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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2021 financial statement of former Jackson County Sheriff Paul Hays. 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 Jackson 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 Jackson County Sheriff's Office did not have adequate segregation of duties over receipts, bank reconciliations, and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2020-001. The former sheriff's office bookkeeper was responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The former sheriff or another employee did not document oversight of bank reconciliations. The former sheriff's bookkeeper was also responsible for preparing purchase orders, preparing checks, and signing checks. The former sheriff had implemented compensating controls, including having a service organization review monthly ledgers and bank statements and the former sheriff dual signing all deposits and checks after comparison to daily checkout sheets and invoices. However, these controls do not address the lack of segregation of duties of the same employee collecting receipts, making deposits, posting to ledgers, preparing purchase orders, and preparing checks.

According to the former sheriff, the lack of segregation of duties was a result of a limited budget, which restricted the number of employees he could hire and delegate responsibilities to. A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government (DLG).

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff's office segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the sheriff's office should continue with, and strengthen established compensating controls to help mitigate any weakness.

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

The Jackson County Sheriff's Office did not have internal controls over quarterly financial reports prepared by the service organization: The former sheriff used a tax service company to prepare the quarterly financial reports. The tax service company is considered to be a service organization. The former sheriff's bookkeeper processed and recorded all transactions in the computer system. At the end of each quarter, she sent a detail of deposits and disbursements from the computer system and bank statements to the tax service company to compile the quarterly financial reports. The tax service company grouped amounts together by category to compile the financial report. The sheriff's office did not review the quarterly financial reports before submitting to the fiscal court and the Department for Local Government (DLG).

The former sheriff relied on the service organization to compile this information and prepare the quarterly reports. No review process was implemented. The lack of internal controls over the reporting process increased the risk that material misstatements will not be prevented or detected on a timely basis. Numerous reclassifications to the fourth quarter report for calendar year 2021 were necessary. These reclassifications were material to the financial statement.

Effective internal controls over the financial reporting process are essential in preventing and detecting errors in financial reporting. The risk of using a service organization for an outsourced service should be assessed and addressed.

We recommend the sheriff's office implement internal controls over work performed by the service organization to ensure the quarterly financial reports are accurate and complete.

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

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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