



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2019 financial statement of Mercer County Sheriff Ernie Kelty. 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 Mercer 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 Mercer County Sheriff's Office does not have segregation of duties over receipts: This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The Mercer County Sheriff's Office does not have segregation of duties over receipts. The bookkeeper or one of the office staff prepares the daily collection sheet. The bookkeeper prepares the deposit ticket, takes the deposit to the bank, and records the receipts in the ledger. One of the other office staff review the daily collection report and compare it to the deposit ticket and ledger, but the review is not evidenced. The sheriff randomly reviews the daily collection report, comparing it to the deposit

ticket and initials the deposit ticket. However, the sheriff did not maintain a list of the dates he reviewed so, evidence of his reviews could not be verified.

The sheriff's office has not implemented segregation of duties as part of internal control procedures for the office. The lack of segregation of duties over financial reporting significantly increases the risk of financial misstatement due to error, waste, fraud, or abuse.

The lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The 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. 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 adequately segregate the functions related to receipts. If that is not possible, we recommend that the sheriff implement compensating controls with strong management oversight, by the reviewer signing or initialing reviewed documents.

County Sheriff's Response: With only two clerks in the office that handle all clerical and bookkeeping duties, it is impossible to adequately segregate duties over receipts. I will insure that I will continue implementing compensating controls with strong management oversight by continuing to cross check daily check out reports and deposit tickets.

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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