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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Washington County Sheriff Jerry Pinkston. 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 Washington 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 office lacks adequate segregation over duties receipts, disbursements, and reconciliations: The Washington County Sheriff's Office lacks adequate segregation of duties over the following accounting functions: record-keeping, report preparation, disbursements, and reconciliations. The bookkeeper collects cash, performs the daily closeout procedures, and prepares the daily deposit and takes it to the bank. In addition, the bookkeeper prepares disbursement checks, completes the monthly bank reconciliation, and prepares the monthly and quarterly financial reports. There were no documented compensating controls to offset the lack of segregation of duties or reduce the control deficiency to an acceptable level.

According to the sheriff, the lack of segregation of duties existed because a limited number of employees were available to properly segregate duties. Having the same employee responsible for these functions increases the risk of undetected misstatements due to error or fraud.

A 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. Furthermore, 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.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff separate the accounting functions to the extent possible. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided for the employee responsible for these duties. The oversight should be evidenced by the sheriff, or a designee, initialing and dating the documentation reviewed.

Sheriff's Response: Office staff review duties more often.

The sheriff's office did not batch receipts or make deposits daily: The sheriff did not make deposits or batch receipts on a daily basis as required. Between February 1, 2018 and February 16, 2018 there were only six checkout sheets and bank deposits. The checkout sheets included receipts for up to seven days.

The sheriff's office lacked internal control policies to ensure receipts are batched and deposited daily. By not making daily deposits, the sheriff's office could create the opportunity for undetected misappropriation of assets.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. In addition, the Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *County Budget Preparation and State Local Finance Officer Policy Manual* include performing daily check-out procedures and deposits to be made intact daily into a federal insured banking institution.

We recommend the sheriff implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and are deposited daily.

Sheriff's Response: Complete daily checkout sheet each day and deposit more often, 2-3 times a week.

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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