



OFFICE OF THE
STATE AUDITOR



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San Juan County

Management Letter

Report No. SJCO24SP



November 4, 2024



Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

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Table of Contents

Report No. SJCO24SP3

Background5

Finding 1. Use of Account Violated Statutes and Financial Reporting Requirements6

Finding 2. Account Revenues and Expenditures Need Additional Review to Determine Propriety and Reasonableness of Transactions7

Finding 3. County Should Assess and Improve Financial Procedures and Internal Controls in the Sheriff’s Office Going Forward10

Appendix A13



OFFICE OF THE
STATE AUDITOR

Report No. SJCO24SP

November 4, 2024

San Juan County Commission
117 South Main
Monticello, Utah 84535

Dear Commission:

The Office of the State Auditor (OSA) completed a limited review of the financial transactions in a bank account (Account) that was solely in the custody of the San Juan County Sheriff's Office (Sheriff's Office¹). Since this arrangement did not comply with state statutes, on February 22, 2024, the OSA instructed the Sheriff's Office to transfer custody of the funds in the Account to the county treasurer (Treasurer), and transfer record-keeping duties to the county auditor (Auditor). These San Juan County (County) officials represent that this has been accomplished.

Our primary objective was to ensure the County implemented proper statutory oversight of the Account and its associated transactions. Our other objectives were (1) to assess whether the use of revenues and expenditures in the Account constituted a blatant misuse of public funds that would require further independent investigation and (2) to identify potential weaknesses and provide recommendations for more County oversight as needed over operations within the Sheriff's Office going forward. As such, we evaluated the internal controls over the Account, performed a review of sampled Account activity, tested in detail certain transactions that we deemed to be of potentially higher risk, and reviewed Account reconciliations for the period January 2020 through December 2023. This report details our findings and recommendations.

Our procedures were limited, as noted above. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you. We appreciate the courtesy and assistance extended to us by County personnel during our review. We look forward to a continuing professional relationship. If you have any questions, please contact me.

¹ The term "Sheriff" refers to the Sheriff's Office in general and to the elected official holding the office of Sheriff. The current Sheriff was elected in 2022. The problems noted in this report originated prior to his term.

Sincerely,

A handwritten signature in black ink, appearing to read "Leslie Larsen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Leslie Larsen, CPA, CFE
Special Projects Audit Supervisor
leslielarsen@utah.gov
801-538-1348

cc: Lehi Lacy, County Sheriff
Lyman Duncan, County Clerk/Auditor
Glenis Pearson, County Treasurer
Mack McDonald, Chief Administrative Officer

Background

A bank account (Account) was established many years prior to our test period to hold funds in trust for inmates of the county jail. However, over time, the Sheriff's Office began depositing revenues generated by various operations, such as commissary sales and fingerprinting fees, in the Account and used those revenues to pay for certain jail expenditures, office parties, and other miscellaneous activities. While the County's EIN² was associated with the Account, little of the financial activity was recorded on the County's accounting system, the Treasurer and the Auditor did not perform their statutorily required oversight, and the funds and activity in the Account were improperly excluded from the County Commission's (Commission) budgetary process. In general, current County officials indicated they had not been aware of the Account's existence. However, it appears that there was at least some concern that not all the Sheriff Office's revenues and expenditures were appropriately flowing through the County system.

² An EIN or employer identification number is a federal tax identification number assigned by the Internal Revenue Service. The EIN identified the County as the owner of the Account.

Findings & Recommendations

Finding 1. Use of Account Violated Statutes and Financial Reporting Requirements

Prior to February 2024, the Sheriff's Office operated the Account without following provisions in state statute and County policy intended to provide proper oversight of the funds. Over the period reviewed, approximately \$1.76 million was deposited in the Account. During the same period, approximately \$1.47 million was expended or transferred out of the Account leaving a balance of \$286,802 as of December 31, 2023.

