



Auditor of Public Accounts
Mike Harmon

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Contact: **Michael Goins**
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Powell County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for Powell County Sheriff Danny Rogers. 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 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:

The sheriff's annual tax settlement did not include the amount of franchise taxes disbursed: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The sheriff presented his annual tax settlement to the fiscal court on October 9, 2018, for regular tax collections along with a receipts ledger for franchise taxes collected. However, for franchise taxes there were no amounts listed as being paid to the taxing districts and for commissions retained by the sheriff's office. The sheriff was unaware that his settlement should include all taxes collected

and disbursed for the tax collection period. As a result, the sheriff's annual tax settlement was materially misstated. Material audit adjustments were recommended to correct the sheriff's annual settlement to include amounts paid to the taxing districts. Proper controls over franchise tax disbursements and the preparation of the sheriff's annual tax settlement would ensure franchise tax disbursements are included on the sheriff's annual tax settlement. Furthermore, KRS 134.192(5) states in part, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts." We recommend the sheriff implement controls to ensure that all taxes collected and disbursed are included on his annual tax settlement in the future.

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

The sheriff's office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities. A lack of oversight could result in misappropriation of assets or inaccurate financial reporting to external agencies such as the Department of Revenue. 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. The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

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

The sheriff did not have proper controls over bank reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2016-003. The sheriff did not have proper controls over bank reconciliations. The sheriff does not have procedures in place to ensure that the bank account is reconciled each month and reviewed. This could result in taxes being collected and not paid timely to the taxing districts. Good internal controls dictate that the bank statement be reconciled monthly and reviewed by a person independent of making deposits and writing checks. Bank reconciliations are a tool that can be used to determine that all deposits have been made and that taxes have been properly paid. We recommend that monthly bank reconciliations be prepared and reviewed by the sheriff to determine that all taxes collected have been paid to the taxing districts properly.

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

The sheriff did not settle the 2016 tax account: The sheriff should collect and pay the amounts listed below in order to properly settle his 2016 tax account.

<u>Due From:</u>		<u>Due To:</u>	
School	\$ 1,024	Tax Commissions Due Sheriff's Fee Account	\$ 10,261
Total Due From	<u>\$ 1,024</u>	Total Due To	<u>\$ 10,261</u>

This is caused by errors made during tax collections. As a result, the sheriff is required to collect and pay the amounts listed above. Once this is done, there will be a surplus of \$604 in the bank account which should be escrowed for three years and if not claimed, sent to the Kentucky State Treasurer. KRS 134.192 requires each sheriff to “annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year.” We recommend the sheriff collect and pay the amounts listed above as soon as possible.

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

The sheriff did not settle the 2015 tax account: The sheriff should collect and pay the amounts listed below in order to properly settle his 2015 tax account:

<u>Due From:</u>		<u>Due To:</u>	
State	\$ 1,125	Add-on Fees Due Sheriff's Fee Account (2016)	\$ 8,612
County	9,732	Tax Commissions Due Sheriff's Fee Account (2015)	2,609
Extention	<u>3,305</u>		
Total Due From	<u>\$ 14,162</u>	Total Due To	<u>\$ 11,221</u>

These errors were caused by the sheriff not having procedures in place to ensure that monthly reports are accurate which were used to pay the taxing districts. As a result, the sheriff is required to collect and pay the amounts listed above. Once this is done, there will be a surplus of \$309 in the account which should be escrowed for three years and if not claimed, sent to the Kentucky State Treasurer. KRS 134.192 requires each sheriff to “annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year.” We recommend the sheriff collect and pay the amounts listed above as soon as possible.

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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