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Harmon Releases Audit of Ohio County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Ohio County Sheriff Tracy Beatty. 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 April 17, 2015 through April 15, 2016 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 Ohio County Sheriff's Office lacks segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, and the preparation of checks for disbursements. The lack of segregation of duties in the sheriff's office is due to a limited number of staff and the diversity of operations. Segregation of duties over these tasks and cross-training deputies, when needed

because the number of staff is limited, is essential to providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties and cross-training deputies protects employees in the normal course of performing their daily responsibilities. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and bank reconciling duties be segregated.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff segregate the duties noted above and cross-train deputies to accommodate the rotation of these functions. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties and to document oversight. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

Sheriff's response: Additional measures have been implemented to ensure oversight of the tax office including installation of a camera system. The system includes cameras over each cash drawer and the safe. Each clerk is responsible for their own drawer, including locking it when unattended. These measures will help security in the office.

The bookkeeper has cross-trained two other clerks in the office to do the daily reconciliation and preparation of deposits to help with the segregation of duties.

Unfortunately, the only method to resolve this issue is to hire additional personnel in the tax office. As this is not financially feasible, every effort is made to ensure controls are in place to limit the risks identified.

The sheriff does not have sufficient internal controls or policies and procedures in place for reconciling and settling the tax account. We reviewed the sheriff's tax settlement and bank statements and noted the following control deficiencies:

- A credit card payment deposited into the bank account was not posted to the tax accounting software timely and credit card payments were not reconciled regularly to ensure all payments were posted accurately.
- Exonerations were not reconciled and one exoneration was applied to a tax bill twice.
- Deposits were not prepared properly. Auditors tested deposits made from October 26, 2015 through October 31, 2015. During this time period, six deposits were made in total and three of the six deposits were corrected by the bank. Auditors also noted multiple deposit corrections on the bank statements in subsequent months.
- Bank reconciliations are not done properly. Reconciliations were performed by the bookkeeper; however, the bookkeeper did not account for outstanding liabilities.

The sheriff's office does not have policies and procedures in place to ensure all receipts are accounted for by reconciling the daily deposits, bank statements, credit card payments, and exonerations to the tax accounting software. Without these policies and procedures, the risk of

misstatements in reconciling of receipts and disbursements significantly increases due to error or fraud.

Strong internal controls and proper accounting procedures dictate that all receipts and disbursements should be accounted for, maintained with supporting documentation, and reconciled to the bank accounts. A sheriff's tax settlement account should balance to zero every year, as all funds received are paid out to districts or to the sheriff's fee account in the form of commissions, penalties, and interest. Monthly bank reconciliations are essential to detect any errors made the previous month, payments not posted to the tax accounting system, or credit card payment issues. We recommend the sheriff improve internal controls and implement policies and procedures over reconciling and settling the tax account.

Sheriff's response: All credit card payments are now reviewed daily instead of weekly as the software did not post automatically to the system. The software administrators have assured that the payments made online will be automatically posted to the system on a daily basis for future years.

The bookkeeper now reconciles all exonerations.

The deposit differences tested from October 26, 2015 to October 31, 2015 were corrected by the bank due to the difference in what was numerically written on a check versus what was written on the line of the a check. For example: a tax bill may be \$305.50. The check is written numerically at \$305.50 but written on the line as Three-hundred fifty dollars and fifty cents. The bank must go by the written and not numeric value. Once the variations were discovered, the bookkeeper ensured all checks were correct numerically and on the written value.

The bookkeeper was not aware the outstanding liabilities were to be included prior to the bank reconciliation completion as that was not how she was shown to do the monthly reconciliation. This has now been corrected.

The sheriff has poor internal controls over franchise tax collections. The Ohio County Sheriff's Office has poor internal controls over franchise tax collections. Auditors noted the following exceptions during testing:

- All monthly tax reports for October 2015, the monthly tax report for the extension district for June 2015, and the monthly tax report for the school district for April 2016 were not prepared correctly. On the October monthly reports, the bookkeeper prepared the reports using the original assessment amount; however, the bill was paid at the amended assessment amount. The June 2015 report for the extension district was not calculated correctly due to refunds being entered incorrectly (this was corrected by the bookkeeper in March 2016). The bookkeeper transposed numbers on the April 2016 monthly tax report for the school district.
- Monthly reports for July 2015 and October 2015 were not prepared and disbursed until March 10, 2016.
- October 2015 monthly tax reports and the December 2015 bank franchise report did not include discounts.

