



Auditor of Public Accounts  
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### **Harmon Releases Audit of Incoming Todd County Sheriff's Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement - 2014 taxes for incoming Todd County Sheriff Tracy White. 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 5, 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 comment:

**The Todd County Sheriff should enter into a written collateral security agreement with the financial institution to protect deposits.** The sheriff did not require the depository institution to prepare and enter into an agreement with the sheriff to protect deposits. As of February 5, 2015, the sheriff had bank deposits of \$292,207, FDIC insurance of \$250,000, and collateral

pledged or provided of \$2,261,970. Even though the sheriff obtained sufficient collateral of \$2,261,970, there was no written agreement between the sheriff and the depository institution, signed by both parties, securing the sheriff's interest in the collateral. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. According to federal law, 12 U.S.C.A. § 1823(e), this pledge of collateral, 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. The sheriff should 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.

*Sheriff Tracy White's response: The Todd County Sheriff's Office is covered under the Todd County Fiscal Court, United Southern Bank covers all our accounts.*

Auditor's Reply: The bank has pledged assets to the sheriff's tax account, therefore the sheriff does need to sign his own collateral security agreement.

**The Todd County Sheriff's Office has a lack of segregation of duties.** The Todd County Sheriff's Office has a lack of segregation of duties due to the same employee being responsible for collecting tax monies, posting to receipts and disbursement ledgers, preparing and making deposits, writing and signing checks to taxing districts, preparing monthly tax reports, and reconciling checking accounts. By not segregating certain accounting functions one employee is given access to all transactions with little or no oversight. This lack of oversight allows for the increased risk of fraud or theft. Good internal controls over the financial reporting duties help ensure that reports are accurately reported and reduce the risk of fraud or theft. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities. To adequately protect against misappropriation of assets and inaccurate financial reporting, the sheriff should separate the duties involved in receiving cash, preparing bank deposits, posting cash receipts to the ledger, preparing the monthly bank reconciliation, comparing the weekly, monthly, and quarterly reports to the receipts and disbursements ledgers, writing checks, posting to the disbursements ledger as well as preparing the financial report. If that is not feasible, due to a limited number of staff, strong oversight over those areas should be documented and involve an employee not currently performing any of those functions.

*Sheriff Tracy White's response: The Todd County Sheriff's Office does not have the resources or revenue to address the issue of segregation of duties. Lack of office staff keeps us from being able to eliminate this problem. We were instructed that if we were to perform compensating controls that we could eliminate part of this problem.*

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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