



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Pendleton County Sheriff Charles “Craig” Peoples. 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 Pendleton 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 Pendleton County Sheriff's office lacks adequate segregation of duties over receipts and disbursements. All employees of the sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursement ledgers. The office manager prepares checks for all disbursements, including payroll, and posts to the disbursements ledger. The sheriff and office manager are the only authorized check signers. The sheriff does not require dual signatures on checks; the office manager generally signs checks.

According to the sheriff, having a small office staff composed of three full time employees, it is very difficult to segregate duties over receipts and disbursements in a positive and constructive manner.

The lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets such as cash. By having the same employee perform these functions, the risk of undetected errors or fraud increases, such as misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

We recommend the sheriff implement compensating controls to offset this weakness. The sheriff could periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger when prepared by another employee. The sheriff should document this review process by initialing the daily checkout sheets and deposit slips. The sheriff could review the quarterly financial report and compare amounts reported on the receipts and disbursements ledger. Bank statements should be reconciled regularly and reviewed by another person. This review should be documented by dating or initialing the bank statement, along with the reconciliation sheets.

Sheriff's response: Due to a small agency with limited office staff segregation of duties is virtually impossible at the level requested.

Auditor's Reply: While a small office staff does make it more difficult to segregate duties, it can be done as long as you have more than one person. If a complete segregation cannot be achieved, compensating controls should be put in place to check the work of those with incompatible duties.

The Pendleton County Sheriff did not batch receipts daily and make daily deposits. The Pendleton County Sheriff does not batch receipts daily or account for the numerical sequence of receipts. During June 2016, receipts appear to be used from three different receipt books. From our sample, it was determined that the bookkeeper batched receipts based on deposit date.

According to the sheriff, because the office has a small staff, where the recordkeeping and deposit activity is normally handled by one person, and where collections are not sizeable in dollar amounts, there is an incentive to delay the daily batching of receipts and deposits until the dollar value has increased.

A lack of oversight could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

KRS 68.210 gives the state local finance officer the authority to determine minimum accounting requirements for local government entities. As such, the Department for Local Government requires local governments to follow guidelines set forth in the *County Budget Preparation and*

State Local Finance Officer Policy Manual. This manual requires collections to be deposited intact into a federally insured banking institution on a daily basis. It also requires officials to issue receipts and reconcile daily checkout sheets with daily deposit totals. The checkout sheets should agree to batched receipts, deposits, and the receipts ledger.

We recommend the sheriff implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and deposited daily in order to be in compliance with minimum accounting requirements required by the Department for Local Government. We further recommend the sheriff use the same receipt book until all receipts in the book have been issued, accounting for the numerical sequence of batched receipts. Also, daily checkout sheets should detail receipt numbers issued, the amount of cash and/or checks collected, and be attached to the white and yellow copies of the receipts.

Sheriff's response: We understand the need however some days we may only collect \$5.00 which to deposit is a waste of time and resources.

Auditor's Reply: While we understand that there may be small amounts of money collected, the Department for Local Government still requires daily deposits.

The Pendleton County Sheriff administered a charitable account through his office that does not serve a public purpose associated with a regular function of the sheriff's office. The Pendleton County Sheriff maintains a county cop and court account that is run through his office for the Shop With A Cop Program. This account does not serve a public purpose associated with the regular function of the sheriff's office. During testing of disbursements, the auditor noted a check written to cash from the county cop and court account.

The Pendleton County Cop & Court Account was created more than 20 years ago in order for individuals from the sheriff's office and the local court system to raise monies in order to purchase Christmas gifts for disadvantaged children from Pendleton County. The program is fully funded by local donations which are administered by the sheriff. This program is highly visible and publicized in the local paper, with pictures of individual kids and a local law enforcement official that accompany the child.

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Charitable accounts run through the sheriff's office must serve a public purpose associated with a regular function of the sheriff's office, such as drug awareness education through DARE. To be an allowable charitable activity under KRS 61.310(8), the activities to be performed by the sheriff or his deputies should relate to a regular function of the office. Good internal controls dictate that disbursements be made by check to ensure that all transactions are allowable, necessary, properly supported, and reviewed by management.

We recommend the sheriff only accept allowable donations and spend the funds for activities that are for the public purposes of his office. To comply with KRS 61.310, the sheriff should conduct any charitable activities that are not part of his official duties, either in his personal capacity or through existing charitable organizations rather than through his office. We also

recommend the sheriff discontinue writing checks to deputy sheriffs. Any disbursement should be made by check to ensure all disbursements are allowable and necessary and properly recorded.

Sheriff's response: I understand the issue. But because it is a charitable account that use for benefit of the use of public youth. I want this account to be audited.

Auditor's Reply: The Auditor of Public Accounts office is charged with auditing the official accounts of the sheriff's office. A charitable program is not an official duty of the sheriff's office.

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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