



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of Knox County Sheriff Mike Smith. 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 Knox 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 sheriff overspent the amount fixed by the fiscal court for his official expenses: The Knox County Sheriff's operating expenditures exceeded the maximum amount fixed by the Knox County Fiscal Court. On December 28, 2017, the fiscal court approved the sheriff's budget in the amount of \$1,191,700 for calendar year 2018; however, operating expenditures totaled \$1,304,382. The majority of the overage was due to employer share of retirement and health insurance and the purchase of vehicles.

The sheriff stated his office did not realize a budget amendment was necessary due to increased retirement and insurance during the period. The sheriff contacted the Department for Local Government (DLG) and determined there was not a standard budget amendment form.

As a result of not monitoring the budget, the sheriff exceeded the limits approved by the fiscal court by \$112,682. KRS 64.530(3) states in part, “[t]he fiscal court may also fix the reasonable maximum amount that the officer may expend each year for expenses of his office.”

KRS 68.210 states that the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials. 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.

Good internal controls dictate that the sheriff monitor his budget to ensure he does not exceed the budget approved by the fiscal court.

We recommend the Knox County Sheriff ensure official expenses are within the amount fixed by the fiscal court, monitor his budget, and have necessary budget amendments approved by the fiscal court before year end.

Sheriff’s Response: Administrative personnel did not realize a budget amendment was necessary due to increased retirement and insurance during the period. Dept. for Local Government was contacted and determined there was not a standard budget amendment form.

The sheriff did not segregate accounting duties or document compensating controls: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The sheriff’s office did not segregate accounting duties. In addition, no documentation was provided as evidence that compensating controls were implemented. The sheriff’s office manager collects payments from customers, prepares bank deposits, issues checks, and posts to the receipts and disbursements ledgers. The sheriff’s part-time bookkeeper prepares bank reconciliations, prepares payroll, and occasionally collects payments from customers. Front line office personnel prepare their own deposits but the office manager takes them to the bank. Neither the office manager nor the part-time bookkeeper are authorized check signers but both are responsible for preparing monthly and quarterly reports. No evidence was found that the sheriff or an employee who did not prepare the report provided oversight over any of these activities. Additionally, the sheriff hired an outside Certified Public Accountant (CPA) to review the quarterly reports for accuracy, but no evidence of the review was found.

The sheriff stated this condition is the result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to. The sheriff stated that the sheriff’s office does a lot of reviews and double checks for accuracy, but the sheriff didn’t realize that the person should be initialing to document their reviews.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department for Local Government (DLG).

Proper segregation of duties over various accounting functions such as opening mail, 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.

We recommend the sheriff separate the duties involved in receiving cash, posting to ledgers, and preparing reports. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure. For example, the sheriff could instruct a person independent of receipts posting and bank reconciliation to compare bank deposit ticket to daily checkouts and show evidence of this review by initialing the deposit ticket and the daily checkout. Additionally, the sheriff or someone independent of report preparation could compare the monthly/quarterly reports to the supporting documentation.

Sheriff's Response: Due to a limited budget, additional administrative personnel are unable to be hired. We conduct a lot of reviews and double checks for accuracy.

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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