



Auditor of Public Accounts
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Harmon Releases Audit of Crittenden County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Crittenden County Sheriff Wayne Agent. 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 Crittenden 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The Crittenden 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 2017-003. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, daily checkout procedures, deposit preparation, bookkeeping, and bank reconciliations. According to the sheriff and bookkeeper, this condition is caused by the diversity of operations with a limited number of staff.

A lack of segregation of duties or strong oversight increases the risk of undetected errors or fraud. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated due to a limited number of staff, strong management oversight by the sheriff or designee can be a cost effective alternative. This oversight should include reviewing daily checkout sheets and deposits, reviewing monthly bank reconciliations and the receipts and disbursements ledgers. Documentation, such as the sheriff's or a designee's initials or signature, should be provided on those items that are reviewed. Dual signatures should also be required on all checks.

Sheriff's Response: The official did not provide a response.

The Crittenden County Sheriff's fourth quarter financial statement was materially misstated by \$110,412: The sheriff's fourth quarter financial statement did not agree with the receipts and disbursements ledgers due to multiple transactions being excluded from the financial statement. The material misstatement of the fourth quarter financial statement is a direct result of the lack of segregation of duties within the sheriff's office and a lack of strong oversight by someone independent of the recording function.

Receipts and disbursements were not accurately reported. Strong internal controls dictate that someone independent of the recording function review the fourth quarter financial statement to ensure that all receipt and disbursement transactions are accurately reported.

We recommend the Crittenden County Sheriff review the receipts and disbursements ledgers and re-perform the bank reconciliations to ensure that all transactions are properly recorded. We further recommend the sheriff ensure the accuracy of the fourth quarter financial statement by comparing it to the receipts and disbursements ledgers.

Sheriff's Response: We will recheck formulas to make sure they are all in sync. The quarter runs through the year. Anything after December has always been put at the bottom of the form. This is the first year we were ever told to put it in the body of the report.

The Crittenden County Sheriff has weak internal controls over daily checkout procedures and receipts: The Crittenden County Sheriff has weak internal controls over the processing of receipts. The lack of a systematic approach to processing receipts resulted in the following:

- Checkout procedures or daily recording and batching of receipts were not performed on a daily basis.
- Receipts were not deposited daily.
- The numerical sequence of receipts was not always accounted for properly.
- A breakdown of cash and check amounts was not maintained.
- Receipts were occasionally posted to the wrong receipt category.

- Amounts per one daily checkout sheet did not get deposited into the bank.

Rather than implement a systematic approach for handling receipts, the sheriff relied on a single employee without sufficient documented oversight. Receipts were exposed to an increased risk of misappropriation and errors were made when processing and posting receipts.

Strong internal controls over receipts are essential in ensuring that receipts are accounted for properly. Strong internal controls help prevent or detect misstatements due to error, as well as protect receipts from misappropriation. Additionally, 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 public officials to prepare daily checkout sheets or daily deposit records and deposit daily intact into a federally insured banking institution.

We recommend the sheriff strengthen internal controls over receipts by performing checkout procedures or daily deposit records on a daily basis, properly accounting for the numerical sequence of pre-numbered receipts, maintaining a breakdown of the amounts of cash and checks collected, and making daily deposits. We also recommend the sheriff or a designee review receipt forms and daily checkout sheets and trace amounts to the receipts ledger to verify they are posted properly.

Sheriff's Response: We have already corrected this problem.

The Crittenden County Sheriff overspent his approved budget: This is a repeat finding and was included in the prior year audit report as Finding 2017-004. The Crittenden County Sheriff overspent his approved budget by \$9,147. The Crittenden County Fiscal Court approved the sheriff's budget in the amount of \$211,406 for operating disbursements; however, the sheriff actually spent \$220,553. Furthermore, the sheriff obtained a budget amendment before the end of the year, but the amendment was insufficient. The budget was overspent as a direct result of the lack of segregation of duties within the sheriff's office and a lack of strong oversight.

The sheriff's operating disbursements exceeded the amount authorized by the fiscal court. Strong internal controls dictate that the sheriff monitor the budget closely and obtain budget amendments that are sufficient to cover all operating disbursements of the office.

We recommend the sheriff strengthen internal controls to ensure that the budget is properly monitored and budget amendments are obtained if budgeted amounts will be exceeded. We further recommend the sheriff ensure budget amendments are sufficient to cover all operating disbursements.

Sheriff's Response: Things came in at the end of the year. Fiscal Court meets once a month.

The Crittenden County Sheriff has \$34 of disallowed disbursements from his 2018 fee account: In January, the sheriff's fee account was overdrawn; therefore, the bank charged the sheriff \$34 of overdraft fees. Due to a lack of internal controls, checks were written for payroll even though the available account balance was not sufficient to cover the payroll liabilities.

Because the account was overdrawn, the bank charged overdraft fees. Since overdraft fees do not benefit the public, the sheriff is not in compliance with Funk v. Milliken. Therefore, the overdraft fees have been disallowed.

Internal controls dictate that the balance of the fee account be closely monitored to ensure that sufficient funds are available to pay operating expenses of the office. Furthermore, in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements 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.

Disallowed disbursements should be repaid with a deposit of personal funds; therefore, we recommend the Crittenden County Sheriff repay \$34 from his personal funds to the Crittenden County Fiscal Court.

Sheriff's Response: We are still looking to make sure this was not put in the wrong acct.

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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