



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Former Elliott County Sheriff's Office

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2017 financial statement of former Elliott County Sheriff Jim Stephens. 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 former Elliott 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 internal control over financial operations and reporting.

The audit contains the following comments:

The former sheriff did not account for receipts properly: The former sheriff's receipts were not batched and deposited daily, resulting in a delay of more than three business days before a day's receipts were posted to the bank. In addition, the former sheriff did not prepare daily checkout sheets or account for receipts in numerical sequence. A "deposit summary" was prepared in lieu of a checkout sheet which is created the day deposit is made. The former sheriff did not have procedures in place to ensure that receipts were accounted for properly. According to the bookkeeper, deposits were not made daily since she is often alone in the office and cannot leave to take the deposit to the bank. The bookkeeper also stated that she does not have time to prepare

a checkout sheet every day. Failure to batch and deposit receipts daily increase the likelihood of misstatement or fraud occurring without detection. Furthermore, if receipts are not batched in numerical order, it is hard to ensure that all receipts have been accounted for. By not preparing a daily checkout sheet, auditors have no way of verifying that receipts are accurate. By creating a deposit summary instead of a daily checkout sheet, the sheriff's office is essentially creating a form to agree to the deposit rather than having a deposit agree back to supporting documentation.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. According to the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*, receipts are to be batched and deposited daily. We recommend the sheriff's office batch receipts and prepare a checkout sheet daily and make daily deposits per the Uniform System of Accounts.

Former Sheriff's Response: The sheriff did not provide a response.

The former sheriff's office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former sheriff's office lacked adequate segregation of duties. The former sheriff's bookkeeper collected payments from customers, recorded transactions in the ledgers, prepared deposits, and reconciled the bank account. According to the sheriff, the lack of adequate segregation of duties within the sheriff's office was the result of limited staff which prevented the sheriff from segregating accounting duties to different individuals within the sheriff's office.

Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which would increase the risk of undetected misappropriation of assets and inaccurate financial reporting. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit can be implemented to decrease the risk present in the absence of proper segregation of duties, but they don't eliminate the lack of adequate segregation of duties. We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, then strong oversight over the employee's work should be provided and documented.

Former Sheriff's Response: The sheriff did not provide a response.

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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