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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 taxes for Monroe County Sheriff Dale Ford. 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. 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 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's office lacks adequate segregation of duties over accounting and reporting functions for receipts, disbursements, and reconciliations. The sheriff's office lacks segregation of duties over receipts, disbursements, and reconciliations. The sheriff's bookkeeper is responsible for collecting payments from customers, preparing the daily collection reports and deposits, preparing monthly tax reports, and signing and distributing checks, as well as reviewing reports and reconciliations. This condition is the result of a limited budget, which restricts the number of employees the Sheriff can hire or delegate duties to.

Lack of oversight increases the risk of undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

Adequate segregation of duties would prevent the same person from having a significant role in the process and recording of receipts and disbursements. We recommend the sheriff separate the accounting functions, or implement effective compensating controls to offset the effects of these weaknesses. The sheriff could periodically perform surprise cash counts, review the bank reconciliations, and compare the daily deposits to the daily collection report and the receipts ledger, reconciling any differences. In addition, the sheriff could compare the monthly reports to the receipts and disbursements ledgers for accuracy. Compensating controls should be documented by initialing and dating the bank reconciliations, bank deposits, daily collection reports, receipts and disbursements ledgers, and monthly tax reports.

Sheriff's response: None.

The sheriff should require the depository institution to pledge or provide collateral and enter into a written agreement to protect deposits. On February 3, 2015, the sheriff's deposits of public funds were uninsured and unsecured in the amount of $66,823. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the sheriff enter into a written agreement with the depository institution to secure the sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's response: None.

The sheriff did not batch and deposit receipts daily or remit taxes to the districts by the 10th of the following month. The sheriff did not batch and deposit receipts daily, or remit taxes to the districts by the tenth of the following month. Our comparison of checkout sheets to bank deposits concluded that checkout sheets were not prepared each day and deposits were not made intact each day. Furthermore, we determined that the following tax payments were not remitted in a timely manner:

- February franchise tax payment to the Ambulance District was dated March 4, 2015 and cleared the bank July 31, 2015.

- February and March regular tax payments to the Ambulance District were dated March 4, 2015 and April 10, 2015, respectively. However it did not clear the bank until July 31, 2015.
- April regular tax payments to the districts were dated April 30, 2015, but did not clear until July and August 2015.

Under the authority of KRS 68.210, the Department for Local Government (DLG) has established requirements for all local government officials handling public funds. These requirements include performing daily check-out procedures and making daily deposits intact into a federally insured banking institution. KRS 134.191 requires the sheriff to report and pay all taxes collected to the state, county, and other taxing districts by the 10th of the month. The sheriff lacks controls over the deposit process and does not provide adequate oversight in this area. The practice of preparing daily checkout sheets and making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. We recommend the sheriff implement procedures to ensure receipts are batched daily, posted to a daily checkout sheet, and are deposited intact daily. Furthermore, we recommend that all taxes are distributed to the taxing districts by the 10th of the following month.

Sheriff's response: None.

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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