



Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Livingston County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Livingston County Sheriff Bobby Davidson. 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 Livingston 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 Livingston County Sheriff had \$194 of disallowed expenditures: During calendar year 2018, the sheriff had \$33 in credit card interest charges and \$161 charged to the credit card for groceries. This condition is the result of inadequate internal controls in the sheriff's office over credit card charges. Because the charges above are not considered necessary or beneficial to the public, the Livingston County Sheriff is not expending funds in accordance with Funk v. Milliken; therefore, these payments are disallowed.

Strong internal controls are essential to ensuring receipts and disbursements are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets. In addition, in Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

We recommend the sheriff repay the \$194 from personal funds to the fiscal court to repay the interest and total amount of groceries charged to the office credit card.

Sheriff's Response: The sheriff will repay \$194 for food deputies used during training.

The Livingston County Sheriff's Office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The Livingston County Sheriff's office lacks adequate segregation of duties over receipts and disbursements. The bookkeeper can collect cash, prepare the daily checkout sheet, prepare the deposit slip and take the deposit to the bank, post to the ledgers, prepare and sign checks, reconcile the bank statements, and prepare monthly and quarterly reports.

According to the sheriff, due to a limited staff size, the bookkeeper is required to perform most of the bookkeeping functions. This condition is the result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. A lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud.

The lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as collecting cash, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

To adequately protect against the misappropriation of assets and undetected misstatements, we recommend the sheriff segregate the duties noted above by allowing different deputies to perform them. For those duties that cannot be segregated due to a limited staff size, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing daily checkout sheets, daily deposits, and monthly bank reconciliations. Also, all checks should require dual signatures, with one being the sheriff's. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that were reviewed.

Sheriff's Response: We do not generate enough revenue to hire enough employees to take care of segregation of duties, but do as many things to oversee and review all paperwork.

The Livingston County Sheriff's fourth quarter financial statement was materially misstated: The Livingston County Sheriff's disbursements on the fourth quarter financial statement was materially misstated by a total of \$23,502. Due to a lack of effective internal controls, the sheriff's office completed the purchase of a vehicle after year-end but did not record the purchase on the disbursements ledger or fourth quarter financial statement for 2018. In addition, there were additional transactions that were either not posted to the ledgers or were incorrectly posted to the ledgers. Because of a lack of effective internal control over the recording of disbursements, the sheriff's disbursements on the fourth quarter financial statement are not reported accurately.

Strong internal controls are essential to ensuring that receipt and disbursements are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets.

We recommend the Livingston County Sheriff record all disbursements in the disbursements ledgers and on the fourth quarter financial report.

Sheriff's Response: We amended the budget for a new truck, but did not purchase truck until after year ended, therefore, it made our disbursements be misstated for that 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](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.

