



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2022 financial statement of Menifee County Sheriff Roger Smallwood. 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 Menifee 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 findings:

The sheriff's office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The sheriff's office does not have adequate segregation of duties. The sheriff's bookkeeper collected payments from customers, recorded transactions in the ledgers, prepared deposits, processed disbursements, and reconciled bank accounts.

According to the sheriff, this was caused by a limited budget which restricts the number of employees the sheriff could hire and delegate duties. Inadequate segregation of duties allows for

one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the same person not perform multiple accounting functions and, if the duties cannot be segregated, then strong oversight over the employee's work should be implemented and documented.

Sheriff's Response: This is a small office that works with a budget of approximately \$600,000 for calendar year 2022. We have two part-time office personnel in the sheriff's department. There have been no accounts of mismanagement of funds under their care. There is absolutely no way that segregation of duties can be attained considering the size an amount of our budget. We will however try to rectify this as much as possible.

The sheriff's financial statement was materially misstated: The sheriff's financial statement was materially misstated. Receipts totaling \$660,817 and disbursements totaling \$660,653 were reported on the financial statement; however, the actual receipts amount was \$716,622, a difference of \$55,805 and the actual disbursements amount was \$699,836, a difference of \$39,183.

The sheriff did not have adequate internal controls implemented to ensure all transactions were recorded on the financial statement. A materially misstated fourth quarter financial report could result in an increased risk of uncorrected errors, theft, loss, or misappropriated assets.

KRS 134.192(11) states, "[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, which includes: (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."

Good internal controls dictate that all transactions should be properly recorded and agree to the ledgers to produce an accurate representation of the financial activity.

We recommend the sheriff improve procedures over financial reporting to ensure all transactions are properly recorded and financial statements are materially stated.

Sheriff's Response: The financial statement was materially misstated due to the payroll nets being reported instead of the gross payroll amount. That is/has been corrected.

The sheriff did not accurately report payroll disbursements on the financial statement: Payroll disbursements reported on the financial statements did not accurately reflect actual expenditures. Salaries per payroll records were \$329,987; however, salaries per fourth quarter financial statement were \$289,178. This resulted in a variance of \$40,809.

According to the financial statement, the sheriff's office reported net incomes where gross incomes should have been reported. The misstatement of payroll expenditures resulted in the financial statement submitted to Department for Local Government (DLG) and the fiscal court being inaccurate.

Good internal controls dictate that all transactions should be properly recorded and agree to the ledgers to produce an accurate representation of the financial activity.

We recommend the sheriff implement controls to ensure accurate amounts are reported on the financial statement.

Sheriff's Response: This was an oversight on my part as office manager. I was employed in April of 2022 and I wasn't aware that it should have been gross amount instead of net amount.

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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