



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the January 1 – May 17, 2022 financial statement of former Wolfe County Sheriff Chris Carson. 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 Wolfe 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 sheriff's office did have not adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The former sheriff's office did not have adequate segregation of duties. A deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The former sheriff had delegated the responsibilities of collecting, depositing, and recording all receipts and preparing/recording all checks to the bookkeeper. In addition, the bookkeeper prepared all bank reconciliations. No effective review or oversight procedures were noted.

The former sheriff's failure to adequately separate these duties increases the risk that errors and misstatements can occur, either accidental or intentional, and not be detected in a reasonable time period. If there had been proper oversight or review procedures in place, errors could have been discovered and corrected. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts. Authorized check signers should be independent of check preparation, cash receiving, and purchasing.

We recommend the sheriff's office adequately segregate the functions of receiving, recording, and reconciling transactions to separate individuals. If this is not possible due to small staff size, the sheriff's office can implement and document compensating controls in order to limit the potential impact of inadequate segregation of duties. Examples of these compensating controls include:

- The sheriff or his designee should compare the daily bank deposit to the daily checkout sheet, and then compare the daily checkout sheet to the receipts ledger.
- The sheriff or his designee should compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff or his designee should periodically compare the monthly bank reconciliation to the balance in the checkbook and to the ledgers
- All disbursement checks should be signed by two people, with one being the sheriff or his designee.

We recommend all compensating controls be documented by initialing and dating the source documentation.

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

The former sheriff's financial statement was materially misstated: The former sheriff's financial statement for the period January 1, 2022 through May 17, 2022 was materially misstated. Receipt and disbursement activity that occurred after May 17, 2022, was not removed from the sheriff's financial statement, this resulted in receivables of \$34,430 being removed from receipts and \$21,496 of liabilities removed from disbursements.

The former sheriff's financial activity was combined with the incoming sheriff's financial activity. The former sheriff did not have proper controls in place nor adequate oversight to ensure the settlement was properly recorded. A materially misstated fourth quarter financial report could result in an increased risk of uncorrected errors, theft, loss, or misappropriated assets.

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 and per KRS 64.830 settle accounts upon vacation of office.

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

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

The former sheriff did not make daily deposits: This was a repeat finding and was included in the prior year audit report as Finding 2021-002. The former sheriff did not batch receipts daily and make daily deposits. Amounts reported on daily checkout sheets were properly documented and deposited, however, this was not achieved on a daily basis. We tested one week of daily receipts for April 18, through April 22, 2022. We noted that the daily checkout sheet dated April 18, 2022, included receipts. No other deposits were made that week, which indicates that receipts are being batched several days at a time and summarized on one checkout sheet.

The former sheriff failed to implement proper oversight and review procedures to ensure that receipts were being batched and deposited daily. Failure to deposit receipts daily increases the risk that funds will be lost, stolen, or otherwise misappropriated.

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*, page 64, sets forth the minimum requirements for local officials handling public funds and requires “[d]aily deposits intact into a federally insured banking institution.”

We recommend the sheriff’s office implement proper oversight and review procedures to ensure they batch receipts daily, prepare a checkout sheet daily, and make daily deposits as required per the Uniform System of Accounts.

Former Sheriff’s Response: The former 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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