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Harmon Releases Audit of Oldham County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2014 financial statement of Oldham County Sheriff Steve Sparrow. 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 Oldham 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 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 sheriff had a known deficit of \$5,102 in his official 2014 fee account. The sheriff did not deposit all funds received and spent funds on unallowable items resulting in a deficit in the 2014 fee account. As discussed in more detail in other findings in this report, the deficit was caused by receipts and disbursements handled as cash outside the bookkeeping system and bank account. The sheriff did not deposit cash received for Concealed Carry Deadly Weapon (CCDW) photos, non-sufficient fund fees, finger printing fees, and accident report fees. There was also an unallowable credit card purchase of \$41 and unallowable cash disbursements totaling \$4,607. Undeposited cash receipts of \$10,762 less cash found in safe of \$1,900, less

cash used for disbursements of \$3,801, less cash used for unallowable items of \$4,607, leaves \$454 in missing receipts. The sheriff did not have sufficient oversight and internal controls in place to prevent this activity. Because of this, the sheriff's accounting records were incomplete, and personal funds are required to alleviate the deficit.

KRS 64.100 states, in part, "Each sheriff shall keep an accurate account of all fees collected by him from all sources." Good accounting practices require sufficient accounting records and daily deposits to ensure the fee account is being managed appropriately. Sufficient oversight by the sheriff is necessary to ensure all laws and regulations, as well as good accounting practices, are followed.

We recommend the sheriff deposit personal funds of \$5,102 to cover the deficit for calendar year 2014. We are referring this matter to the Office of the Attorney General for further investigation.

Sheriff's response: This practice has been discontinued and all remaining funds have been deposited into the fee account. Funds received for accidents reports, CCDW's and photographs are now entered into our daily transaction system.

The sheriff did not record and deposit all cash receipts in the fee account as required by state law. The sheriff had at least \$10,762 in cash receipts collected by his office that were not recorded in the fee account receipts ledger nor deposited into the bank account from October 4, 2013 through July 17, 2015. Auditors calculated this amount by reviewing the manual cash receipt books that were available. However, cash could have been collected where no receipt was prepared or maintained, suggesting that this total could potentially be higher. Further, receipts used to record auto inspections performed off-site by deputies or by the clerk's office were not always included in the daily deposit, were not used in order, and were not all maintained, limiting the auditor's ability to determine if all were handled properly.

The sheriff's office did not record or deposit any collections during the period noted for funds collected for Concealed Carry of Deadly Weapons (CCDW) photos (\$5 or \$10 each, depending on the amount the sheriff charged at the time (see Finding #3)); accident reports (\$5 each); fingerprinting fees (\$10 each) and non-sufficient funds (NSF) fees (\$50 each). There were additional receipts noted where the source could not be determined from available documentation and some receipts for auto inspections performed off-site that could not be traced to the daily checkout sheet.

This practice of not booking or depositing all receipts appears to have been continued as a means to provide cash for expenditures that would be made outside the fee account, including expenditures for unallowable items. Auditors determined that cash in the deposit was routinely traded out for checks that were written for the fees listed above. This resulted in deposits not being made intact daily.

During fieldwork, auditors became aware of the activity and advised the sheriff's staff to immediately begin recording and depositing all receipts daily. The only record available for calendar year 2013 was the final receipt book, which also contained the beginning of calendar year 2014. According to the sheriff's bookkeeper, all previous records for these transactions

could not be located as it was a routine practice to destroy these receipt books at year end. Likely, additional cash receipts were collected prior to October 4, 2013 but could not be determined due to the lack of records. It is unclear how long the sheriff's office has failed to deposit all funds intact.

KRS 64.100 states, in part, "Each sheriff shall keep an accurate account of all fees collected by him from all sources." According to KRS 64.840, the sheriff should issue a receipt for any fine, forfeiture, tax or fee paid in cash, in person, or by mail if requested by the payee. One copy should be given to the payee, one should be retained by the sheriff for his own records, and one should be placed with the daily bank deposit.

KRS 68.210 gives the State Local Finance Officer the authority 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 and intact.

