



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Wolfe County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2020 financial statement of Wolfe County Sheriff Chris Carson. 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 Wolfe 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 does not have adequate segregation of duties: A deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The sheriff has delegated the responsibilities of collecting, depositing, and recording all receipts and preparing and recording all checks to the bookkeeper. In addition, the bookkeeper prepares all bank reconciliations. No effective review or oversight procedures were noted. The sheriff's failure to adequately separate these duties increases the risk that errors and misstatements can occur, either accidental or intentional, and not be detected in a reasonable time period. If there had been proper oversight or review procedures in place, errors could have been discovered and corrected.

Good internal controls dictate that the same employee should not be handling, recording and reconciling cash receipts. Authorized check signers should be independent of check preparation, cash receiving, and purchasing.

We recommend the sheriff adequately segregate the functions of receiving, recording, and reconciling transactions to separate individuals. If this is not possible due to small staff size, the sheriff can implement and document compensating controls in order to limit the potential impact of inadequate segregation of duties. Examples of these compensating controls include:

- The sheriff or his designee should compare the daily bank deposit to the daily checkout sheet, and then compare the daily checkout sheet to the receipts ledger.
- The sheriff or his designee should compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff or his designee should periodically compare the monthly bank reconciliation to the balance in the checkbook and to the ledgers
- All disbursement checks should be signed by two people, with one being the sheriff or his designee.

All compensating controls should be documented by initialing and dating the source documentation.

County Sheriff's Response: The official did not provide a response.

The sheriff's financial statement was materially misstated and the annual settlement was not presented to the fiscal court: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The sheriff's calendar year 2020 annual settlement was not presented to the fiscal court for approval. The financial statement was materially misstated and there were numerous receipts and disbursements that were posted incorrectly. Receipt and disbursement activity of the 2020 fee account that occurred after December 31, 2020, was not posted to the sheriff's financial statement, this resulted in receivables of \$36,763 being added to receipts and \$38,808 of liabilities was added to disbursements. Receipt line items for various fees were not handled the same for each quarter causing many reclassifications in order to correct postings.

The majority of the issues were caused by errors in bookkeeping. The sheriff did not have proper controls in place nor adequate oversight to ensure the settlement was presented to the fiscal court, and that all financial transactions and activity were reported on the year-end quarterly financial statement. A materially misstated fourth quarter financial report could result in an increased risk of uncorrected errors, theft, loss, or misappropriated assets.

Good internal controls dictate that the annual settlement should be presented and approved by the fiscal court. Also all transactions should be posted to the ledgers to produce an accurate representation of the financial activity. Further, line items on ledgers should be given the same treatment each time a financial statement is produced.

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.”

In addition KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government’s (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. DLG requires the reporting of receivables and liabilities on the fourth quarter financial report.

We recommend the sheriff improve procedures over financial reporting to ensure the settlement is presented on time and in accordance with KRS 134.192 and DLG requirements. Also to ensure all transactions are properly recorded and financial statements are materially stated.

County Sheriff’s Response: We are currently working on getting the program fixed correctly.

The sheriff did not make daily deposits: The sheriff did not batch receipts daily and make daily deposits. Amounts reported on daily checkout sheets were properly documented and deposited, however, this was not achieved on a daily basis. We tested one week of daily receipts for February 24-28, 2020. We noted that the daily checkout sheet dated February 24, 2020, included receipts from February 11, 13, 14, 18, 20, and 24. The daily checkout sheet for February 25, 2020, included receipts for February 18, 24, and 25. The daily checkout sheet for March 2 included receipts for the period of February 27 through 28. No other deposits were made that week, which indicates that receipts are being batched several days at a time and summarized on one checkout sheet.

The bookkeeper was not familiar with all the requirements regarding daily deposits. The sheriff failed to implement proper oversight and review procedures to ensure that receipts were being batched and deposited daily. Failure to deposit receipts daily increases the risk that funds will be lost, stolen, or otherwise misappropriated.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual*, page 64, sets forth the minimum requirements for local officials handling public funds and requires “daily deposits intact into a federally insured banking institution.”

We recommend the sheriff’s office batch receipts daily, prepare a checkout sheet daily, and make daily deposits as required per the uniform system of accounts.

County Sheriff’s Response: The deposits are being made daily.

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](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