- Monthly tax reports were not signed by the sheriff as reviewed.
- December bank franchises were not disbursed until January 11.
- The April 2016 tax disbursement for soil conservation was paid to the extension district.
- A refund to a bank for the overpayment of taxes was not issued.

The errors mentioned above occurred due to a lack of oversight over the franchise tax collections. Errors were made by the bookkeeper without adequate review of reports occurring in order to catch and correct these errors. The lack of oversight and poor internal controls over franchise tax collections has resulted in inaccurate financial reporting and incorrect distributions to the taxing districts, as well as late payments to the taxing districts. The sheriff's office has also created the opportunity for undetected misappropriation of assets to occur. Per KRS 134.191 and KRS 160.510 the sheriff is required to provide monthly reports and payment of funds to the taxing districts by the tenth day of the month following collections. Good internal controls also dictate the sheriff's office review monthly reports and ensure reports are prepared accurately and timely in order to reduce the risk of the misappropriation of assets and inaccurate financial reporting. We recommend that the sheriff's office strengthen internal controls over franchise tax collections and comply with KRS 134.191 and KRS 160.510.

Sheriff's response: All errors have been corrected by establishment of additional internal controls and collection software improvements. A detailed daily checklist was established prior to the audit to aid in internal controls. In addition, the collection software has been improved that breaks down each collection amount in a more detailed method.

The sheriff did not pay interest to the board of education or county treasurer. The Ohio County Sheriff did not make consistent interest payments to the board of education or to the county treasurer. The bookkeeper made interest payments during the first three months of collections; however, any interest earned after December 2015 has not been distributed. Auditors noted that the board of education is due \$42 in interest and the county treasurer is due \$55. The lack of interest payments made to the board of education and county treasurer was due to an oversight made by the bookkeeper. By not paying interest to the board of education or the county treasurer, the sheriff is not in compliance with KRS 134.140. KRS 134.140 requires the fee official to pay the board of education the part of the investment earnings which are attributable to the investment of school taxes and pay the remaining investment earnings to the county treasurer as part of the monthly distribution of taxes. We recommend the sheriff comply with KRS 134.140 and make interest payments to the board of education and county treasurer timely.

Sheriff's response: All interest payments have been made. A daily, weekly, monthly, quarterly, and annual checklist of all duties has been made to ensure interest payments are made on a monthly basis. This was actually corrected prior to the audit.

The sheriff's office had undeposited receipts of \$425. In June 2016, one taxpayer returned to the sheriff's office upon receiving a delinquent notice to inform the sheriff that he had received the notice in error. The taxpayer had a printed receipt from the tax system showing that he had paid his tax bill of \$425 on October 14, 2015; however, the sheriff's office did not have the receipt recorded on any daily reports or included in any deposits. The taxpayer inquired at the bank about the check and the check had not cleared the bank. At that time the taxpayer stopped payment on the check and issued another check to the sheriff's office. The bookkeeper is unsure how this error could have occurred. The sheriff's office did have software issues around October 2015 that could result in the payment being deleted from the system; however, this does not explain why the receipt was not deposited into the bank. This error resulted in the delinquent taxes being misstated and created the opportunity for undetected misappropriation of assets to occur.

KRS 68.210 gives the State Local Finance Officer authority to prescribe minimum standards for the fee officials, including making daily deposits intact into a federally insured banking institution. KRS 134.119(3)(b) states "[a]ll payments received by the sheriff shall be entered immediately by the sheriff on his or her books." We recommend the sheriff's office comply with KRS 134.119(3)(b) and ensure that all receipts are recorded and deposited into the bank.

Sheriff's response: All checks are deposited the morning following collection. There is no record in the Sheriff's Office of the payment in question being made. As the check was not cashed, the bookkeeper can only assume the payment was not made to the office.

The only explanation could be with the software issues that occurred at the time that effected a small number of bills. This bill/payment is the only one that could not be immediately rectified as it was not discovered until the taxpayer brought the receipt into the office. The two other bills were able to be immediately corrected as the checks were received and accounted for at the end of the day but the payments did not show in the system.

The software company was contacted immediately and have made corrections to the software that should prevent this type of issue from happening in the future.

Although we believe this to be a solitary event, security cameras have been installed in the office that can be reviewed by date should as issue like this occur again. Reviewing the camera footage would substantiate whether or not the payment was made in the tax office.

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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