



Auditor of Public Accounts
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Edelen Releases Audit of McCreary County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the sheriff's settlement – 2014 taxes for McCreary County Sheriff Randy Waters. 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.

Recent changes in auditing standards require the auditor's letter to communicate whether the sheriff's settlement presents fairly the taxes charged, credited and paid of the McCreary County Sheriff in accordance with generally accepted accounting principles in the United States. 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 audit found that 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 modified cash 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 bookkeeper opens incoming mail, collects tax payments, and prepares deposits, daily tax collection journals, monthly tax reports, and all disbursements.

A limited budget places restrictions on the number of employees the Sheriff could hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. Lack of oversight could result in the misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

A segregation of duties over accounting functions or the implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. This oversight should include the Sheriff, or a designee, reviewing daily collections reports and comparing it to the daily deposit. It should also include reviewing monthly tax reports and comparing them to the monthly bank reconciliations and tax distributions. Documentation, such as the Sheriff or designee's signature, should be provided on those items that have been reviewed.

Sheriff's response: No response.

The Sheriff should earn and distribute investment earnings. The Sheriff's Office did not pay interest to the Sheriff's Fee Account or the school district. This issue was due to the fact that the Sheriff took office in January 2015 and was unaware that the tax account should be interest bearing and the interest received should be divided between the Sheriff's Office and the school district based on collections. The lack of interest received on the tax account decreased the funds the Sheriff had to run the office and put him in noncompliance with KRS 134.140.

KRS 134.140 directs the Sheriff's Office to invest tax dollars in interest bearing accounts, which would provide the investment income beneficial to the office.

We recommend the Sheriff deposit all future tax collections in an interest bearing account and distribute those earnings in accordance with KRS 134.140.

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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