



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Caldwell County Sheriff Stan Hudson. 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 of April 16, 2015 through April 15, 2016, in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance 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 office lacks segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, post transactions to the receipts and disbursement ledges, prepares monthly bank reconciliations, and prepares all monthly tax reports. The sheriff has not segregated incompatible accounting functions among office staff or implemented documented compensating controls to offset this internal control deficiency. A

lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department of Revenue. The segregation of duties 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, cross-checking procedures should be implemented and documented by the individual performing the procedure.

Sheriff Stan Hudson's response: We've always had one clerk get deposit ready, someone else takes deposit to bank.

The sheriff failed to distribute interest on a monthly basis. The sheriff failed to turn over interest payments on a monthly basis. The sheriff made one payment to the school board and one payment to the sheriff's fee account for interest earned on tax collections. Because interest earnings were not paid to the school district or fee account on a monthly basis, the school and fiscal court were denied access to proceeds of interest from tax collections. KRS 134.140(2) states in part, "[a]s part of the monthly distribution of taxes to a district board of education . . . the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes. . . ." Auditors recommend the sheriff turn all interest earnings over to the school and sheriff's fee account as part of the monthly distribution of taxes to the districts.

Sheriff Stan Hudson's response: No response.

The sheriff failed to require deposits be made intact and all payments be made by check. The sheriff's bookkeeper made refunds in cash. The bookkeeper did not wish to write checks for small amounts of overpayments. Deposits were shorted by the amount of the cash refund. Refunds of the over payments were made in cash. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires "Daily deposits intact into a federally insured banking institution" and "Disbursements by check only." Additionally, good internal controls dictate these requirements are essential and provide protection against fraud and errors. We recommend the sheriff require all daily collections be deposited intact and that checks be written for all disbursements.

Sheriff Stan Hudson's response: No 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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