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Harmon Releases Audit of Calloway County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2016 financial statement of Calloway County Sheriff Sam Steger, Jr. 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 Calloway 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Calloway County Sheriff's office lacks internal controls over financial reporting: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The Calloway County Sheriff's fourth quarter financial report was materially misstated and required multiple audit adjustments. The sheriff has failed to emphasize a strong internal control system; therefore, weak internal controls allowed these misstatements to occur without detection. This required numerous audit adjustments to correct the sheriff's financial statement.

Strong internal controls over receipts and disbursements are essential to ensure that receipts and disbursements ledgers are properly maintained. The sheriff is responsible for the design and implementation of policies and procedures that will ensure receipts and disbursements are recorded properly and that financial reports are prepared accurately.

We recommend the sheriff strengthen internal controls over the recording of receipts and disbursements and financial reporting. Posting receipts and disbursements in appropriate categories will reduce the need for audit adjustments and help ensure the financial statement is accurately stated.

Sheriff's Response: More internal controls have been put in place in 2017 including separating the miscellaneous field into individual categories.

The Calloway County Sheriff's office lacks adequate segregation of duties: This is a repeat finding and was included in prior year audit report as Finding 2015-002. In calendar year 2016, the Calloway County Sheriff's office lacked adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, the bookkeeping function, preparation of the disbursements checks, and the preparation of the monthly and quarterly reports. To offset this lack of segregation of duties, the sheriff has implemented compensating controls including dual signatures and cross-checking procedures; however, these procedures were not sufficient to reduce the risks associated with the lack of segregation of duties. According to the bookkeeper, this lack of segregation of duties is caused by the diversity of operations with a limited number of staff.

A lack of segregation of duties or strong oversight increases the risk of undetected errors. 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.

To adequately protect against the misappropriation of assets and financial reporting, the sheriff should segregate the duties noted above to the extent allowed by budget restrictions. For those duties that could not be segregated due to a limited number staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing monthly bank reconciliations and the receipts and disbursements ledgers. Documentation, such as the sheriff's or a designee's initials or signature, should be provided on those items that were reviewed.

Sheriff's Response: Due to a small staff it is difficult to overcome this issue. To help overcome this, the Sheriff will review monthly bank reconciliations, receipts and disbursement ledgers. The reviews will be documented by initials or signature of the Sheriff or his designee. Random cash counts will also continue to be done.

The Calloway County Sheriff overspent his approved budget: In calendar year 2016, the Calloway County Sheriff overspent his approved budget by \$94,889. A budget amendment was obtained by the sheriff's office, but it did not adequately cover all of the expenses. The sheriff failed to emphasize a strong internal control system; therefore, improper monitoring of disbursements resulted in the sheriff overspending his 2016 budget. The sheriff's failure to monitor the budget properly when making expenditures caused the office to disburse more money than was approved by fiscal court, thus making him noncompliant with KRS 68.210 and the fiscal court was denied additional excess fees of \$94,889.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year. KRS 68.210 states that the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials. Additionally, strong internal controls include monitoring disbursements and comparing them to budgeted amounts.

We recommend the Calloway County Sheriff monitor the budget set by fiscal court to ensure that he does not spend more than what is approved. When necessary, the sheriff should make appropriate transfers or obtain a budget amendment from fiscal court before overspending any budget category.

Sheriff's Response: We had to advance some commissions at the beginning of tax season. We did not subtract that amount from the monthly reports. It was an oversight which resulted in our office receiving an excess of \$50,000, which was used for equipment expenses for the year. We will monitor the budget more closely during the year and make proper adjustments.

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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