



Auditor of Public Accounts  
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**Edelen Releases Audit of Pendleton County Sheriff's Office**

**FRANKFORT, Ky.** – State Auditor Adam Edelen today released the audit of the 2014 financial statement of Pendleton County Sheriff Charles Peoples. 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.

Recent changes in auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the revenues, expenditures and excess fees of the Pendleton County Sheriff in accordance with generally accepted accounting principles in the United States. The report found that the financial statement of the Sheriff 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 non-compliance 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 sheriff's office lacks adequate segregation of duties over receipts and disbursements.**

During our review of internal controls, we discovered the Sheriff's office lacks adequate segregation of duties over receipts and disbursements. All employees of the Sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursement ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements ledger. The Sheriff and office manager are the only authorized check signers.

The Sheriff does not require dual signatures on checks; however, the office manager generally signs checks.

Lack of segregation of duties over receipts and disbursements, creates an opportunity for misappropriation of assets such as cash. By having the same employee perform these functions, the risk that errors or fraud could occur and not be detected increases, such as misappropriation of assets and/or inaccurate financial reporting to external agencies such as Department for Local Government.

Due to the Sheriff's office having a small office staff composed of three full time employees, it is very difficult to segregate duties over receipts and disbursements in a positive and constructive manner.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

We would recommend the Sheriff implement compensating controls to offset this weakness. The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compares the daily checkout sheet to the receipts ledger when prepared by another employee. The Sheriff should document this review process by initialing the daily checkout sheets and deposit slips. The Sheriff should review the quarterly financial report and compare amounts reported on the receipts and disbursements ledger. Bank statements should be reconciled regularly and reviewed by another person. This review should be documented by dating/initialing the bank statement, along with the reconciliation sheets.

*Sheriff's response: None.*

**The Sheriff should improve procedures over the fee account.** During our audit, we noted instances in December of 2014 where the Sheriff's office on two occasions transferred from the tax account into the payroll account, amounts of \$9,500 and \$5,000. Subsequently, the monies were transferred from the fee account back into the tax account.

Proper planning for upcoming disbursements would deter the need for transferring of monies from other accounts that are not legally setup for such transfers.

The normal payroll on a monthly basis involves one payment, except in December there are 2 payments, which results in a larger disbursement, where normal office receipts cannot meet, at that particular moment, resulting in transfers from tax account and other fee account.

KRS 134.160(5) states, "Other than as permitted for investment and expenditures by this chapter, the sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected."

The auditor recommends that the Sheriff's office should not pay disbursements unless there are sufficient funds available and not transfer monies between accounts that are not statutorily permitted.

*Sheriff's response: None.*

**The Sheriff's office should batch receipts daily and make daily deposits.** The Sheriff does not batch receipts daily or account for the numerical sequence of receipts. It was further noted, during July of 2014, that receipts appear to be used from three different receipt books. From our sample, it was determined that the bookkeeper batched receipts based on deposit date.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as Department for Local Government, which could occur and go undetected.

Due to the Sheriff's office having a small number of staff, where the recordkeeping and deposit activity is normally handled by one person, and where collections are not sizeable in dollar amounts, there is an incentive to delay the daily batching of receipts and deposits until the dollar value has increased.

The minimum requirements pursuant to KRS 68.210 dictate that collections should be deposited intact into a federally insured banking institution on a daily basis. It requires officials to issue receipts and reconcile daily checkout sheets with daily deposit totals. Also, the checkout sheets should agree to batched receipts, deposits, and the receipts ledger.

We recommend that the Sheriff's Office implement procedures to ensure receipts are batched, posted to a daily checkout sheet, and deposited daily in order to be in compliance with KRS 68.210. We further recommend that the Sheriff use the same receipt book until all receipts in the book have been issued, accounting for the numerical sequence of batched receipts. Also, daily checkout sheets should detail receipt numbers issued, the amount of cash and/or checks collected, and be attached to the white and yellow copies of receipts.

*Sheriff's response: None.*

**The Sheriff should not run charitable accounts through his office that do not serve a public purpose associated with a regular function of the Sheriff's office.** The Sheriff maintains a County Cop & Court account that is run through his office for the Shop With A Cop Program. This account does not serve a public purpose associated with the regular function of the Sheriff's office. During testing of disbursements, the auditor noted a check written to cash from the County Cop & Court account.

Lack of oversight could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as Department for Local Government, which could occur and go undetected.

The Pendleton County Cop & Court Account was created over twenty years ago in order for individuals from the Sheriff office and the local court system to raise monies in order to purchase Christmas gifts for poor children from Pendleton County. The program is fully funded by local donations which are administered by the Sheriff. This program is highly visible and publicized

in the local paper, with pictures of individual kids and a local law enforcement official that accompany the child.

Charitable accounts run through the Sheriff's office must serve a public purpose associated with a regular function of the Sheriff's office, such as drug awareness education through DARE. In addition, to be an allowable charitable activity, the charity should be a statewide or national organization, the Sheriff should have a specific agreement or guidelines in place that describe the activities to be performed by the Sheriff or his deputies that are related to a regular function of the office, the method of collecting funds, and the restriction on the expenditure of funds. Furthermore, accounts should meet the requirements of Funk vs. Milliken. In Funk vs. Milliken, 317 S.W.2d 499 (KY 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. Good internal controls dictate that disbursements be made by check to ensure that all transactions are allowable, necessary, properly supported and reviewed by management.

The Sheriff may continue to participate in this activity; however, this activity should not be performed during regularly scheduled work hours. The activity should be operated completely external to the Sheriff's office and administered by a private or not for profit entity, such as the Kentucky Sheriff's Association. We also recommend that the Sheriff discontinue writing checks to cash. All disbursements should be made by check to ensure all disbursements are allowable and necessary and properly recorded.

*Sheriff's response: None.*

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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