



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the January 1 – August 16, 2020 financial statement of former Calloway County Sheriff Sam Steger, Jr. 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 former Calloway County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former 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 former Calloway County Sheriff did not have internal controls over financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The former Calloway County Sheriff's settlement was misstated and required multiple audit adjustments. Receipts were misstated in the amount of \$78,994, while disbursements were misstated in the amount of \$25,054. Furthermore, the failure to maintain accurate records results in the former sheriff not being compliance with KRS 68.210.

The condition is the result of the sheriff's office's failure to implement a systematic approach to the recording of receipts and disbursements. Instead of properly classifying receipts and disbursements by type or source, it was common practice for the sheriff's office to lump them together, many times as miscellaneous. Due to the lack of a strong internal control system over the recording of receipts and disbursements, material audit adjustments were required to correct the former sheriff's financial statement.

Strong internal controls over recording receipts and disbursements are essential to ensure that all receipts and disbursements are properly accounted for and classified on the financial statements. The sheriff is responsible for the design and implementation of policies and procedures that will ensure receipts and disbursements are recorded properly and that financial reports are stated accurately. Additionally, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires accurate financial reporting.

We recommend the sheriff's office strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

Former County Sheriff's Response: The current Sheriff has implemented corrective measures to ensure that adequate internal controls are in place.

The former Calloway County Sheriff's Office did not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-003. The former Calloway County Sheriff's Office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as collecting cash from customers, preparing disbursement checks, recording receipts and disbursements, performing monthly bank reconciliations, and preparing quarterly reports. To offset the risk associated with a lack of segregation of duties, the former sheriff implemented compensating controls including dual signatures on all checks, cross-checking procedures, and reviewing quarterly reports; however, these procedures were not sufficient enough to reduce the risks associated with the lack of segregation of duties.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. According to the sheriff's office, this lack of segregation of duties is caused by the diversity of operations with a limited number of staff.

Proper segregation of duties over accounting and reporting functions is essential for providing protection from undetected errors occurring. Additionally, properly segregated duties protects employees in the normal course of performing their daily responsibilities. When staff size is limited, it may be necessary to implement compensating controls to achieve an acceptable level of protection for both the office and individual employees.

We recommend the sheriff's office segregate the duties noted above to the extent allowed by budget restrictions. For those duties that could not be segregated due to a limited number of staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This

oversight should include reviewing the receipts and disbursements ledgers and monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

Former County Sheriff's Response: The current Sheriff has implemented corrective measures to ensure that adequate internal controls are in place.

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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