



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Livingston County Sheriff Bobby Davidson. 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 Livingston 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 Livingston County 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 2018-002. The Livingston County Sheriff's Office does not have adequate segregation of duties over receipts and disbursements. The bookkeeper can collect cash, prepare the daily checkout sheet, prepare deposits, take deposits to the bank, post to the ledgers, prepare and sign checks, reconcile the bank statements, and prepare monthly and quarterly reports.

According to the sheriff, due to a limited staff size, the bookkeeper is required to perform most of the bookkeeping functions. This condition is the result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud.

Good internal controls dictate that the duties associated with the custody of cash, authorization of transactions, and recording of transactions be performed by different employees. The segregation of duties over various accounting functions such as collecting cash, 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. If this is not feasible due to budgetary constraints, cross-checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the sheriff segregate the duties noted above by allowing different deputies to perform them. For those duties that cannot be segregated due to a limited staff size, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing daily checkout sheets, daily deposits, and monthly bank reconciliations. Also, all checks should require dual signatures, with one being the sheriff's. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

County Sheriff's Response: We do everything possible to oversee that we segregate duties as much as possible, and strive each year to do more. We do not generate enough revenue to hire more employees to do this adequately.

The Livingston County Sheriff's fourth quarter financial statement was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2018-003. The Livingston County Sheriff's fourth quarter financial statement was materially misstated and required multiple audit adjustments. Loan proceeds of \$71,815 were omitted from the receipts ledger, and vehicle purchases of \$71,815 were omitted from the disbursements ledger. Additionally, multiple audit adjustments were required because some transactions had either been recorded twice or had not been recorded at all. Therefore, the fourth quarter financial statement was misstatement by a total of \$88,348. Also, the sheriff did not report the details of the bank loan on the outstanding liabilities page of the fourth quarter financial statement.

According to staff of the sheriff's office, since the loan proceeds were not processed through the fee account, the sheriff was unaware that the proceeds were required to be reported on the fourth quarter financial statement. Also, because the vendors were paid directly by the bank, the sheriff was unaware that the disbursements for the vehicle purchases were required to be reported as well. Likewise, the sheriff was unaware that the details of the bank loan were supposed to be reported on the outstanding liabilities page of the fourth quarter financial statement. However, the other aforementioned errors were not detected and corrected due to a lack of internal controls.

Because the sheriff's receipts and disbursements were not reported on the fourth quarter financial statement accurately, the fourth quarter financial statement was materially misstated. Strong internal controls are essential to ensuring that receipts and disbursements are accounted for properly. Furthermore, strong internal controls help to prevent or detect misstatements due to error and protect against misappropriation of assets. Additionally, the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires outstanding liabilities such as bank loans to be reported in part four of the quarterly financial statement.

We recommend the Livingston County Sheriff strengthen internal controls over the accounting and reporting functions of the office. We recommend the bank accounts be reconciled to the receipts and disbursements ledgers to ensure all transactions have been accounted for and amounts are accurate. Likewise, we recommend the quarterly reports be compared to the receipts and disbursements ledgers to ensure accurate reporting. We also recommend that, in the future, the sheriff report loan proceeds and payments made by the bank. We further recommend that the sheriff report the details of any outstanding loans or leases on the outstanding liabilities page of the fourth quarter financial statement.

County Sheriff's Response: We did this in the middle of the year - that is why it was not on our receipts ledger or disbursements ledger. We have corrected this.

The Livingston County Sheriff overspent his approved budget: The Livingston County Fiscal Court approved the sheriff's operating budget in the amount of \$376,585. However the sheriff's operating disbursements totaled \$436,965. Thus, the Livingston County Sheriff overspent his budget by \$60,380. This condition is the result of proper attention not being paid to the budget when making expenditures. Furthermore, the sheriff did not obtain a budget amendment to cover the overage.

Because the sheriff failed to monitor the budget properly when making expenditures, this caused the office to expend more money than was allowed by fiscal court. Therefore, the sheriff is not in compliance with KRS 68.210.

Strong internal controls are essential to ensuring that receipts and disbursements are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets. Additionally, 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."

We recommend the Livingston County Sheriff monitor the budget set by fiscal court to ensure that he does not spend more than what is approved, and, if necessary, obtain a budget amendment from fiscal court before year-end.

County Sheriff's Response: The reason we overspent was the school changed the amount of commission they were paying us - so this caused us to not have as much money as we had budgeted.

The Livingston County Sheriff did not present his fourth quarter financial statement and annual settlement to the fiscal court: The Livingston County Sheriff did not present his fourth quarter financial statement and annual settlement to the fiscal court for approval. According to staff, it was believed that since there were no excess fees to be paid, the fourth quarter financial statement and annual settlement did not have to be presented to and approved by fiscal court. However, because the sheriff did not present his fourth quarter financial statement and annual settlement to the fiscal court, he is not in compliance with KRS 134.192(11).

KRS 134.192(11) states “[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

- a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses.”

We recommend that, in the future, the Livingston County Sheriff comply with KRS 134.192(11) by presenting his fourth quarter financial statement and annual settlement to fiscal court for approval even if there are no excess fees to be paid.

County Sheriff's Response: We were under the understanding we did not have to present this to fiscal court anymore. We will now do this again in December when our year ends.

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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