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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2014 taxes for Estill County Sheriff Gary Freeman. 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 April 16, 2014 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:

Tax collections were not distributed by the tenth of each month. The sheriff did not distribute all tax collections timely. The sheriff distributed franchise tax collections from the months of June, August, and September 2014 in January 2015. Additionally, franchise collections for the month of December 2014 were not distributed until the last week of January 2015. We also noted payments made several days late with regard to oil and gas tax collections.

Payments not made timely appear to be an oversight by the sheriff and his bookkeeper. Failure to make timely tax distributions is an issue of noncompliance that prevents taxing districts from receiving revenues timely and may cause cash flow issues for the taxing districts.

KRS 134.191(1) requires a sheriff to "provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes." Further, KRS 134.191(3) provides, "At the time of making the report, the sheriff shall pay to the county treasurer . . . , to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report." We recommend the sheriff provide monthly reports and distribute tax payments by the tenth day of each month as required by KRS 134.191.

Sheriff's response: No response.

The sheriff did not make daily deposits. The sheriff did not make deposits on a daily basis as required. During the month of December 2014, only two deposits were made into the tax account because the sheriff has not adopted a policy requiring daily deposits. The lack of daily deposits is an issue of non-compliance, and failure to make daily deposits increases the risk of undetected errors and fraud.

The Department for Local Government, under the authority of KRS 68.210, established minimum requirements for all local officials with regard to handling public funds and one of these requirements is, "Daily deposits intact into a federally insured banking institution." We recommend the sheriff start making daily deposits intact into a federally insured banking institution in order to comply with the Department for Local Government requirement and to reduce the risk of undetected errors and fraud.

Sheriff's response: I understand.

The sheriff's office lacks adequate segregation of duties. The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The sheriff's bookkeeper receives payments for taxes, records receipts in the ledger, prepares bank deposits, and performs monthly bank reconciliations. Additionally, the same employee prepares checks for payments from the tax account, records disbursements in the ledger, and prepares monthly reports reflecting amounts to be paid to each taxing district. Having the same employee perform all these accounting functions increases the risk of undetected errors or fraud. The sheriff also uses a signature stamp which is kept in the office vault and is accessible to the bookkeeper. The lack of adequate segregation of duties is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. Lack of adequate segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, 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 segregate these duties or implement steps to strengthen internal controls through compensating controls such as:

- 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.
- The sheriff should compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff should periodically compare amounts due to districts per monthly reports to the payments to the taxing districts.
- The sheriff should periodically compare the monthly bank reconciliation to the balance in the checkbook.
- All disbursement checks should be signed by two people, one being the sheriff.
- The sheriff should personally mail or deliver tax payments to taxing districts.

All of these compensating controls could be documented by initialing and dating the documents used to perform the comparisons. If the sheriff chooses to use a signature stamp, it should be stored in a locked drawer only accessible by the sheriff and only used after the sheriff has approved supporting documentation for the disbursement.

Sheriff's response: I understand.

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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