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Harmon Releases Audit of Calloway County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Calloway County Sheriff Sam Steger. 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The Calloway County Sheriff's Office lacks adequate segregation of duties: This is a repeat finding and was included in prior year report as Finding 2016-002. In calendar year 2017, the Calloway County Sheriff's Office lacks 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 disbursements, 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, cross-checking procedures, and reviewing monthly bank reconciliations periodically, however, these procedures were not sufficient enough to reduce the risks associated

with the lack of segregation of duties. According to 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 that errors could occur and not be detected. 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, we recommend the sheriff 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 may include reviewing the receipts and disbursements ledgers. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

Sheriff's Response: Due to a limited number of staff in the business office, the bookkeeper also has to directly handle money along with other diverse duties. I do hire part-time staff in the tax collection months to assist the effort to segregate duties.

The Calloway County Sheriff overspent his approved budget: This is a repeat finding and was included in the prior year report as Finding 2016-003. In the calendar year 2017, the Calloway County Sheriff overspent his budget by \$57,115. 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 2017 budget. The sheriff's failure to monitor the budget properly when making expenditures, caused the office to disburse more money than was approved by the fiscal court, thus making him noncompliant with KRS 68.210.

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

Sheriff's Response: We obtained an amended budget but due to undetermined receipts and some disbursements that bleed over into January of the following year, tracking the budget is sometimes difficult. We will take measures to monitor it as closely as possible.

The Calloway County Sheriff overspent the maximum salary limit fixed by the fiscal court:

The Calloway County Fiscal Court set the maximum amount the sheriff could spend on deputies' salaries and wages during the calendar year 2017 at \$1,140,000. Excluding compensation for Kentucky Law Enforcement Foundation Program Fund (KLEFPF) wages, the total amount expended on deputies' salaries and wages was \$1,357,172, which is \$217,172 more than the approved amount. The annual order setting the maximum amount for deputies and assistants included the employer Social Security and retirement match by mistake. The sheriff did not notice this mistake at the time the order was set. As a result, the sheriff overspent the maximum salary limitation fixed by the fiscal court.

KRS 64.530(3) states, "the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant." Once established, the sheriff should adhere to this order.

We recommend the Calloway County Sheriff monitor his payroll expenditures during the year and obtain any necessary amendments before year end.

Sheriff's Response: This was due to the Annual Order Setting Maximum Amounts for Deputies and Assistants included employer social security and retirement matching and shouldn't have. This has been corrected for the next budget year.

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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