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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of Jackson County Sheriff Paul Hays. 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 Jackson 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 Jackson County Sheriff's financial statement was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Jackson County Sheriff's calendar year 2017 financial statement was materially misstated due to the following issues:

- Receipt and disbursement activity of the sheriff’s 2017 fee account that occurred after December 31, 2017, was not posted to sheriff’s fourth quarter report. This resulted in adjustments to receipts and disbursements totaling $18,849.
- Receipt and disbursement amounts posted to the financial statement were inconsistently treated. Receipt line items for various fees were not handled the same each quarter, making agreement between the ledger and fourth quarter financial statement impossible.

Numerous adjustments were required to reclassify receipts and disbursements that had been misclassified on the ledgers. The majority of the issues were caused by errors in bookkeeping and a lack of oversight of the financial statement. The sheriff’s fourth quarter financial statement was created based on reports from the sheriff’s accounting software that were only updated through December 31, 2017, which resulted in several items not being included on the financial statement. This resulted in multiple posting errors to both receipts and disbursements, which in aggregate, materially misstate the financial statement.

Good internal controls dictate that all transactions should be posted to the ledgers to produce an accurate representation of the financial activity. Further, line items on ledgers should be given the same treatment each time a financial statement is produced in order to give a clear representation of the year’s finances.

We recommend the Jackson County Sheriff improve procedures over financial reporting to ensure transactions are properly recorded and financial statements are materially stated.

Sheriff’s Response: The sheriff did not respond.

The Jackson County Sheriff’s Office lacks adequate segregation of duties over receipts, bank reconciliations, and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The sheriff’s bookkeeper is responsible for collecting receipts, preparing deposits, preparing daily checkout sheets, posting to ledgers, and performing bank reconciliations. The sheriff or another employee did not document oversight of bank reconciliations. The sheriff’s bookkeeper is also responsible for preparing purchase orders, preparing checks, and signing checks. The sheriff has implemented compensating controls, including having an outside bookkeeper review monthly ledgers and bank statements, and the sheriff dual signing checks after comparison to invoices. However, these controls do not address the lack of segregation of duties of the same employee collecting receipts, making deposits, posting to ledgers, preparing purchase orders, and preparing checks.

According to the sheriff, the lack of segregation of duties is a result of a limited budget, which restricts the number of employees the sheriff can hire and delegate responsibilities to. This deficiency increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government.

The segregation of duties over various accounting functions such as preparing deposits, preparing daily checkout sheets, and issuing cash receipts is essential for providing protection from asset misappropriation and inaccurate financial reporting. Good internal controls further dictate that duties of preparing purchase orders, preparing checks, signing checks, posting to ledgers, and reconciliations of ledgers to bank accounts be segregated. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate duties over receipts, bank reconciliations, and disbursements. If segregation of duties is not feasible due to lack of staff, the sheriff should continue with established compensating controls to help mitigate any weakness.

Sheriff's Response: The sheriff did not respond.

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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