



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2015 financial statement of Pendleton County Sheriff Charles William “Craig” 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.

Auditing standards require the auditor’s letter to communicate whether the financial statement presents fairly the receipts, disbursements, and excess fees of the Pendleton 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 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. 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.

The lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets. By having the same employee perform these functions, there is increased risk of undetected errors, misappropriation and assets or inaccurate financial reporting to external agencies such as Department for Local Government. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

Due to the sheriff's number of staff, composed of three full-time employees, it is difficult to segregate duties over receipts and disbursements effectively.

We 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 compare 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 and initialing the bank statement and the reconciliation sheets.

Sheriff's response: Sheriff also signs all checks.

The sheriff's office did not 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 that during June 2015 it appears receipts were used from three different receipt books. From our sample, it was determined that the bookkeeper batched receipts based on deposit date.

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

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 promulgated 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 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 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 or checks collected, and be attached to the white and yellow copies of receipts.

Sheriff's response: Deposits are not made on for only \$5.00.

The sheriff administered a charitable account through his office that does not serve a public purpose associated with a regular function of the sheriff's office. The sheriff maintains a county cop & court bank 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 four checks written to cash from the county cop & court account totaling \$3,000. The Pendleton County Cop & Court account was created over 20 years ago in order for individuals from the sheriff's office and the local court system to raise money in order to purchase Christmas gifts for underprivileged children in 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 children and a local law enforcement official who 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 externally 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 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: Sheriff wants all accounts to fall under an audit.

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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