



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Leslie County Sheriff's Gas & Oil Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement - 2014 gas & oil taxes for Leslie County Sheriff Delano Huff. 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 gas and oil taxes charged, credited and paid for the period January 1, 2015 through June 1, 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 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. As a result, January tax commissions for the

school district were erroneously calculated at 4% and were remitted to the former sheriff, instead of the school district. In addition, the sheriff paid February gas and oil collections from the regular tax account.

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 segregation of duties was not feasible due to a limited number of staff, strong oversight of these areas should occur and involve the sheriff or an employee not currently performing any of these functions. 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 incorrectly calculated commissions and withheld commissions from the school board for January collections. Tax commissions were not paid to the school district for January collections. The sheriff calculated school commissions at 4%, withheld the incorrectly calculated commission amount, and remitted net collections to the school board. The incorrectly calculated 4% commissions were paid to the former sheriff's 2014 fee account. However, the school's correct commission rate was 2%. The sheriff's office lacked adequate segregation of duties, which allowed the calculation error and incorrect disbursement amount not to be detected and resolved in a timely manner. As a result, the school district did not receive the correct amount of tax collections (underpaid for commission amount) and the former sheriff's fee account was overpaid commissions by 2%, totaling \$5,562.

KRS 160.510 requires the sheriff, as tax collector, to pay to the school board's depository "the amount of school tax collected up to and including the last day of the preceding month...." There is no exception in this statute (like there is for the county clerk), or in any other statute, for the sheriff to first deduct his commissions from the school taxes he's collected before remitting the total amount of taxes collected to the school's depository. Once the sheriff has remitted the taxes to the school, then the school returns to the sheriff his commission. Benson v. Board of Education, 748 S.W.2d 156 (Ky. App. 1988) and OAG 82-587 reinforce and support this interpretation of KRS 160.510. The sheriff should have implemented controls to ensure compliance with statute. Effective segregation of duties over disbursements would have verified that tax amounts paid to the school and commission amounts paid to the fee account were accurate.

Sheriff's Response: We are taking the proper [sic] steps to correct the Disbursements.

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 Department of Revenue 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. The sheriff's office should have implemented controls to verify tax bills reflected the correct tax rates.

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

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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