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Harmon Releases Audit of Former Calloway County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2019 financial statement of former Calloway County Sheriff Sam Steger, Jr. 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 former Calloway County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The former Calloway County Sheriff lacked internal controls over financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2018-004. The former Calloway County Sheriff's fourth quarter financial statement was misstated and required multiple audit adjustments. Loan proceeds of $114,659 were omitted from receipts ledger, and vehicle purchases of $114,659 were omitted from disbursements ledger. Thus, these loan proceeds and vehicle purchases were not reported on the fourth quarter financial statement.

The condition is the result of the sheriff's office's failure to record all loan proceeds and the purchase of vehicles on the financial statement. Due to the lack of a strong internal control system over the recording of receipts and disbursements, material audit adjustments were required to correct the former sheriff's financial statement.

Strong internal controls over recording receipts and disbursements are essential to ensure that all receipts and disbursements are properly accounted for on the financial statements. The sheriff is responsible for the design and implementation of policies and procedures that will ensure receipts and disbursements are recorded properly and that financial reports are stated accurately.

We recommend the sheriff's office strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements, including all loan proceeds and the purchase of assets, in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

Former County Sheriff's Response: The banking institute paid the loans directly; therefore the funds were not processed through the Sheriff's offices receipts and disbursement records. Corrective action has been made to assure that any loans paid directly by the bank are noted in our financials.

The former Calloway County Sheriff overspent his approved budget: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. During calendar year 2019, the former Calloway County Sheriff overspent his budget by $99,106. A budget amendment was obtained by the sheriff's office, but it did not adequately cover all of the expenses.

This condition is the result of the sheriff's office's failure to record loan proceeds and the purchase of vehicles on the financial statement. The former sheriff's failure to monitor the recording of receipts and disbursements caused the office to disburse more money than was approved by fiscal court, thus making him noncompliant with KRS 68.210.

The state local finance officer requires the fiscal court to 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 in part, [t]he 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." Additionally, strong internal controls include monitoring disbursements and comparing them to budgeted amounts.

We recommend the Calloway County Sheriff's Office record all loan proceeds and the purchase of assets on the financial statement. Additionally, the sheriff's office should monitor the budget set by fiscal court to ensure that he does not spend more than what is approved. When necessary, the sheriff should make appropriation transfers or obtain a budget amendment from fiscal court before overspending any budget category.

Former County Sheriff's Response: The budget overspending is a direct result of 2019-001. An amendment was approved but after the overages of 2019-001 totals exceed the amended budget. Corrective action has been made.

The former Calloway County Sheriff's Office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. In calendar year 2019, the former Calloway County Sheriff's Office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as collecting cash from customers, preparing disbursement checks, recording receipts and disbursements, performing monthly bank reconciliations, and preparing quarterly reports. To offset the risk associated with a lack of segregation of duties, the former sheriff implemented compensating controls including dual signatures on all checks, cross-checking procedures, and reviewing quarterly reports; however, these procedures were not sufficient enough to reduce the risks associated with the lack of segregation of duties.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. According to the sheriff's office, this lack of segregation of duties is caused by the diversity of operations with a limited number of staff.

Proper segregation of duties over accounting and reporting functions is essential for providing protection from undetected errors occurring. Additionally, properly segregated duties protects employees in the normal course of performing their daily responsibilities. When staff size is limited, it may be necessary to implement compensating controls to achieve an acceptable level of protection for both the office and individual employees.

We recommend the sheriff's office segregate the duties noted above to the extent allowed by budget restrictions. For those duties that could not be segregated due to a limited number of staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the receipts and disbursements ledgers and monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

Former County Sheriff's Response: Due to the size of our agency it is difficult to delegate duties to any greater extent. The Sheriff currently does random cash counts and signing off on bank statements. Corrective action has been made.

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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