State statute³ outlines the specific and unique responsibilities that must be performed by each elected officer or elected body within a county. All revenues and expenditures should have been subject to oversight by the Treasurer and Auditor in their roles as elected officials and the funds should have been subject to oversight by the Commission and included in the County budget. The Sheriff's Office use of the Account violated numerous statutes since the Treasurer, Auditor, and Commission could not fully perform their statutory duties as outlined in Appendix A. These statutory requirements help safeguard the public's interest and uphold the public trust. Failure to follow statute and policy increased the risk that funds could be used improperly or misappropriated.

Further, the financial activity in the Account was not fully disclosed or reported in the County's financial statements. Generally accepted accounting principles and *Utah Code* 17-36 require the County to properly report and disclose all financial activity in their audited financial statements. Further, *Utah Code* 67-3-12 requires entities to report their financial activity to the Utah Public Finance Website (Transparent Utah). Due to the lack of County oversight, Account activity was not properly reported to the public.

Reportedly, historically the Sheriff's Office preferred to maintain custody of the revenues in order to have more autonomy over the way the funds could be used. However, as noted above, this is contrary to statute, and the Sheriff's Office did not have the authority to exercise this control.

Recommendations

We recommend that:

- County officials review the statutory powers and duties specific to their office as summarized in Appendix A and ensure the County is providing proper oversight of Sheriff's Office operations and the Account. Specifically:

³ See Appendix A for specific *Utah Code* references.

- The Commission should, with the advice and assistance of the Auditor and the Treasurer, implement an internal control structure to ensure that all valid financial transactions of the County are identified and recorded accurately and timely;
- The Commission should adopt a budget for the Sheriff's Office that accurately reflects all Sheriff Office revenues and expenditures;
- The Auditor should provide accounting services and maintain the books in a manner that will show the amount of receipts and disbursements of the Sheriff's Office and Account; and
- The Treasurer should maintain custody over Sheriff's Office funds and Account including receipting, depositing, investing, and disbursing activities.
- The Auditor work with the County's independent auditor to determine whether past Account activity, including revenues, expenditures, and inmate trust funds, need to be restated on the financial statements.
- The Auditor report past unreported Account activity to Transparent Utah.

Finding 2. Account Revenues and Expenditures Need Additional Review to Determine Propriety and Reasonableness of Transactions

The deposits to the Account included revenues⁴ from commissary sales, inmate phone use, fingerprint and other fees, search and rescue donations, livestock auction proceeds, bullet sales to employees, and other miscellaneous revenue. The Account also included funds to be held in trust such as bail and inmate funds. As previously noted, the County budget provides the legal authorization to expend funds. Therefore, any expenditures made outside of the County budgeting process are not legally authorized or proper. Regardless, to obtain an understanding of the types of expenditures made from the Account, we reviewed a judgmentally selected sample of 50 expenditures totaling \$80,949 and also reviewed various revenue and expenditure reports. We concluded that while most of the sampled expenditures and other Account activity appeared generally consistent with typical operations of a jail, there were areas of concern regarding the Sheriff's Office collection of revenues, the operation of the Account, and the use of funds described below:

- **Certain Account Funds Were Improperly Used for Employee Parties and Gifts**

From the revenue and expenditure reports, we determined that at least \$14,000 in revenues from fingerprinting fees and donations were used by the Sheriff's Office for purposes that should have been under the County's oversight and that could be considered excessive or unnecessary, such as:

⁴ Government service fees may be designed to cover the average costs of providing services as well as reasonable overhead costs. These fees should not generate excess revenue.

- *Employee Christmas and summer parties, Christmas gifts for employees, retirement gifts, flowers, etc.*

While employee morale activities are important and are generally built into a department's budget, these activities were done outside the oversight of other County officials, and it is unknown whether these activities would have been allowed had the Commission been aware of them.

- *Gift cards for employee Christmas gifts.*

Providing gift cards to employees generally constitutes compensation which must be reported to the Internal Revenue Service (IRS) and the Utah State Tax Commission. Failure to report this compensation constitutes non-compliance with IRS and state income reporting rules.

Since these expenditures were made outside of the budget, it is unknown whether the Commission would have considered these expenditures in line with the budget and consistent with County policies. Further, since the gift cards were not recorded on the County's official records, they do not appear to have been properly reported as compensation.

