



Auditor of Public Accounts
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Harmon Releases Audit of Former Jackson County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2014 financial statement of former Jackson County Sheriff Denny Peyman. 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 revenues, expenditures and excess fees of the former Jackson County Sheriff in accordance with accounting principles generally accepted in the United States of America.

The former sheriff did not maintain adequate accounting records of fee account revenues and expenditures to provide sufficient audit evidence. Also, auditors were unable to obtain required representation letters from the former sheriff. Therefore, an audit opinion could not be expressed due to an unacceptably high audit risk, and the audit report presents a disclaimer of opinion.

The audit report will be referred to the Attorney General.

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 failed to manage the financial activities of his office. The former sheriff failed to manage the financial activities of his office by not maintaining complete and accurate financial records, as further discussed comment 2014-002. The former sheriff failed to prepare receipts and disbursements ledgers, monthly bank reconciliations, and quarterly reports. Due to numerous errors and incomplete financial records noted in the following comments and

recommendations, we could not verify the accuracy of the former sheriff's financial activities. Inaccurate and incomplete financial reports can lead to improper financial decision making, as well as increase the risk of undetected errors or fraud. Due to the lack of financial records, we were unable to express an opinion on the former sheriff's financial statement.

The former sheriff needed to improve his financial practices and internal controls, as discussed in comments 2014-002 and 2014-003, to ensure that proper information was submitted timely and was not misleading to users of the information. The former sheriff's practices created an environment for potential material misstatements to occur in the financial statement, allowing them to go undetected. Since the former sheriff continued his poor financial practices and did not improve the internal control structure as recommended in 2014-003, taxpayer monies continued to be at risk. KRS 68.210 gives the State Local Finance Officer authority to prescribe minimum accounting requirements. The former sheriff should have prepared complete and accurate financial reports that were supported by the ledgers and bank activity of his office.

Former sheriff's response: No response.

The former sheriff did not comply with the Uniform System of Accounts. Multiple year audit findings represent the former sheriff's failure to comply with the Uniform System of Accounts. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This system of accounts requires is the sheriff to maintain accurate recording of receipts by source and expenditures by payee, and to fulfill all other legal requirements relating to the oversight and management of public funds by his office. The former sheriff failed to comply with the minimum requirements of the Uniform System of Accounts in the following areas:

- Deposits were not made intact daily.
- Daily checkout sheets were not prepared timely.
- Receipts and disbursements ledgers were not prepared.
- Bank reconciliations were not prepared monthly.
- Quarterly reports were not prepared and submitted to the Department for Local Government as required.
- Annual financial statement was not prepared.

Failure to complete these tasks resulted in inadequate oversight and accountability for financial activity, as well as increased the risk of undetected errors or fraud.

The former sheriff should have complied with the Uniform System of Accounts by timely preparing daily checkout sheets, ensuring deposits were made daily, maintaining receipts and disbursements ledgers, reconciling ledgers to bank activity, and preparing and submitting financial records to the Department for Local Government.

Former sheriff's response: No response.

The former sheriff's office lacked adequate segregation of duties. The former sheriff's office lacked adequate segregation of duties over receipts, the reconciliation process, and other general areas, which further contributed to the inability to rely on his financial information. During our

review of internal control, we noted that one individual was primarily responsible for all receipt/reconciliation functions, including opening incoming mail, receiving and recording cash, preparing bank deposits, preparing the daily checkout sheets, preparing bank reconciliations, and preparing the financial reports. No evidence of official oversight of any office functions was found.

This lack of oversight in internal controls contributed to the failure to prepare and maintain accurate records, failure to prepare and submit reports, and failure to make daily deposits intact, as noted in comment 2014-002. Segregation of duties or the implementation of compensating controls is essential for providing protection against asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily duties.

A limited budget placed restrictions on the number of employees the former sheriff could hire or delegate duties to. When faced with a limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties.

The former sheriff should have separated the duties of collecting receipts, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If these duties could not be segregated due to a limited number of staff or a limited budget, then strong oversight should have been provided to the employee responsible for these duties and this oversight should have been documented.

Former sheriff's response: No response.

The former sheriff did not issue receipts in accordance with KRS 64.840. The former sheriff did not prepare receipts for all funds collected. Only two receipt books were located for calendar year 2014. As a result of this, receipts were not issued in numerical order and could not be accurately compared to daily checkout sheets. KRS 64.840(1) requires all county officials to issue a receipt for "any fine, forfeiture, tax, or fee." In addition KRS 68.210 gives the State Local Finance Officer the authority to prescribe a Uniform System of Accounts. The minimum requirement for handling public funds as stated in the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual* requires receipt forms be issued for all receipts. Failure to issue receipt forms for receipts collected can result in undeposited receipts or receipts not being recorded on the receipts ledger. Failure to deposit or record receipts can reduce the amount of operating funds for the sheriff's office and can reduce the amount of excess fees paid to the fiscal court. The former sheriff should have prepared receipts for all monies received by his office. Furthermore, the former sheriff should have issued receipts in triplicate, with one copy given to the customer, one copy filed with daily checkout sheet, and one copy filed in the book of original entry.

