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Harmon Releases Audit of Crittenden County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Crittenden County Sheriff Wayne Agent. 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 16, 2016 through April 17, 2017 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 comments:

The Crittenden County Sheriff has no internal controls in place over the tax collection process: The Crittenden County Sheriff does not have any internal controls in place over the tax collection process. This lack of controls resulted in the following:

- The sheriff failed to reconcile 2016 property tax bills to the official receipt; therefore, tax bill errors were not discovered prior to bills being mailed to taxpayers.

- Multiple errors occurred on the monthly reports, such as payments handled outside of the system not being added to the monthly reports properly.
- Deposits were made into the wrong bank account, including franchise taxes deposited into a prior year tax account that were not corrected until approximately three months later.
- Bank reconciliations were not done properly. Deposit errors, returned checks, and other issues were not caught when bank reconciliations were completed.
- Eight bills were distributed twice on the monthly reports.
- One additional bill was collected outside the tax software and was not added to the monthly reports. This bill was distributed to the districts; however, the distributions were not calculated correctly.
- Five tax distribution checks were sent to and deposited by the wrong volunteer fire department.
- Two bills were turned over as delinquent that had actually been collected and one bill was paid in October 2016 but not recorded in the tax system until April 2017.
- Taxes collected of \$5,060 were deposited into the sheriff's fee account that created a deficit in the tax account. This was only discovered and corrected after auditors performed additional searches in order to explain the potential deficit.

Rather than implement a systematic approach for handling the collection of taxes, the sheriff relies on a single employee without sufficient documented oversight. As a result of the lack of controls, the findings listed above occurred. Additionally, this lack of internal controls has created the opportunity for fraud and undetected errors.

Strong internal controls over tax collections are essential to ensure that taxes collected are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets. Additionally, 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 implement internal controls over the tax collection process, such as documented management oversight of the daily checkout process, performing monthly reconciliations by comparing daily deposits and checkout sheets to bank statements and the monthly reports, documented management oversight of monthly reports and reconciliations, and comparing daily collection reports to the deposits. We also recommend the sheriff reconcile the annual property tax bills to the corresponding official receipt prior to signing.

Sheriff's Response: Working on this with suggestions from auditors since we have a small department.

The Crittenden County Sheriff's Office lacks segregation of duties: This is a repeat finding and was included in the prior year report as Finding 2015-002. The Crittenden County Sheriff's Office lacks adequate segregation of duties. The bookkeeper was required to perform multiple tasks such as collection of cash from customers, deposit preparation, the bookkeeping function, bank reconciliations, the preparation of monthly reports, and the preparation of checks for disbursements. All of this was performed with little to no management supervision.

According to the sheriff and bookkeeper, this condition is caused by the diversity of operations with a limited number of staff.

Segregation of duties or the implementation of compensating controls, when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A lack of segregation of duties or strong oversight could result in undetected misappropriation of assets, inaccurate financial reporting, or material noncompliances as previously described in Finding 2016-001.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, the sheriff should segregate the duties noted above by allowing different deputies to perform these functions. For those duties that cannot be segregated due to a limited number staff, strong management oversight by the sheriff or designee can be a cost effective alternative. This oversight should include reviewing daily checkout sheets and deposits, reviewing monthly bank reconciliations and monthly reports. Documentation, such as the sheriff's or a designee's initials or signature, should be provided on those items that are reviewed. Dual signatures should also be required on all checks.

Sheriff's Response: The sheriff did not provide a response.

The Crittenden County Sheriff's Office did not review franchise tax bills prior to mailing in order to ensure accuracy: The Crittenden County Sheriff's Office had five franchise tax bills that were prepared incorrectly. In April 2016, these five franchise bills were created for and sent to the wrong companies. This was not discovered and corrected until May 2017. The Crittenden County Sheriff's Office also collected an amended franchise bill at a discount.

When creating the bills, the county clerk's software was not updating the company name properly. Due to a lack of oversight, this error was not caught and corrected by the sheriff's office. Because bills were being sent to the wrong companies, the sheriff's office experienced a delay in collecting these franchise taxes and could have experienced taxes being paid by the wrong company.

Strong internal controls are essential to ensure all franchise tax bills are prepared properly and sent to the correct companies.

We recommend that the Crittenden County Sheriff's Office review all franchise tax bills prior to mailing the bills in order to ensure bills are prepared properly.

Sheriff's Response: Franchise bills are sent from the state. These bills are prepared by another office and brought to us to mail out and collect them once they bring them to us. I have been instructed by the auditors to start rechecking these bills for accuracy and we have started this procedure.

The Crittenden County Sheriff failed to distribute franchise taxes by the tenth day of each month: This is a repeat finding and was included in the prior year report as Finding 2015-001. The Crittenden County Sheriff did not prepare monthly reports and provide payment of the franchise taxes to the taxing districts by the tenth day of the month following collections for seven out of eight months.

Late payments to the taxing districts are the result of poor internal controls and lack of oversight over franchise tax collections and distributions. Because the sheriff did not distribute franchise tax collections by the tenth day of the month following collections, he is not in compliance with KRS 134.191. Furthermore, the taxing districts rely on these tax collections to provide public services, and these services could suffer as a result of not receiving tax collections in a timely manner.

KRS 134.191(1) states, “[t]he sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes.” KRS 134.191(3) states, “[a]t the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report.”

We recommend that the Crittenden County Sheriff ensure all monthly reports are prepared and all payments are made to the taxing districts by the tenth day of each month.

Sheriff's Response: The sheriff did not provide a response.

The Sheriff failed to distribute interest to the school on a monthly basis: The sheriff failed to distribute interest to the school monthly. Instead, the sheriff distributed the entire portion of interest to the school at the end of the tax year.

As in past years, the sheriff elected not to pay the interest out each month. As a result, the sheriff was not in compliance with KRS 134.140(2).

KRS 134.140(2) states, “[a]s part of the monthly distribution of taxes to a district board of education as required by KRS 134.191, the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes, less an amount not to exceed four percent (4%) of the earned monthly investment income to reimburse the sheriff for the costs of administering the investment.”

We recommend the sheriff comply with KRS 134.140(2), by distributing interest to the school and the fee account each month interest is earned.

Sheriff's Response: We have come up with a plan to try and make this better.

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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