



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Former Pendleton County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former 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 former 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 former Pendleton County Sheriff’s Office lacked adequate segregation of duties over receipts and disbursements: This is a repeat comment and was reported in the prior year audit report as Finding 2016-001. During our review of internal controls, we discovered the former sheriff’s office lacked 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 disbursements ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements

ledger. The former sheriff and office manager were the only authorized check signers. The former sheriff did not require dual signatures on checks; however, the office manager generally signed checks.

According to the former sheriff, due to the office having a small staff comprised of three full time employees, it is very difficult to segregate duties over receipts and disbursements.

The lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, the risk that errors or fraud could occur and not be detected increases. This could also result in inaccurate financial reporting to external agencies such as the Department for Local Government (DLG).

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. If adequate segregation of duties is not possible, compensating controls by means of strong official oversight can be implemented to mitigate risks associated with the weakness. Examples of official oversight are:

- The former sheriff could have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger when prepared by another employee. The former sheriff could have documented this review process by initialing the daily checkout sheets and deposit slips.
- The former sheriff could have reviewed the quarterly financial report and compared amounts reported on the receipts and disbursements ledger.
- Bank statements could be reconciled regularly by another person. If this is not possible, the former sheriff could have reviewed the bank reconciliation and document the review process by dating and initialing the bank statement, along with the reconciliation sheets.

We recommend the sheriff's office implement adequately segregate duties over receipts and disbursements as outlined above. If the sheriff's office cannot feasibly separate the processes, we recommend compensating controls to offset this weakness with strong management oversight.

Former Sheriff's Response: To be addressed by new administration, current sheriff is retiring.

The former Pendleton County Sheriff's Office did not batch daily receipts or make daily deposits: This is a repeat comment and was reported in the prior year audit report as Finding 2016-002. The former sheriff did not batch receipts daily or make daily deposits. From our sample in January 2017, it was determined that the bookkeeper batched receipts based on deposit date. There was also a \$20 shortage on one day tested, and on two days of our sample the daily checkout sheet did not agree to our recap of receipts.

The sheriff's office has determined that if deposits are small they do not take them daily. A limited staff makes it difficult to take deposits to the bank daily. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government (DLG).

KRS 68.210 gives the state local finance officer the authority to determine minimum requirements for local government entities. As such, DLG 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's office 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 DLG. We further recommend the sheriff ensure daily checkout sheets detail receipt numbers issued, the amount of cash and/or checks collected, and are attached to the white and yellow copies of receipts.

Former Sheriff's Response: To be addressed by new administration.

The former Pendleton County Sheriff administered a charitable account through his office that did not serve a public purpose associated with a regular function of the sheriff's office: This is a repeat comment and was reported in the prior year audit report as Finding 2016-003. The former sheriff maintained 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 a deputy from the county cop and court account.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Local Government (DLG).

The former sheriff understood the requirements but wanted all collections to be in an account that would be audited.

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. In addition, to be an allowable charitable activity under KRS 61.310(8), the activities to be performed by the former 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's office only accept allowable donations and spend the funds for activities that are for the public purposes of the office. To comply with KRS 61.310, the sheriff's office should conduct any charitable activities that are not part of the official duties either in a personal capacity or through existing charitable organizations rather than through the sheriff's office. We also recommend the sheriff's office discontinue writing checks to deputies from any accounts that are not properly supported. Any expenditure should be made by check to ensure all expenditures are allowable and necessary and properly recorded.

Former Sheriff's Response: I believe this account needs to be audited.

The former Pendleton County Sheriff did not maintain sufficient documentation for \$7,980 disbursed from the asset forfeiture account: The former Pendleton County Sheriff expended \$7,980 from the asset forfeiture account for drug buys. The checks were written to a deputy with “drug buy” in the memo line only. The former sheriff did not keep a log or any documentation for the withdrawals from the account. An employee of the sheriff’s office indicated the funds were received from federal forfeitures, although the lack of documentation prevented the verification of the source of funds.

A lack of controls relating to how the fund should be managed led to the failure to maintain records. Proper record keeping was not maintained for the forfeiture fund, increasing the risk for misappropriation of assets in the account. Risks are also elevated that these funds will not be used for their intended purpose. The *Guide to Equitable Sharing for State and Local Law Enforcement Agencies* requires a separate revenue account for funds from the Equitable Sharing Program, and also requires records to be kept for all expenditures that are in accordance with the guide.

The auditor recommends the sheriff’s office implement procedures for documenting drug buy activity, including maintaining a log for all drug buys and have the deputy receiving the money sign a log for each transaction documenting the receipt of funds. The deputy and/or the sheriff should document any expenditures on a log or detailed spreadsheet.

Former Sheriff’s Response: Documentation exists to verify costs to develop drug cases for paying CI’s and buying drugs. Will try to provide auditor’s office prior to December 7, 2018.

Auditor’s Reply: No documentation was provided.

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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