

# State Auditor releases 2017 Sheriff's Tax statement

State Auditor Mike Harmon today released the audit of the 2017 financial statement of Green County Sheriff Robby Beard. 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 Green County Sheriff in accordance with accounting principles generally accepted in the United States of America. The clerk's financial statement did not follow this format. However, the clerk'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 clerk 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Green County Sheriff's Office lacks adequate segregation of duties over all accounting functions: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Green County Sheriff's Office lacks adequate segregation of duties over receipts, disbursements, payroll, and the reconciliation process. The sheriff's bookkeeper collects payments from customers, prepares deposits, prepares daily checkout sheets, writes disbursement checks, posts transactions to the receipts, disbursements, and payroll ledgers, reconciles the monthly bank statements, and prepares the monthly and quarterly reports. The sheriff has implemented some compensating controls, such as reviewing and initialing the daily checkout sheets, occasionally reviewing and initialing the monthly bank reconciliations, occasionally reviewing and approving deputies monthly timesheets, reviewing and signing court security officers' timesheets, signing the monthly and quarterly reports, and signing all disbursements.

According to the sheriff, the office has a small staff with a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

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

The segregation of duties over various accounting functions such as opening mail, preparing deposits, re-

cording receipts and disbursements, preparing monthly bank reconciliations, preparing monthly and quarterly reports, approving timesheets 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, preparing deposits, writing disbursements checks, posting to ledgers, and preparing monthly bank reconciliations. If this is not feasible due to lack of staff, then strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the sheriff could also provide this oversight. The individual providing the oversight should initial the source document as evidence of the review.

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

The Green County Sheriff did not have proper internal controls in place over the receipt process and did not make daily deposits as required: The Green County Sheriff's Office does not have proper internal controls in place over the receipt process which includes preparing manual receipts and making daily deposits. The sheriff's office manually prepares receipt forms for all monies collected. The receipt forms do not

include if the form of payment is check or cash. In addition, two manual receipts tested did not include the date collected and there were 25 instances in which the date of the check received for payment did not agree to the date of the manual receipt.

Also, the Green County Sheriff did not make daily deposits as required by the Department for Local Government (DLG) and receipts were not properly batched at the end of each day. There were, on average, three to four deposits made each month during calendar year 2017. Auditors tested the week of November 26, 2017 through December 2, 2017, and only one deposit was made during this week, on November 27, 2017. The deposit contained checks dated as far back as September 25, 2017, October 27, 2017, and October 30, 2017, all others were dated throughout the month of November.

As a result of not making daily deposits, a delinquent tax check the sheriff's office received from the Green County Clerk's Office came back from the bank as a non-sufficient funds (NSF) check when the office finally deposited it. The delinquent tax check was for the month of December 2016 and was returned NSF to the sheriff's office on February 9, 2017. The check was returned due to the county clerk's 2016 fee account being closed. The sheriff did not deposit the clerk's delinquent tax check timely therefore, the county clerk closed his fee account and turned over excess fees to fiscal court. The fiscal court

reimbursed the sheriff for the amount. As a result of the NSF check, deposit detail was obtained for the February 8, 2017 deposit as well as the November 27, 2017 deposit. The delinquent tax check was written to the sheriff on January 3, 2017, but was not deposited until February 8, 2017.

According to the sheriff, he did not require that the form of payment be included on the receipt form. Also, he stated that during the year, some checks had been in the cash drawer and were under some paperwork and overlooked for several weeks; therefore, there was a delay in depositing.

If receipts are not accounted for properly, it increases the risk of fraud or accounting errors. Without the form of payment being included on the receipt forms, the cash/checks per the manual receipts cannot be compared and reconciled to the cash/checks per the deposit ticket. Also, by the manual receipts not including the accurate date received, receipts are not recorded timely.

Good internal controls dictate that prepared manual receipts should include all relevant information such as date received, amount received, purpose of the payment received, and form of payment. This ensures proper accounting for receipts and reconciliation to the bank deposit.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. DLG's County Budget Preparation and State Local Officer Policy

Manual's Minimum Requirements Pursuant To KRS 68.210 For All Local Government Officials (And Employees) requires "[d]aily deposits intact into a federally insured banking institution."

We recommend the sheriff require all receipt forms to include the date collected and the form of payment. Also, we recommend the sheriff reconcile each day's cash and checks per the manual receipts to the deposit ticket. In addition, we recommend the sheriff implement internal controls and provide appropriate oversight over the receipt process to ensure daily deposits are made as required by DLG.

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

The Green County Sheriff had a disallowed disbursement of \$32 for penalty and interest: The Green County Sheriff was assessed penalty and interest for filing and paying the July 2017 Kentucky Withholding Tax late. The return and payment were due August 15, 2017. A late filing penalty was assessed from August 16, 2017 through August 25, 2017, and late payment penalty was assessed from August 16, 2017 through September 14, 2017. The sheriff wrote the check to cover the withholdings on September 11, 2017. Penalties and interest are not allowable costs, as they are not necessary and beneficial to the public; therefore, they have been disallowed. According to the sheriff, the late filing and payment was due to an oversight by the sheriff.

Paying penalties and

interest fees, which are not necessary or beneficial to the public, reduces the amount of operating funds for the sheriff's office, or reduces the amount of excess fees paid to the fiscal court, or both.

Internal controls dictate that the sheriff should monitor all disbursements to ensure compliance with state laws and regulations and to ensure payments are timely and accurate to avoid penalties.

In accordance with Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' disbursements of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature.

We recommend the sheriff deposit personal funds of \$32 to reimburse his 2017 fee account for the disallowed disbursement. We further recommend the sheriff's office only disburse funds for expenses that are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature.

**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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