We recommend the sheriff immediately implement policies and procedures requiring staff to record and deposit all funds collected by his office. All transactions should be entered into the computerized receipt system, generating a receipt copy for the customer and one to be batched for the daily deposit. The receipts batched should agree to the cash and checks deposited each day. Manual receipts should only be used for auto inspections completed off-site by deputies or by the clerk's office. The Sheriff should provide a receipt to the clerk when auto inspection payments are given to his office by clerk's deputies, noting the date, amount, and number of inspections. All funds should be deposited intact and unaltered, in whatever payment form the customer used. The sheriff should ensure these procedures are followed by either providing direct oversight of office staff or assigning a senior deputy to oversee the receipts process. Documentation of this oversight should be maintained and could include the sheriff's or senior deputy's initials and date on daily checkout sheets and deposit tickets.

Sheriff's response: This practice has been discontinued and all remaining funds have been deposited into the fee account. Funds received for accidents reports, CCDW's and photographs are now entered into our daily transaction system.

The sheriff did not charge the correct fee for CCDW photos and waived fees for fingerprinting. Based on available receipt records, from October 4, 2013 through June 30, 2014, the sheriff charged \$10 for CCDW photos. It is likely \$10 was also charged prior to October 4, 2013, but records were not available to auditors to confirm this. From July 1, 2014 through June 30, 2015, \$5 was charged for CCDW photos. The sheriff again began charging \$10 on July 1, 2015 and continued through July 9, 2015 when the auditor advised the office staff that the correct fee of \$5 should be charged consistently to every taxpayer. Also, the sheriff did not charge the \$10 fee for fingerprinting to everyone receiving the service. According to the sheriff, he waived the fingerprinting fee for Oldham County residents.

The sheriff's office staff said the reason for increasing the CCDW photo charge in 2015 was due to extra paperwork required by the state which increased the sheriff's costs. No reason was

given for the increases in 2014 or 2013. Fingerprinting fees were waived as a benefit to residents of Oldham County. The effects of this inconsistency in the application of fees are:

- Many taxpayers paid twice the legal amount for the CCDW photo service.
- The county did not receive the revenue that would have been generated by the fingerprinting fees.

According to KRS 64.090(1)(bb) and (cc), sheriffs may charge a fee of (\$10) per set of fingerprint impressions taken and five dollars (\$5) per photograph taken or copied when those services are requested by a person for professional, trade, or commercial purposes or for personal use. In section (2) of KRS 64.090, the sheriff is directed to either charge \$40 for any service where no fee is set or charge the amount set by statute, if one has been set. According to KRS 70.095, the sheriff may only increase these fees “[i]f the Department of Kentucky State Police sets new fingerprinting and photograph fees under the provisions of KRS 16.068....”

We recommend the sheriff charge the correct fee for services where fees are allowed by statute. We further recommend the sheriff charge the fee to everyone requesting the service.

Sheriff’s response: Correct amount will be charged for photographs. The statute with regard to fingerprints does not mandate a charge but allows the agency to charge up to \$10.00. Effective 01/01/16 the Oldham County Sheriff’s Office will begin charging \$10.00 for fingerprints.

Auditor’s reply: The sheriff should choose to charge or not charge for finger printing and apply the fee consistently among all customers.

The sheriff did not ensure all disbursements were allowable and had sufficient documentation. The following issues were noted during disbursements testing:

- Sales tax was paid on lease payments and cash purchases.
- Three credit card purchases did not include itemized restaurant receipts.
- An invoice dated 10/28/13 was paid in January 2014 from the 2014 fee account.
- One credit card purchase did not have any supporting documentation available for review.
- Alcohol totaling \$41, including tax, was purchased on one restaurant receipt without evidence of reimbursement.

Further, receipts totaling \$4,607 maintained for cash purchases made during calendar year 2013, calendar year 2014 and through July 2015 were primarily for items that would not meet the criteria for fee account disbursements. Receipts were included for:

- Clothing/shoes purchased at retail stores: receipts were not specific enough to determine whether the clothing/shoes would be necessary for employees’ work.
- Snack and lunch type foods.
- A cake, food platter and other party supplies.
- Various kitchen supplies.
- Floral arrangements.

