



Auditor of Public Accounts
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Edelen Releases Audit of Former Clinton County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2014 taxes for former Clinton County Sheriff Ricky Riddle. 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.

Recent changes in auditing standards require the auditor's letter to communicate whether the sheriff's settlement presents fairly the taxes charged, credited and paid of the former Clinton County Sheriff in accordance with generally accepted accounting principles in the United States. 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 audit found that the sheriff's financial statement fairly presents the taxes charged, credited and paid, for the period, April 16, 2014 through December 31, 2014 in conformity with the modified cash 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 former Sheriff's Office lacked adequate segregation of duties over accounting functions. A lack of adequate segregation of duties existed over all accounting functions. During our review of internal controls, we noted the former Sheriff's bookkeeper opened incoming mail, collected tax payments, prepared deposits, prepares bank reconciliations,

prepared daily tax collection journals, prepared monthly tax reports, and prepared and signed tax checks.

A limited budget placed restrictions on the number of employees the former Sheriff could hire. When faced with a limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties.

Lack of oversight could have resulted in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the former Sheriff could have separated the duties involving the opening of mail, collecting and depositing of cash, and preparation of the monthly tax reports. If, due to a limited number of staff, that was not feasible, strong oversight over these areas could have occurred and involved an employee that wasn't currently performing any of those functions. Additionally, the former Sheriff could have provided this oversight and documented it on the appropriate source documents.

Former Sheriff's response: None.

The former Sheriff did not prepare and print daily tax collection journals and make deposits intact daily. The former Sheriff did not prepare and print daily tax collection journals and make deposits intact daily. From the three (3) deposits tested, we noted the following deficiencies:

- Tax collection journals included two (2) to six (6) six days of tax collections.
- Cash and checks per the tax collection journals did not agree to the cash and checks per the deposit for all three (3) deposits tested.
- Per the former bookkeeper, overpayments received by check were occasionally refunded in cash; however documentation was not maintained to support amounts.
- Tax collection receipts were not accounted for separately from fee account monies. After accounting for tax collection checks, the deposit was forced to agree to the tax collection journal by depositing the difference in cash. Any overages were kept in the cash drawer.
- Four (4) tax bills collected at face amount were entered as discount in the tax collection software. The overage of \$13 was not deposited.
- Twenty two (22) checks were dated during the face value period; however collected at the discounted amount.

These deficiencies in internal control over the deposit and refund process were allowed to occur because proper controls and oversight over the deposit and refund process were not put in place by the former Sheriff. In addition, tax bills were not entered into the tax software when received which increases the risk of errors.

Failure to deposit taxes collected intact, delaying depositing taxes collected, or refunding overpayments of checks by cash increases the risk of fraud and misappropriation of cash.

This is a non-compliance with KRS 68.210 and 109 KAR 15:020. KRS 68.210 states, “ The administration of the county uniform budget system shall be under the supervision of the state local finance officer who... shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The *County Budget Preparation and State Local Finance Officer Policy Manual*, under minimum requirements for handling public funds, states “Daily deposits intact into a federally insured banking institution.”

The former Sheriff should have implemented controls and provided appropriate oversight over the deposit and refund process in his office to ensure all deposits were made intact daily and refunds of overpayments were properly documented. Daily tax collection journals should have been prepared daily and reconciled to the deposits. Any differences should have been documented and explained. In addition, overpayments by checks should be refunded by check to properly document the overpayment has been refunded.

Former Sheriff's response: None.

The former Sheriff did not properly account for all tax collection receipts. The former Sheriff's office did not properly account for all tax collection receipts. The former Sheriff transferred uncollected tax bills to the incoming Sheriff on January 6, 2015. On April 15, 2015, delinquent tax bills were transferred to the County Clerk as required by KRS 134.122. After the County Clerk mailed notices of delinquency, two (2) taxpayers presented proof of payment totaling \$788 made in November 2014 to the former Sheriff's office. This occurred due to the lack of internal controls over the collection and deposit of tax receipts . In addition, the former Sheriff's office does not account for tax collections separate from fee account monies. As a result, these payments were not properly included on a tax collection journal and remitted to the districts. The former Sheriff remitted personal funds of \$835 to the incoming Sheriff to remit to the districts on April 13, 2015. It appears the Sheriff overpaid \$47. Based upon the information provided, we are unable to determine if there are any additional paid bills not properly accounted for. Good internal controls dictate tax receipts be reconciled daily to a tax collection journal and deposited daily. The former Sheriff should have accounted for his tax account and fee account separately. He should have reconciled the tax collection journals daily with the deposit. We will refer this finding to the Office of the Attorney General for further review.

Former Sheriff's Response: None.

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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