- **Lack of Sufficient Receipt Records and Late Deposits Increased Risk of Misappropriation of Revenues**

The Sheriff's Office has four cash boxes or receipting points to collect various types of funds. Receipt forms were not completed for all in-person payments at the Sheriff's Office and there was no independent reconciliation of receipts to the deposit. Further, we noted that these funds had only been deposited approximately every two to four weeks. *Utah Code 51-4-2* requires the public funds be deposited at least every three banking days.⁵ The lack of reliable receipt records, the lack of reconciliation, and the untimely deposits make it difficult to ensure that all funds received were properly deposited. This increases the risk that funds could have been lost or stolen without detection.

- **Lack of Contract and Pay Structure Documentation for Livestock Animal Control Was Improper**

Based on expenditure reports, the Sheriff's Office paid approximately \$28,000 in total between January 2020 and December 2023 to individuals to round up trespassing livestock, which were then sold at auction if they were not branded. Based on revenue reports, the Sheriff's Office deposited approximately \$30,000 from auction proceeds to the Account during

⁵ *Utah Code 51-4-1* allows for an exception to the three-day rule if authorized in writing by the State Treasurer. No such exception has been granted to the County.

this same period. We note the following problems related to the arrangement between the County and the individuals who performed the roundup services:

- No documentation that the roundup services were procured according to County procurement policy;
- No contracts between the individuals and the Sheriff's Office for roundup services;
- No documentation of how roundup payments to the individuals were calculated; and
- IRS Forms 1099 were not sent to the individuals.

The lack of documentation and failure to follow County policies calls into question the amounts paid to the individuals and failure to follow IRS regulations exposes the County to IRS penalties and liabilities.

- **Lack of Documented Authorization or Independent Review of Disbursements Increased Risk of Improper Disbursements**

Of the 50 expenditures reviewed, none had evidence of written authorization or approval. We were told that Account expenditure approval was handled verbally. There was also no independent review of processed disbursements. These practices increased the risk that improper disbursements could be made without detection.

- **Missing Documentation for Reimbursements Increases Risk**

Two of the 50 expenditures selected for testwork were missing original receipts detailing the items that were purchased. The two transactions were reimbursements to an employee totaling \$2,132. The description indicates the purchases were for the summer party. Due to the lack of documentation, we were unable to determine the nature of the specific purchases.

- **Other Internal Control Weaknesses**

- The individual who reconciled the Account bank statement also had access to cash receipts and could make disbursements from the Account. There was also no independent review of the bank reconciliation. Inadequate separation of duties presents a significant risk that funds could be misappropriated without detection.
- Numerous individuals had access to the various cash boxes, putting the revenues at risk for potential theft
- The County was not aware of all the various revenue sources coming into the Sheriff's Office. Therefore, there was no independent review of expected or unexpected revenues.

These concerns resulted in a higher risk of improper expenditures, loss of revenues, and improper use of funds when the Account was solely operated by the Sheriff's Office without the proper oversight of the County.

Recommendation:

We recommend that the Auditor:

- Consider the areas of concern noted above and perform a retrospective review of past Account activity as deemed appropriate.
- Determine the implications of the IRS noncompliance and resolve as appropriate.

Finding 3. County Should Assess and Improve Financial Procedures and Internal Controls in the Sheriff's Office Going Forward

While custody of the Account and record keeping duties have largely been transferred to the appropriate elected officials, the Sheriff's Office continues to receive certain fees, auction proceeds, bail money, and funds for inmates' use at the jail as part of regular operations. The Sheriff also continues to oversee and initiate expenditures of inmate trust funds. Non-inmate related funds are now receipted into the County accounting system (System) and then delivered to the Treasurer for deposit into the County's general operating account. The inmate funds are recorded in the Sheriff's inmate accounting system and are then taken to the County for deposit into the Account. The revenues from commissary operations⁶ also accumulate in the Account and are swept to the County's operating account on a regular basis. Therefore, the Sheriff still has control over the day-to-day fiscal operations of the Sheriff's Office.

