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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2022 financial statement of former Crittenden County Sheriff Wayne Agent. 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 Crittenden 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 findings:

The former Crittenden County Sheriff's Office did not have adequate segregation of duties: The former Crittenden County Sheriff's Office lacked adequate segregation of duties. The bookkeeper performed all accounting functions of the office, including collecting cash, preparing deposits, preparing checks, posting transactions to the ledgers, reconciling the bank accounts, and preparing quarterly reports. To help reduce the risks associated with the lack of segregation of duties, the former sheriff implemented some compensating controls. For instance, the office clerk and the former sheriff took turns completing daily checkout sheets and reviewing each other's

work. They also took turns reviewing reconciliations. However, these compensating controls did not sufficiently reduce the risks associated with the lack of segregation of duties.

The lack of segregation of duties or strong oversight increased the risk of material misstatement. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

According to staff, the not having segregation of duties was caused by the diversity of operations with a limited number of staff.

We recommend the sheriff's office allow different deputies to perform these functions. For those duties that could not be segregated due to a limited number of staff, the sheriff's office should have stronger management oversight over accounting functions to reduce the risk of material misstatement.

Former Sheriff's Response: The department has always been small and we did our best to split things up and find other ways to correct this comment.

The former Crittenden County Sheriff's fourth quarter financial statement was materially misstated: The former Crittenden County Sheriff's fourth quarter financial statement was not accurate. Outstanding receivables and unpaid obligations reported on the financial statement were misstated by \$22,033.

According to staff, receipts received in January and February for the month of December were excluded from the fourth quarter financial statement because they were received after the financial statement was approved by fiscal court. The former sheriff had planned to report these receipts and the resulting excess fees on the annual settlement.

Because the amounts reported for outstanding receivables and unpaid obligations did not include all transactions, the fourth quarter financial statement was materially misstated. Thus, the financial information reported to the Department for Local Government (DLG) and the Crittenden County Fiscal Court did not reflect an accurate financial accounting of the sheriff's office.

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* requires officials to ensure accurate and complete financial reporting. Furthermore, strong internal controls dictate that the financial report be accurate and complete.

We recommend the Crittenden County Sheriff's Office strengthen internal controls to ensure all outstanding receivables and unpaid obligations as of December 31 are accurately reported on the fourth quarter financial statement to ensure the financial information submitted to DLG and other users is accurate and complete.

Former Sheriff's Response: Money was received a couple of months after the end of the 2022 year resulting in this comment.

The former Crittenden County Sheriff's Office failed to submit an annual settlement to the fiscal court for approval: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The former Crittenden County Sheriff's Office did not submit an annual settlement to the fiscal court by March 15, as required by KRS 134.192. According to staff, this was due to an oversight, but the office prepared an annual settlement that was not approved within adequate timing.

By not submitting the annual settlement to the fiscal court, the former county sheriff is not in compliance with KRS 134.192.

KRS 134.192(11) states, in part, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year[.]"

We recommend the Crittenden County Sheriff's Office submit an annual settlement to fiscal court in accordance with KRS 134.192. We recommend that the sheriff's office ensure an annual settlement is submitted to fiscal court each year by March 15th.

Former Sheriff's Response: This was an oversite.

The former Crittenden County Sheriff's Office did not have adequate segregation of duties over the drug fund: This is a repeat finding and was included in the prior year audit report as Finding 2021-002. The former Crittenden County Sheriff's Office did not have adequate segregation of duties over the drug fund (equipment account). The former sheriff handled every aspect of the drug fund himself; this includes making deposits, reconciliations, keeping ledgers, and making purchases. According to staff, this condition was due to the diversity of operations and access to a limited number of staff.

The lack of segregation of duties or strong oversight increased the risk that undetected errors or fraud could have occurred. Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing daily responsibilities.

We recommend the sheriff's office segregate the duties noted above by allowing different deputies to perform those functions. 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 could include reviewing deposits, reviewing monthly bank reconciliations, and reviewing the receipts and disbursements ledgers. Documentation of initials or signatures of the sheriff or designee could be provided on items that were reviewed. Dual signatures could be required on all checks.

Former Sheriff's Response: For 23 years this has not been an issue until the past couple. Once again the department is small and its extremely hard to get rid of comments of this nature especially with this one being an account tied to sensitive information.

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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