



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Elliott County Sheriff Ray Craft. 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 Elliott 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 comment:

The sheriff's fourth quarter report was not accurate and required material adjustments: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The sheriff's fourth quarter financial report was not accurate. The fourth quarter report required material adjustments to correct the exclusion of receipts totaling \$10,258. The sheriff did not have procedures in place to ensure accurate posting on the sheriff's fourth quarter financial report. As a result, the sheriff's quarterly report submitted to the Department for Local Government (DLG) was inaccurate.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the sheriff to have a fourth quarter financial statement that accounts for all the sheriff receipts and expenditures for the year. Also KRS 134.160(2)(a) states, in part, "[t]he sheriff shall keep an accurate account of all moneys received and all disbursements made[.]"

We recommend the sheriff ensure that all quarterly financial reports are accurate prior to submission to DLG..

County Sheriff's Response: The funds for this transaction were deposited into the 2020 fee account, due to this being 2020 funds. However, due to the 2020 4th quarter report being already completed, this transaction was added to 2021 1st quarter report.

The sheriff did not present an annual settlement to the fiscal court: The sheriff remitted monthly excess fees, but did not present an annual settlement to the fiscal court. The sheriff uses his fourth quarter financial statement as his annual settlement; however, the fourth quarter report was not submitted to the fiscal court. According to the sheriff, he thought he did present an annual settlement to fiscal court. As a result, the sheriff is not in compliance with the statute requiring a financial settlement be presented to fiscal court. Without presenting an annual settlement, fiscal court is unaware of the financial condition of the sheriff's office.

KRS 134.192 requires a financial settlement to be presented to the fiscal court by September 1 of each year. Under fee pooling, the county sheriff remits excess fees monthly to fiscal court and fiscal court pays the expenses of the sheriff's office. It is therefore important for the fiscal court to know the financial condition of the sheriff's office.

We recommend the sheriff comply with KRS 134.192 and present his annual settlement to the fiscal court.

County Sheriff's Response: This was presented to the Fiscal Court, however there is no record on Fiscal Court minutes. The Sheriff's Office will have a cover sheet in the future for the Sheriff, Bookkeeper, and Judge Executive to sign/acknowledge when this report is submitted.

The sheriff's office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-003. The sheriff's office does not have adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares the daily check-out sheet, posts collection totals to the receipts ledger, prepares/signs checks, posts to the disbursements ledger, and reconciles the monthly bank statement. According to the sheriff, the sheriff's office has a limited number of employees that prevented adequate segregation of duties over most accounting functions of the office. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which would increase the risk that undetected misappropriation of assets and inaccurate financial reporting will occur.

Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit can be implemented to decrease the risk present in the absence of proper segregation of duties, but they don't eliminate the lack of adequate segregation of duties.

The sheriff has implemented the following compensating controls:

- The sheriff (or designee) reviews the daily deposit. This is documented by him initialing the daily checkout sheet.
- The sheriff (or designee) reviews the bank statements for suspicious activity and initials them to document review.
- Dual signatures are required on all checks, with one being the sheriff.

Although, the sheriff has implemented compensating controls, they were not operating effectively to detect material misstatements as noted in Finding 2020-001.

We recommend that the sheriff further strengthen compensating controls by comparing the quarterly financial reports with the amounts reported to the receipts and disbursements ledgers and bank account to ensure everything is posted correctly.

County Sheriff's Response: We have put several new procedures in place since taking office, which are all working towards adequate segregation of duties. We now have a part time employee in the office to assist the bookkeeper and review transactions. We hope to have additional money in the future to hire additional office personnel.

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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