



Auditor of Public Accounts
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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 2018 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 the internal control over financial operations and reporting.

The audit contains the following comments:

The Calloway County Sheriff overspent his approved budget: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. During calendar year 2018, the Calloway County Sheriff overspent his budget by \$77,112. A budget amendment was obtained by the sheriff's office, but it did not adequately cover all of the expenses. This condition is the result of the sheriff's office's failure to record loan proceeds and the purchase of vehicles on the financial statement. The sheriff's failure to monitor the recording of receipts and expenditures caused the office to disburse more money than was approved by the fiscal court.

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 15 of each year. Additionally, strong internal controls include monitoring disbursements and comparing them to budgeted amounts.

We recommend the Calloway County Sheriff's Office record all loan proceeds and the purchase of assets on the financial statement. Additionally, the sheriff should monitor the budget set by the fiscal court to ensure that he does not spend more than what 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: The Sheriff will make sure that the budget amendment is done in a timely manner and covers all expenditures adequately.

The Calloway County Sheriff overspent the maximum salary limit fixed by the fiscal court: This is a repeat finding and was included in the prior year audit report as Finding 2017-003. During calendar year 2018, the Calloway County Fiscal Court fixed the maximum amount the sheriff could spend on deputies' salaries and wages at \$1,258,000. An amendment was obtained by the sheriff and approved by the fiscal court to raise the maximum amount to \$1,295,000. However, the total amount expended on deputies' salaries and wages was \$1,395,846, which is \$100,846 more than the approved amount. The annual order setting 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 fiscal court. The sheriff was not in compliance with the annual order setting the maximum amount for deputies and assistants.

Strong internal controls over payroll, specifically the total amount spent on deputies' salaries, are essential in ensuring the sheriff does not spend more on deputies' salaries than what was approved by the fiscal court. KRS 64.530(3) states, "[t]he fiscal court shall fix annually the reasonable 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: Due to unforeseen overtime, and this year, retirement and social security matching being in the salary budget, the maximum salary was overspent. The Sheriff will make sure that withholdings do not affect the maximum salary cap and will make sure the appropriate amendment is made as he so sees fit.

The Calloway County Sheriff's Office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year report as Finding 2017-001. In calendar year 2018, the Calloway County Sheriff's Office lacked adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as collecting cash from customers, preparing disbursement

checks, recording receipts and disbursements, performing monthly bank reconciliations, and preparing quarterly reports. To offset the risk associated with a lack of segregation of duties, the sheriff has implemented compensating controls including dual signatures on all checks, cross-checking procedures, and reviewing quarterly reports; however, these procedures were not sufficient to reduce the risks associated with the lack of segregation of duties. According to the sheriff's office, 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.

Proper segregation of duties over accounting and reporting functions is essential for providing protection from undetected errors occurring. Additionally, properly segregated duties protects employees in the normal course of performing their daily responsibilities. When staff size is limited, it may be necessary to implement compensating controls to achieve an acceptable level of protection for both the office and individual employees.

To adequately protect against the misappropriation of assets and inaccurate 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 of staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the receipts and disbursements ledgers and monthly bank reconciliations. 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 the office staff size it is difficult to overcome this recommendation. The Sheriff will continue to do spot cash counts and sign off on bank statements.

The Calloway County Sheriff lacks internal controls over financial reporting: The Calloway County Sheriff's fourth quarter financial report was misstated and required multiple audit adjustments. Insurance proceeds of \$17,122 and loan proceeds of \$77,154 were omitted from the receipts ledger, while loan payments of \$17,122 and vehicle purchases of \$77,154 were omitted from the disbursements ledger. This caused a total misstatement of \$94,276 in receipts and disbursements. The condition is the result of the sheriff's office's failure to record all loan proceeds and the purchase of vehicles on the financial statement. Due to the lack of a strong internal control system over the recording of receipts and disbursements, material audit adjustments were recommended to correct the sheriff's financial statement.

Strong internal controls over recording receipts and disbursements are essential to ensure that all receipts and disbursements are properly accounted for on the financial statement. 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 stated accurately.

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

Sheriff's Response: The Sheriff will make sure that all loan proceeds and insurance adjustments are on the correct ledgers. This issue is in part because of the insurance reporting procedures on vehicles that are wrecked and insurance may have been reported to the Fiscal Court. The Sheriff will make sure it is documented correctly.

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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