



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of former Estill County Sheriff Gary Freeman. 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 Estill County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former 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 former sheriff did not deposit funds daily: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. Receipts were not deposited daily as required. Per discussion with the bookkeeper, receipts were not deposited daily because receipt amounts are not significant in total; therefore, a deposit is made when a large amount is received or at least weekly. By not properly depositing monies received by the office daily, this could result in loss of receipts or misplaced monies.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is outlined in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, which establishes requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured bank institution." We recommend the sheriff's office adhere to these requirements by depositing all public funds received into an official account daily.

Former Sheriff's Response: Pass to Chris Flynn (current sheriff).

The former sheriff's office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2017-004. The former sheriff's office lacked adequate segregation of duties. The responsibilities of recording, depositing, and reconciling cash were delegated to the same individual. The former sheriff indicated that this was caused by a limited number of employees that were available to segregate these job duties. Since only one person performed these functions, there was no assurance that financial transactions were accurate, complete, and free of error and misstatement. It increased the risk of undetected fraud or errors.

The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk that undetected errors, misstatements, or fraud will occur.

Proper segregation of duties over accounting and reporting functions is essential for providing protection from undetected errors occurring. Additionally, properly segregated duties protects employees in the normal course of performing their daily responsibilities. When staff size is limited, it may be necessary to implement compensating controls to achieve an acceptable level of protection for both the office and individual employees.

If duties cannot be adequately segregated due to a small staff size, the sheriff could implement and document compensating controls to reduce the risk of inadequate segregation of duties. Examples of compensating controls include: the sheriff comparing daily checkout sheet to receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, reviewing invoices prior to payment, and reviewing all financial reports. The sheriff could document his review process by initialing reports and supporting documentation.

We recommend the sheriff's office segregate the duties of receiving, recording, depositing, and reconciling cash or implement and document compensating controls to offset this control issue.

Former Sheriff's Response: Pass to Chris Flynn (current sheriff).

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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