



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

FRANKFORT, Ky. State Auditor Mike Harmon today released the audit of the 2016 financial statement of Knox County Sheriff Mike Smith. 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 Knox 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 sheriff's receipts and disbursements ledgers did not agree to his annual settlement or to the bank records. The sheriff's computerized receipts and disbursements ledgers did not agree to the fourth quarter report/annual settlement submitted to the Department for Local Government (DLG) and to the fiscal court. The sheriff's ledgers showed receipts of \$1,062,844, disbursements of \$1,058,474, and excess fees of \$4,371. The settlement submitted showed receipts of \$1,021,306, disbursements of \$1,029,141, with a deficit of \$7,835. In addition, neither the computerized ledgers nor annual settlement agreed to the bank records because the bank showed a balance of \$31,946 (submitted to the fiscal court on March 15, 2017).

The accounting software was not set up properly, which caused tax liabilities to be duplicated and the 2016 receivables not to be posted. The amount of revenues and expenses reported to the regulating bodies and to the public were not accurate. Inaccurate reporting results in lack of government transparency and may lead to further errors.

KRS 68.210 gives the State Local Finance Officer the authority to require a uniform system of accounts. And KRS 43.075(3) states “an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee[.]”

We recommend the sheriff comply with KRS 68.210 by ensuring his quarterly reports and annual financial statement agree to his receipts and disbursements ledgers.

Sheriff's response: Due to a computer glitch with Quick Books Software the profit and loss report did not match bank reconciliation. CPA was consulted to correct the problem with Quick Book set up. All reports now match bank reconciliation and have been submitted to fiscal court.

The sheriff did not segregate accounting duties. The sheriff's office manager collects payments from customers, prepares bank deposits, issues checks and posts to the receipts and disbursements ledgers. The sheriff's part-time bookkeeper prepares bank reconciliations, prepares payroll and occasionally collects payments from customers. Front line office personnel prepare their own deposits, but the office manager takes them to the bank. Neither the office manager nor the part-time bookkeeper are authorized check signers, but both are responsible for preparing monthly and quarterly reports. The sheriff or another employee did not provide oversight of any of these activities.

This condition is the result of a limited budget which restricts the number of employees the sheriff can hire or delegate duties to. The lack of oversight resulted in inaccurate financial reporting to the Department for Local Government and to the Knox County Fiscal Court.

Proper segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, 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.

We recommend the sheriff further separate the duties involved in receiving cash, posting to ledgers, and preparing reports. If this is not feasible due to a limited budget, cross checking procedures should be implemented and documented by the individual performing the procedure. For example, the sheriff could instruct a person independent of receipts posting and bank reconciliation to compare bank deposit ticket to daily checkouts and show evidence of this review by initialing the deposit ticket and the daily checkout. Additionally, the sheriff or someone independent of report preparation could compare the monthly and quarterly reports to

the supporting documentation to ensure accuracy and show evidence of review by initialing the documents reviewed.

Sheriff's response: Due to budget constraints, additional administrative personnel are unable to be hired to assume accounting duties.

Auditor's Reply: The sheriff should implement compensating controls using existing personnel as suggested.

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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