



Auditor of Public Accounts
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Harmon Releases Audit of Lawrence County Sheriff's Gas and Oil Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 gas and oil tax settlement for Lawrence County Sheriff Garrett Roberts. 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 30, 2016 through May 15, 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 internal control over financial operations and reporting.

The audit contains the following comments:

The sheriff did not report and pay taxes to districts timely: The sheriff's monthly tax reports and payments were often late, depriving the taxing districts of timely receipt of their tax collections. This is a repeat finding and was included in the prior year audit report as Finding 2015-002.

The following table illustrates when gas and oil tax payments were made:

Month	Date Payments Due Districts	Checks Dates	Dates Checks Cleared Bank
December	1/10/2017	1/10/2017	2/10/2017-2/23/2017
January	2/10/2017	9/11/2017	9/20/2017*
February	3/10/2017	9/11/2017	9/20/2017*
March	4/10/2017	9/11/2017	9/20/2017*
April	5/10/2017	9/11/2017	9/20/2017*
May	6/10/2017	9/11/2017	9/20/2017*

*January through May distributions were paid with one check and only county and school checks were written.

Even though some checks were dated timely, several weeks passed before they cleared the bank, suggesting that they were given to the district late.

The sheriff did not ensure his office complied with the requirement to report and pay taxes collected to districts by the tenth of each month. The sheriff mails payments to the fire district and fire and rescue district. The sheriff delivers the payments to the other districts. It appears from the sheriff's records that the delivery date is often later than the day the reports were prepared, making the receipt of payments by the districts further delayed.

As indicated in the tables, some districts received their tax collections weeks after they were to be distributed. While the sheriff cannot control when districts deposit their checks, he can control when he distributes the checks.

KRS 134.191 requires the sheriff to provide monthly reports by the tenth day of each month. KRS 134.191(4) states "[a]ny sheriff failing to pay over taxes collected as required by law shall be subject to a penalty of one percent (1%) for each thirty (30) day period or fraction thereof that the payment is not made, plus interest[.]" Furthermore, the governing body of a county or taxing district shall charge the sheriff with penalties and interest. The county judge/executive may grant an extension of time, not to exceed 15 days, for filing the monthly reports. Penalties and interest would be suspended during an extension, but would apply at the expiration of the extension.

We recommend the sheriff ensure monthly tax reports are prepared and paid by the tenth of each month. There should be monthly reports for any month that regular, franchise, gas & oil, and unmined coal taxes are collected. We also recommend the sheriff consider mailing tax collection payments to the districts. As long as the payments are postmarked by the tenth of the month, the sheriff is in compliance with KRS 134.191. This would also give the districts a more consistent timeframe in which to expect their payments.

Sheriff's Response: Computer program printed two months current & previous month's report. Did this on couple of occasions. Hopefully this is fixed.

The Lawrence County Sheriff's Office did not make deposits timely: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. Funds are not deposited daily. During the week tested in December, collections for December 15, 2016 and December 16, 2016 were not deposited until December 29, 2016.

It appears the sheriff often holds several daily deposits and then takes them to the bank rather than making daily deposits. Furthermore, policies and procedures are not in place to ensure that tax receipts are deposited daily.

Receipts not deposited daily are susceptible to misappropriation or theft. Such occurrences could materially affect the financial statements.

Under the authority of KRS 68.210, the Department for Local Government has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution."

We recommend the sheriff implement policies and procedures to ensure that tax receipts are deposited intact daily.

Sheriff's Response: OK.

The sheriff did not remit interest payments to the school and fee account monthly: The sheriff did not distribute interest earned on tax collections to the school or the fee account monthly. The sheriff earned \$89 in interest on his 2016 gas and oil tax collections and none was distributed to the fee account or school. This is a repeat finding and was included in the prior year audit report as Finding 2015-004.

Policies and procedures are not currently in place to ensure that interest earned from tax collection deposits is paid to the school district and fee account timely.

Failure to distribute interest earnings monthly results in a noncompliance. Based on the amount of interest earned, the sheriff owes \$41 to the school district and \$48 to the fee account.

KRS 134.140(2) requires the sheriff to pay monthly "that part of the investment earnings for the month which are attributable to the investment of school taxes[.]" According to KRS 134.140(4), the balance of investment income should be paid to the sheriff's operating account.

We recommend the sheriff comply with KRS 134.140 by remitting the interest due to the school and fee account monthly.

Sheriff's Response: OK.

The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements: The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. This is a repeat finding and was included in the prior year audit report as Finding 2015-005.

The bookkeeper, deputy clerk, and occasionally the sheriff all collect tax receipts. The bookkeeper and deputy clerk each prepare a daily checkout sheet and reconcile the daily receipts to the daily collection report. The bookkeeper posts items to the receipts ledger. There are no initials on the deposit ticket documenting who prepared and reviewed the deposit ticket.

The bookkeeper prepares the month-end tax reports. The bookkeeper prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and sheriff sign the tax distribution checks. The deputy clerk is also authorized to sign checks. All checks require a dual signature. The bookkeeper prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed. Also, the reconciliation is only a re-statement of bank activity, and is not reconciled to the receipts ledger, disbursements ledger, or monthly financial statements. Reporting errors would have been found on a monthly basis if a true reconciliation had been performed by the sheriff's office.

Without internal controls in place, the risk of inaccurate tax account financial information increases. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud.

Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could implement compensating controls by helping to prepare or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

Sheriff's Response: OK would like to hire another office personnel, "no money".

Auditor's Reply: In the absence of additional personnel, compensating controls, such as cross-checking by the official, should be implemented as recommended.

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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