As noted in Finding 2, prior to the OSA's February 22, 2024 directive to the County, there were procedural and internal control weaknesses regarding the handling of revenues and expenditures in the Account within the Sheriff's Office. Based on our inquiry into current procedures and our assessment of past procedures, we note areas where the County should be proactive in ensuring the Sheriff's Office procedures and internal controls moving forward are sufficient. Our scope did not include a detailed review of current procedures, and therefore, the list below should not be interpreted as all-inclusive. The various County officials are responsible for developing sound procedures and internal controls over County departments in accordance with each elected official's duties as specified in Appendix A.

- **Bank Reconciliation Separation of Duties Weakness**

Due to inmate accounting system access issues, the bank reconciliation for the Account is still performed by a Sheriff's Office employee who has access to cash receipts, prepares the deposit, and can make disbursements from the Account. This is a separation of duties weakness that could allow misappropriation to occur without detection. An employee who

⁶ Government service fees may be designed to cover the average costs of providing services as well as reasonable overhead costs. These fees should not generate excess revenue.

does not have access to cash receipts or the ability to disburse funds should perform the bank reconciliation. If the duties cannot be separated, another employee should perform a detailed review of the reconciliation.

- **Cash Receipting and Revenue Handling Best Practices**

- Access to cash boxes should be limited to the minimum number of personnel necessary.
- The Sheriff's Office should comply with County Cash Receipting and Deposit policies.
- Document in written policy which employees are assigned to perform primary and back-up cash receipting duties. No other employees should be allowed to perform cash-receipting duties.
- To ensure all funds collected are deposited, establish procedures to create a reliable record of all cash receipts, which can then be reconciled to the deposit records.
- If a handwritten receipt system is used, ensure the receipt forms are prenumbered and in duplicate or triplicate.
- A reconciliation of receipt records to the validated deposit should be performed by an employee who does not have access to cash receipts. The employee who performs the reconciliation should be aware of, and account for, all missing and voided receipt forms.
- A regular review of expected revenues should be performed by an employee who has awareness of potential unexpected revenues such as auction proceeds and BLM billings. The employee performing the review should not have access to cash receipts.

- **Cash Disbursement Best Practices**

- The Sheriff's Office should comply with County policies on cash disbursements from the general fund.
- Sufficient procedures should exist regarding inmate fund disbursements to ensure all disbursements are legitimate and reviewed by an employee who does not have access to the funds.
- Sufficient procedures should exist regarding the handling of bail funds and their distribution to the various courts.

Recommendations:

We recommend that:

- The Auditor and Treasurer jointly determine how to effect proper separation of duties over the reconciliation of the Account.

- The Auditor and Treasurer jointly review Sheriff operations and ensure that procedures and policies are in line with best practices noted above.
- The Commission consider developing written policies specifically to address the proper handling of inmate trust funds and bail.

Appendix A

Office	Duties and Responsibilities	Utah Code Reference
County Legislative Body (Commission)	Adopt a budget for the county	17-36-15
	Pass all ordinances and rules and make all necessary regulations	17-53-223
	Enforce obedience to ordinances with fines or penalties	
	With the advice and assistance of the county auditor and county treasurer, implement an internal control structure to ensure that all valid financial transactions of the county are identified and recorded accurately and timely	17-36-45
County Auditor	Audit the financial records and accounts of a county office, department, division, justice court or any other county entity except the auditor's own office	17-19a-204
	Accounting services for the entire county	17-19a-205
	Prepare tentative budget	17-19a-205 17-36-8
	Performance audit services under the direction and supervision of the county legislative body or county executive	17-19a-206
	Maintain the books of the county in such a manner as will show the amount of receipts from and disbursement of a county office, department, division or other county entity	17-19a-207

