "disbursements by check only" KRS 68.210 states "the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials." There was no management oversight over these disbursements by allowing detectives to personally withdraw funds resulting in an inadequate segregation of duties, without effective oversight.

The former Sheriff should have discontinued the practice of ATM card withdrawals or improved internal control procedures and discontinued the practice of deputies making purchases made from cash money on hand.

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.

###

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.