



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Bell County Sheriff's Unmined Coal Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 Unmined Coal Taxes for Bell County Sheriff Mitch 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 July 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 did not segregate the duties of his office.** The sheriff's office lacks adequate segregation of duties over receipts and disbursements. One employee's duties included accepting tax payments, recording taxes paid, preparing monthly tax reports, and reconciling the bank

account with limited activities. The sheriff did not allocate these duties nor did he implement compensating controls to mitigate the effects of the lack of segregated duties. 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. 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: We will attempt to put additional controls in place to compensate for the lack of segregation of duties.*

**The sheriff did not have a written agreement to protect deposits.** The sheriff had a written agreement that was entered into on August 25, 2015. However as of February 11, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of \$1,238,967. The sheriff did not have a collateral security agreement in place during the audit period and the bank failed to adequately pledge enough securities to cover the sheriff's deposits. The sheriff's lack of segregation of duties caused the uninsured deposits to remain an oversight. 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).

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: We will work with the bank to ensure securities are pledged and we have a written securities agreement in place.*

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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