Auditor of Public Accounts
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Harmon Releases Audit of Bell County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 taxes for Bell County Sheriff Mitchell Williams. 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 sheriff's settlement presents fairly the taxes charged, credited and paid in accordance with accounting principles generally accepted in the United States of America. The sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The sheriff's financial statement fairly presents the taxes charged, credited and paid for the period January 1, 2015 through April 15, 2015 in conformity with the regulatory basis of accounting.

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 did not have adequate segregation of duties. The sheriff's office did not have adequate segregation of duties over receipts, disbursements, and bank reconciliations. During our assessment of the sheriff's internal control structure, we noted one employee's duties included accepting tax payments, recording taxes paid, preparing monthly tax reports, and reconciling the bank account with limited activities. In order to achieve a proper segregation of duties, related activities should be assigned to different individuals or compensating controls should be implemented to offset the lack of adequate segregation of duties.

The lack of segregation of duties occurred because the sheriff failed to segregate incompatible duties or implement oversight duties when duties could not be segregated. Adequate segregation of duties is essential over receipts, disbursements, and bank reconciliations and would have prevented the same person from having a significant role in these incompatible functions.

We recommend the following segregation of duties or compensating controls be implemented to offset this internal control weakness.

- The sheriff should rotate the employee responsible for entering paid tax bills in the computer. The employee responsible for entering this information could be randomly determined without the employee's prior knowledge.

- The sheriff should compare monthly tax reports and disbursements to a deposit listing. Any differences should be reconciled. The sheriff could document this by initializing the listing of deposits.

- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. The sheriff could document this by initializing the bank reconciliation and the balance in the checkbook.

Sheriff's response: Each person in the tax office is opening and entering tax bills into the computer.

Auditor Reply: As mentioned in our recommendation, the sheriff should segregate duties where possible and implement compensating controls when proper segregation of duties is not obtainable.

The sheriff should require the depository institution to pledge or provide additional collateral of $1,238,967 and enter into a written agreement to protect deposits. On February 11, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of $1,238,967. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). A lack of proper oversight resulted in a portion of the sheriff's deposits being uninsured and unsecured.

The sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the sheriff enter into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's response: I have spoken to the depository institution concerning this matter.

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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