



Auditor of Public Accounts
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Harmon Releases Audit of Jackson County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Jackson County Sheriff Paul Hays. 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 Jackson 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 Jackson County Sheriff's financial statement was materially misstated: The Jackson County Sheriff's 2016 financial statement was materially misstated due to the following issues:

- Receipts from the Kentucky Law Enforcement Foundation Program Fund (KLEFPF), the fiscal court, and the Kentucky State Treasurer for sheriff security services were posted to the ledgers as negative expenditures, causing a material misstatement.

- Receipt and disbursement amounts posted to the financial statement were inconsistently treated. Receipt line items for various fees were not handled the same each quarter, making agreement between the ledger and fourth quarter financial statement impossible.

Numerous adjustments were required to reclassify receipts and disbursements that had been misclassified on the ledgers. This has resulted in multiple posting errors to both receipts and disbursements, which in aggregate materially misstate the financial statement.

The majority of the issues were caused by errors in bookkeeping and a lack of oversight of the preparation of the financial statement. The sheriff's bookkeeper was new and had limited training. The prior year fee audit was completed in 2017. As a result, the sheriff did not have time for corrective action to be applied for the calendar year 2016 audit.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for handling public funds. Good internal controls dictate that all transactions should be posted to the ledgers to produce an accurate representation of the financial activity. Furthermore, line items on ledgers should be given the same treatment each time a financial statement is produced in order to give a clear representation of the year's finances.

We recommend the Jackson County Sheriff improve procedures over financial reporting to ensure transactions are properly recorded and financial statements are materially stated.

Sheriff's Response: Software for 2016 ledger report were recorded in Quick Books. The KLEFPF Payroll Expense Account was incorrectly set up as income account. Accounts have been correctly set up for Income-KY State Reimbursements and for Expenses – Actual KLEFPF expense (Payroll). Both Monthly Advancement Reports and Quarterly Finance Reports were reported correctly and reconciled to bank statements.

Auditor's Reply: The quarterly financial statements submitted to the Department for Local Government were not accurate. As stated in the comment above, there were material misstatements resulting from posting errors.

The Jackson County Sheriff's office lacks adequate segregation of duties over receipts, bank reconciliations, and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The sheriff's bookkeeper is responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The sheriff or another employee did not document oversight of bank reconciliations. The sheriff's bookkeeper is also responsible for preparing purchase orders, preparing checks, and signing checks. The sheriff has implemented compensating controls, including having an outside bookkeeper review monthly ledgers and bank statements and the sheriff signing checks as a second signature after comparison to invoices. However, the compensating controls were not effective at preventing or detecting mistakes made by the bookkeeper.

According to the sheriff, the lack of segregation of duties is a result of a limited budget, which restricts the number of employees the sheriff can hire and delegate responsibilities to.

This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible, the sheriff should implement compensating controls that are effective.

Sheriff's Response: Due to budget limitations, Sheriff can only employ one full-time bookkeeper. Compensating controls have been in place since July, 2016 to review reports. An outside contract accountant has been hired to reconcile bank accounts to the monthly and quarterly reports.

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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