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### Harmon Releases Audit of Breathitt County Sheriff's Fee Account

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the 2022 financial statement of Breathitt County Sheriff John Hollan. 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 Breathitt 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 findings:

**The sheriff's fourth quarter report did not properly reflect the source and use of funds:** This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The sheriff's ledgers and his fourth quarter report, which serves as his financial statement, reflected posting discrepancies, requiring multiple audit reclassifications and adjustments. Disbursement reclassifications totaled \$74,125.

The sheriff did not post gross salaries and payroll benefits to the fourth quarter report. Improper postings increase the risk of uncorrected errors, theft, loss, or misappropriated assets. Material audit reclassifications were necessary to accurately reflect the activity of the sheriff's office.

KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year, which includes: (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses."

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires the sheriff to prepare a quarterly report which includes total receipts and total disbursements on a cash basis per line-item category.

We recommend the sheriff review reclassifications and adjustments to develop policies for posting transactions to ensure disbursements are categorized and accounted correctly on his ledgers and fourth quarter report.

*Sheriff's Response: This is a repeat audit comment. The issue here is simply reclassification of the money to different accounts on the Financial Statement compared to accounts used by the office during the year. No money is missing. Account selection is open to interpretation and opinions vary. We will consider the recommendation going forward.*

**Auditor's Reply:** We recommend the sheriff review the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, or contact DLG directly on how to properly classify postings to the ledgers and quarterly reports.

**The sheriff's office lacks adequate segregation of duties:** The sheriff's office lacks adequate segregation of duties. Deputy clerks collect fee receipts, prepare the daily checkout sheet, and prepare and make the daily deposit. These incompatible duties create a lack of segregation of duties over receipts and could affect the sheriff's ability to report accurate financial information. However, the sheriff implemented compensating controls to offset this control deficiency. The bookkeeper is independent of the fee collections and he agrees daily deposits to the bank statements, posts receipts from the daily check-outs and prepares the bank reconciliation. These compensating controls should mitigate the effects of the significant deficiency to a lower level, but the sheriff has multiple issues regarding internal controls which do not offset the control deficiency.

According to the sheriff, the sheriff's office is a very small office, and it is impossible to properly segregate duties due to the lack of staff and funds to hire additional staff. The lack of segregation

of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. However, the compensating controls implemented by the sheriff lower the risk that could occur.

Proper segregation of duties over the accounting and reporting functions or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff strengthen internal controls to prevent future control deficiencies and continue implementing compensating controls.

*Sheriff's Response: As in the case with most counties there isn't enough money available to hire enough employees to avoid segregation of duties issues. However, there are controls in place to detect issues. The office will continue practicing the control structure that has been utilized for nearly five years.*

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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