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Harmon Releases Audit of Leslie 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 Leslie County Sheriff Delano Huff. 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 17, 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 Leslie County Sheriff's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The Leslie County Sheriff's office lacks adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper opens mail, collects tax payments, prepares the daily checkout sheet, prepares the daily deposit, opens bank

statements, and prepares bank reconciliations. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

According to the sheriff, the lack of adequate segregation of duties within the sheriff's office is the result of limited staff size, which prevented the sheriff from segregating accounting duties to different individuals within the sheriff's office. The sheriff's office stated they cannot hire additional employees to allow segregation of duties due to a limited budget.

A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to local taxing districts.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, and recording payments and disbursements is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff can implement oversight when duties cannot be segregated.

We recommend the sheriff segregate duties or implement compensating controls. If the sheriff chooses to implement compensating controls, his oversight should be documented on the appropriate source document. The following are examples of compensating controls the sheriff could implement:

- The sheriff, or his designee, can compare the daily checkout sheet to tax reports and bank deposit receipts and document his review.
- The sheriff, or his designee, can reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff can examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

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

The Leslie County Sheriff's settlement was not accurate and tax collections should be settled: The Leslie County Sheriff's 2016 settlement of gas and oil tax collections contained numerous errors and was materially misstated. The sheriff is still due a refund of \$122 from taxing districts to settle 2016 gas and oil tax collections.

The sheriff does not have sufficient internal controls over the financial reporting process. Effective internal controls over the financial reporting processes are essential to ensure that financial reports are accurate. Controls such as a thorough review of the annual tax settlement that includes tracing amounts to source documentation, recalculation of those amounts, and comparing taxes collected per the settlement to the taxes collected on the monthly reports would have strengthened internal controls over financial reporting, and could have reduced the chances of undetected misstatements.

The lack of sufficient internal controls over the financial reporting process allowed for multiple errors in the sheriff's county tax settlement to occur and not be detected. These errors include:

- Charges were understated by \$11,547
- Exoneration decreases were understated by \$3,588
- Delinquent taxes were understated by \$123,407
- Sheriff's commission was overstated by \$2,851
- Taxes paid to districts was overstated by \$3,764

Also, taxes of \$122 are due to the sheriff as a refund from taxing districts.

Effective internal controls over financial reporting are essential to ensure that financial reports are accurate. Relating to the settlement of collections, KRS 134.192(2)(b) states, "[t]he sheriff shall settle his or her accounts with the county, the school district, and any other taxing district for which he or she collects taxes."

We recommend the sheriff implement internal controls over the review of the annual tax settlement, such as:

- Tracing amounts to source documentation
- Recalculating commissions
- Comparing taxes collected on the settlement to the monthly reports

Also, the sheriff should settle tax collections per the audit with taxing districts.

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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