



Auditor of Public Accounts
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Harmon Releases Audit of Breathitt County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Breathitt County Sheriff Ray Clemons. 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 internal control over financial operations and reporting.

The audit contains the following comments:

The sheriff's office did not have adequate segregation of duties: The sheriff's office lacks adequate segregation of duties due to the responsibilities of receiving, recording, depositing, disbursing, and reconciling funds being delegated to the same individual. This is a repeat finding and was included in the prior year audit report as Finding 2015-001.

The sheriff's bookkeeper receives payments for taxes, records receipts, prepares deposits, prepares checks for payments, records disbursements, prepares monthly tax reports, and completes monthly bank reconciliations. The sheriff is aware of the risk associated with inadequate segregation of duties. However, due to a small staff size and budget constraints, the sheriff has decided to accept these risks and has not implemented compensating controls to offset this weakness.

Since only one person performs all the accounting functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. A lack of adequate segregation of duties increases the risk of undetected misappropriation of funds, misstatements, errors, and fraud.

Good internal controls require the duties of receiving, recording, depositing, disbursing, and reconciling to be separated when possible. If, due to a small staff size, these duties cannot be separated, the official should provide strong oversight and implement compensating controls to decrease the risk associated with inadequate segregation of duties.

We recommend the sheriff segregate the duties of receiving, recording, depositing, disbursing, and reconciling tax funds or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the sheriff comparing the daily checkout sheet to the receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, and reviewing all financial reports. The sheriff should document his review process by initialing reports and supporting documentation.

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

The sheriff has a deficit of \$313 in his 2009 tax account: The sheriff has a deficit of \$313 in his 2009 tax account because the sheriff still owes tax distributions from that year to the extension taxing district. The sheriff must deposit personal funds to cover the deficit. This is a repeat finding and was included in the prior year audit report as Finding 2015-002.

The sheriff has failed to take corrective action regarding this deficit for several years. The taxing district has been deprived of much needed resources for a significant time period.

KRS 134.192 requires the 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 take corrective action to settle and close the 2009 tax account immediately. We will refer this matter to the Breathitt County Attorney to pursue collection.

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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