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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement-2014 taxes for former Pulaski County Sheriff Todd Wood. 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 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 sheriff's financial statement fairly presents the taxes charged, credited and paid, for the period, April 16, 2014 through December 31, 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 former Sheriff's office lacked adequate segregation of duties. The former Sheriff's office lacked adequate segregation of duties. The bookkeeper collected payments from customers, prepared monthly tax reports, prepared daily payment journals, prepared daily deposits, prepared and signed monthly tax distribution disbursements, and prepared the monthly bank reconciliations. The bookkeeper performed the majority of the receipt and disbursement functions. The former Sheriff reviewed the monthly bank reconciliations and initialed, documenting his review. Per discussion with the bookkeeper, the former Sheriff reviewed the monthly tax collection reports and compared to the tax distribution disbursements prior to signing the checks. However, the monthly reports were not signed. There were two signatures on all disbursements with one being the former Sheriff. In addition, the daily payment journal prepared by the bookkeeper was reviewed and initialed by the fee account bookkeeper. The compensating controls in place were not sufficient to offset the control deficiency.

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

A segregation of duties over various accounting functions such as collecting cash, preparing deposits, preparing monthly reports, preparing monthly bank reconciliations or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Due to a lack of sufficient compensating controls, we consider this to be a significant deficiency.

To adequately protect against misappropriation of assets and inaccurate financial reporting, the former Sheriff should have separated the duties involving collecting and depositing of cash, preparing daily payment journals, preparing monthly reports, and preparing monthly bank reconciliations. If that was not feasible due to a limited number of staff, the former Sheriff should have provided strong oversight over these areas and/or involved an employee not currently performing any of these functions. All compensating controls should have been documented on the appropriate source document.

Former Sheriff's response: No response.

Franchise tax bill preparation errors occurred due to a lack of internal controls. Franchise tax bill preparation errors occurred due to a lack of internal controls. The following errors were noted:

- A 2012 aviation franchise bill incorrectly listed an assessment as being charged to the common school when it should have only been the city school district. This resulted in the vendor overpaying the tax bill by $120.

- A two-percent discount was allowed on two amended franchise tax bills, resulting in taxpayers underpaying tax bills by a total of $6.

- An amended telecommunications franchise bill was prepared incorrectly. The original franchise bill was paid on March 3, 2014 and was amended on October 17, 2014. The amended bill did not give credit to the taxpayer for the amount paid on March 3, 2014. Therefore, the taxpayer was billed for the entire assessment, which resulted in the taxpayer overpaying the tax bill by $5,878.

The above errors occurred due to a lack of review and internal controls over the franchise bill preparation process. As a result of the errors, taxpayers either owe additional tax monies or are due a refund. In addition, taxing districts were paid inaccurate monthly tax distributions.

Good internal controls dictate strong oversight over franchise bill preparation and should have been in place to ensure all bills were accurate. This would have ensured taxpayers were paid correct amounts and the taxing districts received the proper amount due. Additionally, KRS 134.015(6) states, in part, "A tax bill issued against omitted property, or an increase in valuation over that claimed by the taxpayer…shall be due the day the bill is prepared and shall be considered delinquent on that date." Therefore, amended bills are not eligible for the two percent discount.

The former Sheriff should contact the taxing districts and taxpayers paid in error, and collect or refund the payment errors. Additionally, the former Sheriff, in connection with the County Clerk, should have had internal controls in place to ensure all franchise bills were reviewed and accurate and were in compliance with KRS 134.015(6).

Former 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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