Former sheriff's response: No response.

The former sheriff did not ensure monies collected were secured and handled properly. The following occurred during the 2014 calendar year:

- Receipts and disbursements ledgers were not prepared.
- Bank reconciliations were not prepared monthly.

- Daily checkout sheets were not supported by copies of receipts issued.
- Neither the daily checkout sheet nor bank deposit ticket separated cash from checks deposited.
- Daily collections were not deposited timely. There were abnormal delays in the deposits of funds. For example, deposits made in June 2014 were made up of funds received as far back as December 2013.
- There were many instances where a deposit was made up of receipts consisting of multiple days. Using the previous example, the June 20, 2014 deposit included dates ranging from January 8, 2014 through June 20, 2014. Another deposit made on June 20, 2014 included receipts with dates ranging from February 5, 2014 through March 7, 2014.
- The former sheriff had undeposited checks that totaled \$995.

This failure to properly secure and handle monies collected resulted in inaccurate and incomplete financial reporting, along with the increased possibility of misappropriation of assets. This condition was a result of not providing necessary training for the bookkeeper and the lack of management oversight. The Department for Local Government, pursuant to KRS 134.160, requires that sheriffs shall keep an accurate account of all moneys received and all disbursements made, balance all accounts on a monthly basis, and all payments received by the sheriff shall be entered immediately onto the sheriff's books. The former sheriff should have implemented controls over collections to ensure that receipts were properly made and deposited to the fee account. The former sheriff should have also complied with KRS 134.160 by ensuring monies received were deposited timely, accounts were balanced monthly, and all payments received were reported onto the former sheriff's books immediately.

Former sheriff's response: No response.

The former sheriff did not obtain a salary cap for deputies' salaries. The former sheriff did not have a deputy salary cap approved for calendar year 2014. Lack of communication between the former sheriff's office and the fiscal court resulted in a non-compliance with KRS 64.530(3). While the fiscal court approved a budget for the former Sheriff's office for CY 2014 on January 14, 2014, they did not fix the annual maximum salary allotment for the former sheriff's office in accordance with KRS 64.530(3). This statute requires the fiscal court to fix annually the maximum amount, including fringe benefits, which the sheriff may expend for deputies and assistants, and allows the sheriff to determine the number to be hired and individual compensation of each deputy and assistant. Failure to comply with KRS 64.530(3) could have resulted in the county paying excessive salaries. The former sheriff should have obtained a salary cap for deputies from the fiscal court by using the "Annual Order Setting Maximum Amount for Deputies and Assistants" provided by the Department for Local Government and submitted it with the 2014 budget.

Former sheriff's response: No response.

The former sheriff did not make fee pooling payments in accordance with the fee pooling ordinance. The former sheriff did not comply with the fee pooling ordinance put in place on November 13, 2012. The ordinance states that all income and fees collected by the sheriff should be turned over to the County Treasurer on a weekly basis. The former sheriff failed to make the weekly fee pooling payments in accordance with the approved ordinance. Payments made to the

county treasurer varied, with some payments being paid several months late. The total checks written from the former sheriff's office to the fiscal court were 24. This did not meet the minimum requirement of the fee pooling ordinance which required the former sheriff to turn over fees weekly. Also, as determined by our audit, the former sheriff still owes the county \$32,871 for receipts collected during calendar 2014, which have not been turned over as excess fees.

The failure to turn over fee pooling payments as required results in the fiscal court not having the necessary funds to pay the former sheriff's expenses. The former sheriff should have complied with the approved fee pooling ordinance by submitting weekly fee pooling payments to the county treasurer.

Former sheriff's response: No response.

The former sheriff should collect and remit payments as recommended in order to close out the calendar year 2014 fee account. Based on the determination of fund balance noted below, additional excess fees (fee pooling payments) of \$32,871 are due to the fiscal court. The Department for Local Government, given the authority by KRS 68.210, requires a Uniform System of Accounts, which includes the proper collection of receivables and the distribution of fees to the appropriate entity. As noted in comment 2014-002, the former sheriff failed to maintain complete and accurate records, resulting in insufficient funds being paid to the fiscal court. The former sheriff should ensure that the receivables and liabilities shown below are collected and remitted to the appropriate entity:

