



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

### **Harmon Releases Audit of Lee County Sheriff's Oil Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 oil tax settlement for Lee County Sheriff Wendell Childers, Jr. 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 May 16, 2015 through May 15, 2016 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on noncompliance 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 sheriff did not segregate accounting duties.** The bookkeeper and part-time deputy clerk both collect and deposit tax receipts, record transactions, prepare the monthly reports, issue disbursements to the taxing districts, and authorize those disbursements. The sheriff instituted compensating controls to offset the lack of segregation such as reviewing and initialing bank reconciliations, agreeing daily tax collections to the bank deposit ticket, and agreeing tax reports

to the disbursements prepared. However, one of these controls was not designed properly. The bank statement was reconciled to the checkbook instead of a receipts and disbursements ledger. The sheriff's office also lacked controls over additional tax bills. There was no second level review of additional bills after they were entered into the computer system.

The lack of segregation is due to the sheriff having a limited budget for hiring office personnel. Having one person responsible for the complete accounting cycle resulted in inaccurate financial reporting to the Lee County Fiscal Court and to the taxing districts and allowed a tax bill to be collected for less than the certification.

Proper segregation of accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate accounting duties or institute properly designed compensating controls. This could be accomplished by the sheriff reviewing and authorizing all tax disbursements along with another individual who did not prepare the disbursements. The review should be documented by initialing the report used to prepare the disbursements. Additionally, the sheriff, or an individual who does not post deposits and checks to the ledgers, could compare the receipts and disbursements ledgers with the monthly and yearly reports to ensure accuracy. This review should be documented by initialing the ledgers and reports. We also recommend the additional tax bills be reviewed by someone other than the person who enters them into the computer system.

*Sheriff's response: The sheriff did not provide a 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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