	Submit monthly reports to the state treasurer regarding the collection, care, and disbursement of state money by the county	
	As required by the county legislative body, make a joint report with the county treasurer to the county executive and the county legislative body accounting for the financial condition of the county	17-19a-208
	Assist the Commission with implementing an internal control structure to ensure that all valid financial transactions of the county are identified and recorded accurately and timely	17-36-45
County Sheriff	Preserve the peace	17-22-2
	Take charge of and keep the county jail and the jail prisoners	17-22-4
	Provide each prisoner with necessary food, clothing, and bedding in the manner prescribed by the county legislative body	17-22-8
	Charge fees for certain services outlined in state statute	17-22-2.5
County Treasurer	Maintain custody over all county funds (receive, deposit, invest, and disburse)	17-24-1
	Payment of warrants, checks, or other instruments	17-24-4
	Perform monthly reconciliations with the county auditor	17-24-11
	As required by the county executive or legislative body, make a detailed report of all money received and disbursed	17-24-12
	Assist the Commission with implementing an internal control structure to ensure that all valid financial	17-36-45

	transactions of the county are identified and recorded accurately and timely	
County Administrator (appointed)	Assist with administration of the County at the direction of the Commission	



SAN JUAN COUNTY COMMISSION

Jamie Harvey	Commission Chair
Silvia Stubbs	Commission Vice-Chair
Bruce Adams	Commissioner
Mack McDonald	County Administrator

October 29, 2024

Leslie Larsen, CPA, CFE
Special Projects Audit Manager
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
Salt Lake City, Utah 84114

Re: Report No. SJCO-24-SP Response

Dear Ms. Leslie Larsen:

Thank you for providing the summary of findings and proposed actions to address them, following the recent review by the Office of the State Auditor concerning financial transactions within the San Juan County Sheriff's Office. Specifically, the findings pertain to the sole custody bank account maintained outside the oversight of the County Clerk/Auditor, County Treasurer, and County Commission. I have reviewed your efforts and improvement suggestions and appreciate your assistance in helping to strengthen controls and ensuring compliance within the County.

Finding 1: Use of Account Violated Statutes and Financial Reporting Requirements

As recommended, we have reviewed the statutory powers and duties of the Sheriff's Office, County Clerk/Auditor, and County Treasurer. We believe that the adjustments made during the audit have established a more transparent process, ensuring that all received funds are visible to both the County Treasurer and County Clerk/Auditor. The County Administrative Staff have tested the new process, and we concur that implementing improved policies and procedures for the Sheriff's Office is necessary to eliminate cash handling altogether.

Additionally, we recognize the need for enhanced training and a thorough investigation into any historical misuse or misappropriation of funds, particularly in cases where the Department was advised of corrective policies but may not have fully implemented them. Based on the results of the independent audit, we will consider appropriate disciplinary measures or other necessary actions.

The County Administrator has informed the County's independent auditor of these findings and will collaborate with them to review revenues, expenditures, and disbursement activities. This review will identify areas where restatements in financial statements are needed to update prior years' audit reports. The independent auditor acknowledges that the Commissary Fund is a fiduciary fund and must be used exclusively for reporting inmate revenue and expenditures directly related to the commissary.

Finding 2: Account Revenues and Expenditures Need Additional Review to Determine Propriety and Reasonableness of Transactions

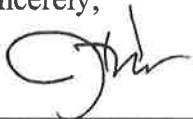
With the Commissary Account now under the custody of the County Treasurer and County Clerk/Auditor, our Independent Auditor will review transactions to advise the County on necessary adjustments to fiscal audit reports. The Independent Auditor will also collaborate with the County Clerk/Auditor to address and correct any IRS compliance issues.

Finding 3: County Should Assess and Improve Financial Procedures and Internal Controls in the Sheriff's Office Going Forward

With the County Treasurer and County Clerk/Auditor overseeing the custody of the Commissary Account, we will ensure a proper separation of duties in the account's reconciliation process. Additionally, we have created a dedicated operational fund within our accounting software, Pelorus, to facilitate accurate monitoring of revenues and payments associated with the account. This setup will help verify that cash flow aligns with both County and bank records.

We agree that the County Clerk/Auditor and Treasurer should review the Sheriff's operational budgets to confirm adherence to County money management policies and ensure that all cash receipts are deposited through the County Treasurer. As part of this effort, we will provide training to the Sheriff's staff on the appropriate procedures for cash disbursements from any fund. Furthermore, the Sheriff's Department will establish its own policies and procedures to promote understanding and compliance with critical legal and best practices.

Sincerely,



Jamie Harvey
Commission Chair