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Harmon Releases Audit of Incoming Leslie County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 taxes for incoming Leslie County Sheriff Delano Duff. 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, 2014 through April 30, 2014 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 over disbursements and reconciliations. The sheriff's office has a lack of adequate segregation of duties over disbursements and reconciliations. These control deficiencies are present because the sheriff's bookkeeper's duties include preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. A proper segregation of accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If that was not feasible due to a limited number

of staff, strong oversight over these areas should occur and involve the sheriff or an employee not currently performing any of these functions.

We recommend the sheriff segregate duties or implement compensating controls. If the sheriff chooses to implement compensating controls, his oversight should be documented on the appropriate source documents. The following are examples of compensating controls the sheriff could implement:

- The sheriff, or his designee, can reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff can examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

Sheriff's Response: Do [sic] to lack of funding, the Leslie Co. Sheriff's Office can not afford to bring someone in to handle the Disbursements and Reconciliations.

The sheriff's tax settlement was not accurate. Lack of sufficient internal controls over the financial reporting process allowed multiple errors in the sheriff's county tax settlement to go undetected and uncorrected. These errors include:

- Tax charges, credits, and distributions made by the former sheriff were included on the current sheriff's tax settlement. This included collections for real estate, tangible, franchise and additional billings. The former sheriff collected 2014 taxes during November and December 2014. The current sheriff collected the remaining 2014 taxes from January through July 2015. Instead of preparing a separate settlement for the current sheriff's collection period, the county settlement preparer combined collections from November 2014 through July 2015.
- Franchise tax collections for May, June, and July 2015, totaling \$213,741 were included on the county settlement. The current sheriff's reporting period for 2014 taxes ended April 30, 2015. Therefore, all subsequent collections should not have been included on the 2014 tax settlement. Collections for May, June, and July 2015 should have been included on the 2015 county settlement.
- The county settlement did not include delinquent franchise taxes of \$295 as either a charge or credit.
- School commissions were determined based on monthly reports, which incorrectly calculated commissions at four percent. However, the actual school commission rate for the current sheriff's tax collection period was two percent.
- Exonerations issued during the former sheriff's term were included.

Effective internal controls over the financial reporting processes are essential to ensure that financial reports are accurate. Controls such as a thorough review of the annual tax settlement that include tracing amounts to source documentation, recalculation of those amounts, and comparing taxes collected per the settlement to the taxes collected on the monthly reports would have strengthened internal controls over financial reporting and reduced the chances of misstatements going undetected.

We recommend the sheriff implement internal controls over the review of the annual tax settlement by tracing amounts to source documentation, recalculating commission amounts, and comparing taxes collected per settlement to taxes collected per monthly reports.

Sheriff's Response: We will take the proper steps to insure [sic] that the settlements going forward are correct.

The incorrect tax rate was used to calculate school taxes. The incorrect tax rate was used to calculate school taxes. The correct rate set by the Leslie County Board of Education was \$0.565 per \$100 of assessment. However, the tax bills reflected an incorrect rate of \$0.566 per \$100 of assessment. Although it is the responsibility of the county clerk to prepare the tax bills, the sheriff's office did not implement internal controls to verify tax bills reflected the correct rates so that taxes were accurately calculated.

As a result, taxpayers were erroneously overcharged 0.001 cents, per \$100 of assessment. Effective internal controls should be designed to ensure amounts collected are accurate. We recommend the sheriff's office implement controls to verify tax bills reflect the correct tax rates.

Sheriff's Response: For future Tax years we will take the steps to assure that all rates are correct.

The current sheriff recorded tax collections made by the former sheriff. On April 27, 2015, the current sheriff's office recorded payment for 37 bills totaling \$12,604 in the tax collection software. However, the green manual receipts for these bills were marked paid during the former sheriff's administration in November and December 2014. The current sheriff did not collect monies or make deposits for these bills. These bills were included on the current sheriff's April 2015 monthly tax report and distributed to the taxing districts. As a result, the current sheriff did not have sufficient monies to pay overpayments due to taxpayers or commissions due to his official fee account. Further, tax collections are due from the districts for these overpayments. Effective internal controls require that tax collections only be recorded for monies received. The sheriff should only mark tax bills paid when collection has occurred, during the current tax period. We recommend the sheriff ensure bills are only marked paid when collections are made. This will prevent future overpayments to taxing districts.

Sheriff's Response: We are working with the Former sheriff to correct all mistakes.

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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