



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement - 2014 taxes for former Todd County Sheriff Arthur Johnson. 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.

Because the former sheriff did not accept audit adjustments to correct material misstatements and did not provide the required management representation letter, our audit report presents a qualified opinion. Except for the effects of the issues noted above, 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 comment:

The former sheriff's office had a lack of segregation of duties. The former sheriff's bookkeeper collects tax monies, posts to the receipts ledger, prepares and makes deposits, writes checks to taxing districts, signs checks, posts to the disbursements ledger, prepares monthly tax

reports, and reconciles checking accounts. By not having a segregation of duties, one employee has access to all transactions with only minor oversight. This lack of oversight increases the 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, 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 former sheriff should have separated 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.

Former Sheriff Arthur Johnson's Response: The former Sheriff did not respond.

The former sheriff did not account for \$120,189 in uncollected franchise taxes. The former sheriff did not require the bookkeeper to account for \$120,189 in uncollected franchise taxes. By not accounting for these franchise taxes, those taxes could potentially not get collected, which causes a drop in revenue to the taxing districts that rely on this revenue to operate. Good internal controls over the financial reporting duties help ensure that all franchise taxes are accurately accounted for and reported. The former sheriff should have accurately accounted for and reported uncollected franchise taxes.

We will refer this to the Todd County Attorney.

Former Sheriff Arthur Johnson's Response: The former Sheriff did not respond.

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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