Auditor of Public Accounts
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Harmon Releases Audit of McLean County Sheriff's Oil & Gas Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2014 oil & gas tax settlement for McLean County Sheriff Kenneth Frizzell. 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 June 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 McLean County Sheriff's Office has a lack of segregation of duties. The McLean County Sheriff's Office has a lack of segregation of duties. The bookkeeper is responsible for the

collection of cash and preparation of the daily deposit and daily tax collection journal. She is also responsible for the preparation of monthly reports and issuance of monthly tax distribution checks to each taxing district. A lack of segregation of duties exists over the receipt and disbursement functions of the sheriff's office because a limited number of employees are available to properly segregate these job duties. A lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets.

We recommend that the sheriff segregate the duties over the receipt and disbursement functions in order to adequately protect employees in the normal course of performing their duties and to help prevent misappropriation of assets and inaccurate financial reporting. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

Sheriff's response: No Response.

The McLean County Sheriff's Office did not prepare bank reconciliations. The McLean County Sheriff did not prepare bank reconciliations for his bank accounts. The bookkeeper would periodically examine and compare receipts and disbursements per the tax software to the online bank account access; however, she did not perform written bank reconciliations or document the process she did perform. The bookkeeper was new during the year of audit and was unaware that written bank reconciliations needed to be performed monthly. By not performing monthly bank reconciliation the McLean County Sheriff's Office cannot ensure that all receipts and disbursements per the ledgers agree to the bank balances. This could allow the misappropriation of assets to occur and go unnoticed.

Per the Department for Local Government Budget Manual, under the authority of KRS 68.210, a monthly bank reconciliation must be performed for all of the sheriff's bank accounts. Good internal controls also dictate that a monthly bank reconciliation be performed in order to ensure that all funds are accounted for each month.

We recommend that the sheriff perform a monthly bank reconciliation for all of the sheriff's bank accounts.

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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