Assets

Cash in Bank		\$	22,584
Receivables:			
Per Bank	\$	4,034	
Commission Payment due from 2013 Tax Account		4,946	
Commission Payment due from 2014 Tax Account		1,118	
Interest due from 2014 Tax Account		35	
Undeposited Receipts		995	
Add-on Fee Payment due from 2013 Tax Account		440	
Deposits in Transit		2,774	
Levied funds by Department of Revenue (Due from 2014 Tax Account)		5,816	20,158
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Total Assets			42,742

Liabilities

Paid Liabilities (Per Bank)		\$ 9,250
Unpaid Obligations due to Fiscal Court:		
Due to Fiscal Court for Fees Collected	\$ 2,774	
Due to Fiscal Court for Interest Collected	72	
Due to Fiscal Court for Telecom Receipts CY 2014	932	
Due to Fiscal Court for Add-on Fees Collected	14,029	
Undeposited Receipts due to FC as Excess Fees	995	
Fees collected; due to Fiscal Court	155	
Jan-Aug 2015;ACH from State; Due to Fiscal Court	49	
Commissions due to Fiscal Court (\$4,946 from 2013 Tax Account) (\$1,118 from 2014 Tax Account)	<u>6,064</u>	
Total Obligations due to Fiscal Court		25,070
Other Unpaid Obligation:		
Due to Incoming Sheriff for Telecom Receipts		<u>621</u>
Total Liabilities		<u>\$ 34,941</u>
Total Additional Excess Fees		<u>\$ 7,801</u>

Former sheriff's response: No response.

The former sheriff did not resolve unsettled 2013, 2012, and 2011 fee receipts, liabilities, and deficits. Audit and follow-up procedures determined the former sheriff has a deficit of \$28,169 in his 2013, 2012, and 2011 Fee Accounts. This is a direct result of prior years' fee receivables due, liabilities owed, and deficits not being properly resolved. As has been previously described in comments 2014-001, 2014-002, and 2014-003, the former sheriff's past practices created an environment for potential material misstatements to occur in the financial statement, allowing them to go undetected. The lack of accurate records and bank reconciliations also resulted in the former sheriff's prior years' fee accounts deficit. Unsettled items in the 2013, 2012, and 2011 fee accounts have been consolidated and noted below. In addition, as stated above, the former sheriff has not eliminated the consolidated deficit of \$28,169. We recommend the former sheriff collect the receivables identified above and deposit personal funds to cover the deficit, so the remaining liabilities can be paid.

Assets

Cash In Bank		\$	54,492
Deposit In Transit			19,251
Collected Receivables			223,985
Uncollected Receivables:			
Undeposited Receipts	\$	1,315	
Forest Service		1,263	
2011 Tax Account		24,296	
2011 Fee Account		28,868	
Jackson County Fiscal Court		878	
2012 Tax Account		29,120	
2013 Tax Account		17,637	
Former Sheriff - Denny Peyman		1,482	104,859
Total Assets			402,587

Liabilities

Outstanding Checks		64,032	
Paid Liabilities		182,100	
Unpaid Obligations:			
Jackson County Fiscal Court	\$	129,028	
2011 Tax Account		19,265	
2012 Tax Account		593	
2013 Tax Account		30	
2012 Fee Account		28,868	
Forfeiture Account		878	
Sheriff Deputy #1		146	
Sheriff Deputy #2		369	
KY Retirement System		1,253	
Federal		1,670	
Medicare		721	
State of Kentucky		1,293	
City of Mckee		252	
Occupational Tax		159	
KY Dept. for Unemployment		100	184,624
Total Liabilities			430,756
Total Deficit as of December 31, 2013			\$ (28,169)

Former sheriff's response: No response.

The former sheriff did not publish information required by KRS 91A.040. The former sheriff did not publish the information required in relation to the fee audit for calendar year 2013. Failure to publish the required information results in noncompliance with state law. KRS 91A.040 requires county officials to publish portions of the audit reports and the accompanying statements within 30 days of the release of the audit report:

- The auditor's opinion letter. (This letter is published by APA when an audit is released, so the sheriff does not have to re-publish, just ensure it was published.)
- A statement that a copy of the complete audit report, including financial statements and supplemental information, is on file at the sheriff's office and is available for public inspection during normal business hours.
- A statement that any citizen may obtain from the sheriff a copy of the complete audit report, including financial statements and supplemental information, for his personal use.
- A statement which notifies citizens requesting a personal copy of the audit report that they will be charged for duplication costs at a rate that shall not exceed twenty-five cents (\$0.25) per page.
- A statement that copies of the financial statement prepared in accordance with KRS 424.220 is available to the public at no cost at the business address of the officer responsible for preparation of the statement.

The former sheriff should publish required portions of his audit report for the fee account for calendar year 2014 along with the required accompanying statements within 30 days after the audit is released.

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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