



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Caldwell County Sheriff's Office**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Caldwell County Sheriff Stan Hudson. 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 receipts, disbursements, and excess fees of the Caldwell 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 noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

**The Caldwell County Sheriff's office lacks adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The Caldwell County Sheriff's office does not have a properly designed segregation of duties. The sheriff's bookkeeper performs all accounting functions of the office including collecting payments from customers, writing checks, posting transactions, preparing monthly bank reconciliations, and preparing quarterly financial reports.

According to the sheriff, due to a limited staff the bookkeeper is responsible for collecting cash, performing daily checkout procedures, making deposits, writing checks, posting transactions, and reconciling the bank accounts. This lack of segregation of duties or sufficient oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government.

A proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The sheriff should separate the duties involved in receiving cash, writing checks, posting transactions, preparing monthly bank reconciliations, and comparing financial reports to documentation. If this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the procedure.

*Sheriff's Response: While we have adopted many of the recommendations of the auditors, we have a small agency with limited personnel. In addition, by the time audit was concluded, the collection period for the following year was already near completion. I feel my staff has done a fantastic job with the resources we have been allotted. Money and resources are directed to the many obligations of a Sheriff's Office and I don't feel I can decrease law enforcement and public safety assets. We will continue to do double and triple checks as well as keeping the pertinent records. I am proud of my employees who have handled the funds for the Sheriff's Office with no shortages or discrepancies.*

**The Caldwell County Sheriff failed to maintain receipts and disbursements ledgers properly:**

The sheriff's office did not maintain receipts and disbursements ledgers. The bookkeeper types in daily checkout sheets into an excel spreadsheet and these daily checkout sheets are totaled onto a monthly summary. There is a quarterly and year-end report. However, these worksheets are not compiled into a cumulative ledger.

The sheriff failed to require the bookkeeper to keep accounting records required by the Department for Local Government (DLG). By not maintaining cumulative receipts and disbursements ledgers, the sheriff is not in compliance with KRS 68.210, and there was inadequate support for monthly financial reports.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires all county offices to maintain a uniform system which include cumulative cash receipts and disbursements ledgers. Additionally, good internal controls dictate adequate records of daily receipts be maintained.

We recommend the sheriff require the bookkeeper to comply with state regulations regarding proper accounting procedures by keeping cumulative receipts and disbursements ledgers.

*Sheriff's Response: The Sheriff fee ledger has now been formatted as per Auditor request for 2017. The request was made at the conclusion of former audit in November of 2016. The additional page with ledger totals on one page has been added for auditor's express convenience. No improprieties were found in the Sheriff's Fee Account.*

Auditor's Reply: As stated above, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires all county offices to maintain a uniform system of accounts, which includes cumulative cash receipts and disbursements ledgers. Additionally, examples of required records, including a receipts and disbursements ledger, are available from DLG.

**The Caldwell County Sheriff failed to make deposits daily:** The Caldwell County Sheriff does not make deposits daily. This is due to deposits being held and deposited when the deposit amount is over \$100. Abnormal delays in deposits create an opportunity for cash to be misplaced or even misappropriated.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits. Additionally, good internal controls dictate that deposits be made and deposited into a federally insured banking institution daily.

We recommend the sheriff ensure all deposits are made daily and deposited into a federally insured banking institution.

*Sheriff's Response: Caldwell County Sheriffs Office will endeavor to make a deposit every day. According to auditor and/or Department of Local Government changing interpretations, even very small amounts of fees collected need to be worked up, entered into ledger, double checked and deposited daily. There were no improprieties found.*

Auditor's Reply: The Department for Local Government *County Budget Preparation and State Local Finance Officer Policy Manual* has included a requirement for daily deposits for many years; a dollar limit for compliance has never been established.

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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