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Harmon Releases Audit of Former Estill County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for former Estill County Sheriff Gary Freeman. 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 former 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 former sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the former 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 18, 2017 through April 16, 2018 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:

Tax collections were not distributed by the 10th of each month: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former sheriff did not distribute franchise tax collections in a timely manner. There were eight months of franchise tax collections during the year, of which one month was not distributed by the 10th of the following month.

Payments were not made timely due to lack of management oversight of the former sheriff and his bookkeeper. Failure to make timely tax distributions is an issue of noncompliance that prevents taxing districts from receiving revenues timely and may cause cash flow issues for the taxing districts.

KRS 134.191(1) requires the sheriff to "provide monthly reports by the tenth of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes." Furthermore, KRS 134.191(3) states in part, "[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 the sheriff's office provide monthly reports and distribute tax payments by the 10th of each month as required by KRS 134.191.

Former Sheriff's Response: Will advise new sheriff to distribute timely.

The former sheriff did not make daily deposits: This is a prior year finding and was included in the prior year audit report as finding 2016-002. The former sheriff did not make daily deposits as required. The auditor randomly selected one week during October 2017 to test. It was found during this time period that the bookkeeper used a 2 p.m. cutoff date for her deposits. Anything that is received after 2 p.m. is held for the next day deposit. During the October dates it appeared that deposits were made timely; however, after further review of the bank statements, the auditor noted less deposits being made per month. Another sample was pulled for March 2018 and found multiple date ranges from March 16th - March 29th deposited on March 30th.

Daily deposits were not made because the former sheriff did not adopt a policy requiring daily deposits. Failure to make daily deposits increases the risk of undetected errors and misappropriation of assets. The Department for Local Government (DLG), under the authority of KRS 68.210, establishes minimum requirements for all local officials with regard to handling public funds and one of these requirements is "daily deposits intact into a federally insured banking institution."

We recommend the sheriff's office make daily deposits in order to comply with DLG requirements and to reduce the risk of undetected errors and misappropriation of assets.

Former Sheriff's Response: Will advise new sheriff.

The former sheriff's office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The former sheriff's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. The former sheriff's bookkeeper received payments for taxes, recorded receipts in the ledger, prepared bank deposits, and performed monthly bank reconciliations. Additionally, the same employee prepared checks for payments from the tax account, recorded disbursements in the ledger, and prepared monthly reports reflecting amounts to be paid to each taxing district.

According to the former sheriff, the lack of adequate segregation of duties was a result of a limited budget, which restricted the number of employees the sheriff could hire or delegate these duties to. A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls 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.

We recommend the sheriff's office segregate these duties, or implement steps to strengthen internal controls through compensating controls such as:

- The sheriff could periodically compare the daily bank deposit to the daily checkout sheet, and then compare the daily checkout sheet to the receipts ledger.
- The sheriff could compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff could periodically compare the amounts due districts per the monthly reports to the payments to the taxing districts.
- The sheriff could periodically compare the monthly bank reconciliation to the balance in the checkbook.
- All disbursement checks could be signed by two people, with one being the sheriff.
- The sheriff could personally mail or deliver tax payments to the taxing districts.

All of the compensating controls could be documented by the sheriff by initialing and dating the documents used to perform the comparisons.

Former Sheriff's Response: Small office during my years made it hard to segregate duties. Will advise new sheriff.

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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