The sheriff did not provide sufficient direct oversight and monitoring of the disbursements process leading to payment for some purchases that were unallowable, unnecessary and unsupported. In Funk vs. 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. Good accounting practices dictate that every disbursement receive sufficient review and approval by someone knowledgeable about allowable purchases with fee account funds. Further, sufficient supporting documentation should be maintained for every purchase. Since the sheriff's office is sales tax exempt, the sheriff should not pay sales tax on the lease contract. The sheriff should not have made cash purchases. KRS 68.210 gives the State Local Finance Officer the authority 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 disbursements by check only.

As the sheriff is now fee-pooling and the fiscal court processes all disbursements, there will be no disbursements paid directly from the fee account. However, the sheriff should ensure all purchases made for the office are necessary for the running of the office, adequately supported with detailed receipts, reasonable in amount, beneficial to the public, and not personal in nature.

Sheriff's response: In the future this will be closely monitored to ensure no sales tax are paid and that itemized receipts are obtained where required and that unauthorized purchases are not made. This has been corrected with the inception of fee pooling that began in July 2014.

The sheriff lacked internal controls necessary to ensure accurate financial reporting. The following issues were present during calendar year 2014:

- The fourth quarterly report did not agree to the accounting ledgers. Disbursements per the disbursements ledger exceeded disbursements per the fourth quarterly report significantly. The difference was primarily due to the recording of payroll disbursements in ledgers after the sheriff started fee pooling on July 1, 2014, when all payroll was paid by the fiscal court.
- Documentation was not available to support the totals used on the fourth quarterly report. Totals per certain categories on the fourth quarterly report could not be traced to underlying accounting records. After the fourth quarterly report was prepared, documentation used to combine and adjust categories was not maintained, and could not be located.
- Monthly fee pooling payments did not include all net income and net fees for the preceding month. The sheriff paid the checkbook balance at the end of the month to the County Treasurer for monthly net fees. The sheriff should have reconciled the bank account first, and then paid the balance to the treasurer. Because some receipts in the bank account were electronic and were not recorded in the checkbook before the reconciliation, fees were underpaid for five months. All net fees were eventually paid, as they were included in the subsequent monthly payment.
- Not all copies of voided receipts were maintained, and manual receipts could be misnumbered. We noted that only the yellow copy of voided receipts was maintained in the files for most of the voids. Manual receipts, which were only used until the computerized

system was put into place, were stamped with a receipt number. We noted two manual receipts with the same receipt number, indicating an error had been made during preparation of these receipts.

- Two disbursement checks with the same check number cleared the bank to two different payees. Check numbers were printed on blank check paper by the check writer software. Internal controls failed to prevent or detect this error.
- Some disbursements were made by cash. See Finding #4
- Not all receipts were deposited. See Finding #2

The sheriff relied too heavily on accounting staff and did not provide sufficient oversight of accounting and reporting functions. Because the sheriff is not providing adequate oversight in this area, undeposited receipts and accounting and reporting errors were discovered by the auditor. By not ensuring sufficient oversight and internal controls, the risk of material financial statement misstatement is increased.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual*, the sheriff is required to issue three-part receipts for every transaction, maintain all copies of voided receipts, deposit all funds intact daily, prepare quarterly reports that accurately reflect all activity for the previous quarter, and make disbursements by check only. County Ordinance 14-120-075 requires the sheriff to pay net income and net fees to the county treasurer no later than the tenth of the month for the preceding month. Strong internal controls over accounting functions and financial reporting are needed in order to insure accurate reporting and processing of revenues and disbursements.

We recommend the sheriff ensure sufficient supporting documentation is maintained for all transactions. We further recommend the sheriff implement internal controls to ensure accurate and timely processing of all receipts and disbursements and provide oversight of accounting functions and financial reporting.

Sheriff's response: Most of the comments relative to these issues were before fee pooling and since fee pooling has been corrected. With regard to the duplicate receipt numbers, this was an error on the part of the printer. This will be closely monitored in the future.

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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