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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 taxes for Fleming County Sheriff Gary Kinder. 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 lacks adequate segregation of duties. The sheriff's office had a lack of adequate segregation of duties over tax receipts and disbursements. The sheriff along with a clerk collects tax receipts. The bookkeeper or clerk prepares the daily bank deposit, reconciles daily receipts to the daily collection report, and posts items to the receipts ledger. The bookkeeper prepares the monthly bank reconciliation, checks for tax distribution, and posts items to the disbursements ledger. The bookkeeper or sheriff signs all tax distribution checks. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. A proper segregation of duties also protects employees in the normal course of performing their daily responsibilities. We recommend the sheriff segregate duties or if a proper segregation of duties is not feasible, the sheriff could implement and document compensating controls to offset this control weakness. Some examples of compensating controls include:

- Bank reconciliations can be prepared by one person, then reviewed and initialed by the sheriff or an independent person.
- Daily tax collections and deposits should be reviewed by different individuals. This can be documented by having a reviewer initial the daily checkout sheet and deposit slip.
- The sheriff could require dual signatures on all checks, with one being the sheriff himself.

Sheriff's response: No response.

The sheriff failed to have a written agreement in place to ensure deposits were sufficiently collateralized. The sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The sheriff failed to have a written security agreement in place to pledge or provide sufficient collateral. On February 9, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of $52,518. 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 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 now have 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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