



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 taxes for Gallatin County Sheriff Josh Neale. 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:

The sheriff did not make deposits intact or in a timely manner. Deposits were not made intact and were not made daily. The sheriff does not have a policy to ensure that deposits are made intact and on a daily basis. Deposits not made intact result in cash collected and checks collected not agreeing to the deposit ticket's cash and check totals. This increases the risk of undetected misstatements in receipts reporting due to errors or due to theft of funds because it

cannot be easily determined which collections are cash or checks. KRS 68.210 authorizes the state local finance officer to prescribe a uniform system of accounts for counties, and the State Local Finance Officer Policy Manual for county budgets requires that deposits be made intact and on a daily basis. We recommend the sheriff implement procedures to ensure that deposits are made intact and on a daily basis.

Sheriff's response: No response.

The sheriff did not pay correct interest amounts to the school district and fee account monthly. The sheriff did not make accurate interest payments to the school district and fee account monthly. During the 2014 tax year, the school district was overpaid interest by \$34 and the fee account was overpaid interest by \$34. During prior tax years, interest totaling \$99 was not paid to the school district, and interest totaling \$79 was not paid to the fee account. As a result, the sheriff still owes the school district \$65 and the fee account \$45 for interest earned on tax collections.

The sheriff does not have a policy to ensure that interest is paid to the school district and fee account accurately and on a monthly basis. This increases the risk that the school is not paid the amount due to them attributable to school tax collections.

KRS 134.140 states, in relevant part, “(2) As part of the monthly distribution of taxes to a district board of education as required by KRS 134.191, the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes.... (4) In those counties where the office of sheriff is funded in whole or in part by fees and commissions, the sheriff may use investment earnings, other than those which must be paid to the board of education in compliance with subsection (2) of this section, to pay lawful expenses of his or her office.”

We recommend the sheriff pay the school district \$65 and the fee account \$45 for interest earned and comply with KRS 134.140 in the future.

Sheriff's response: No response.

The sheriff did not transfer old outstanding check to escrow account. The sheriff had one check for \$4,453 from 2012 reported as outstanding as of the audit date. The sheriff has not voided this outstanding check. Old outstanding checks that are not voided result in an overstated fund balance. KRS 393.110 requires the sheriff to report annually to the Kentucky State Treasurer any unclaimed monies. After three years, if funds have not been claimed, the funds should be distributed to the Kentucky State Treasurer. We recommend the sheriff report the unclaimed funds to the Kentucky State Treasurer, transfer the funds to a bank escrow account, and pay them to the Kentucky State Treasurer after they have been held for three years to ensure compliance with KRS 393.110.

Sheriff's response: No response.

The sheriff did not turn over prior year delinquent franchises taxes. The sheriff had uncollected franchise taxes totaling \$6,837 for 2011 tax bill # 65494 and bill # 8537 and for 2012 tax bill # 8537. The sheriff does not have a policy in place to ensure that delinquent franchise tax bills are turned over to the county clerk. When delinquent franchise bills are not turned over to the county clerk, the bills will go uncollected, resulting in a noncompliance with KRS 134.122. The County Clerk’s Franchise Manual, prepared by the Department of Revenue, requires the sheriff to turn over delinquent franchise tax bills to the county clerk, as is required for delinquent property taxes. KRS 134.122 requires the sheriff on April 15 to file all tax claims remaining in his possession with the county clerk. We recommend the sheriff turn over the prior year delinquent franchise taxes to the county clerk and implement procedures to ensure that future delinquent franchise taxes are turned over to the county clerk with the delinquent property taxes to ensure compliance with KRS 134.122.

Sheriff’s response: No response.

The sheriff did not settle due to/due from amounts from prior tax audits. The sheriff did not distribute amounts due to other parties for the 2012 and 2013 tax audits as follows:

2012 - Add-On fees due to the fee account:	\$223
2013 - Commissions due to the fee account:	42
Taxes due to School district:	44
Taxes due to Library district:	45
Taxes due to Health district:	13
Taxes due to Extension district:	21

The sheriff did not receive the amount of \$115 due from the county for the 2013 tax audit. The sheriff does not have a policy to ensure that tax audit amounts are settled. Good internal controls dictate the sheriff ensure that amounts due to or from others as a result of the tax audit be requested and distributed in a timely manner.

KRS 64.820 states, (1) “The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.”

We recommend the sheriff request the refund from the county and distribute the amounts due to others for the 2012 and 2013 tax audits.

Sheriff’s response: No response.

The sheriff’s office lacks segregation of duties over receipts and disbursements. The sheriff’s office has a lack of segregation of duties over receipts and disbursements. The sheriff’s bookkeeper collects receipts, batches receipts to a daily collection report, prepares the deposit

ticket, takes the deposit to the bank, prepares tax disbursement reports, prepares checks, signs the checks, and reconciles the bank account. There is no independent review in place. Adequate segregation of duties over receipts and disbursements protects employees in their day-to-day functions and, it reduces the risk of undetected misappropriation of assets and/or inaccurate financial reporting.

We recommend the sheriff either segregate duties over receipts and disbursements or implement compensating controls. Examples of compensating controls would require the Sheriff or a designee not involved in these duties to:

- Review deposit tickets to ensure they agree with daily collection reports.
- Review disbursement checks to ensure they agree to the corresponding monthly tax distribution reports.
- Review bank reconciliations to ensure they account for all receipts and disbursements activity.

Reviews should be documented by initials of reviewer on the deposit tickets, daily collection reports, checks, monthly distribution reports, and bank reconciliations.

Sheriff's response: No response.

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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