



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 Cumberland County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for Cumberland County Sheriff Scot Daniels. 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 Cumberland County Sheriff's Office lacks adequate segregation of duties over receipts and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The sheriff's office lacks segregation of duties over receipts and disbursements. The sheriff's bookkeeper opens the mail, collects payments from customers, and prepares daily collection reports, deposits, and monthly tax reports. Upon completion of the monthly reports, the bookkeeper prepares and signs the checks and performs the monthly bank reconciliations. The

bookkeeper also has administrative rights to the tax program used to collect taxes. In addition, all employees use the same cash drawer for collections.

The lack of segregation of duties occurs because the sheriff has failed to segregate incompatible duties. According to the sheriff, this condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts. Inadequate oversight led to inaccurate financial reporting when the sheriff had to amend the 2017 tax settlement to the fiscal court on July 31, 2018, after discovering a material misstatement on the original June 12, 2018 settlement. Adequate segregation of duties would prevent the same person from having a significant role in the processing and recording of receipts and disbursements. The sheriff should implement oversight when duties cannot be segregated.

We recommend the sheriff segregate duties over accounting functions. If segregation of duties is not feasible due to lack of staff, we recommend the sheriff implement compensating controls to offset this control deficiency. The sheriff has implemented some compensating controls; however, they are not sufficient to mitigate the lack of segregation of duties.

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

The Cumberland County Sheriff's Office did not deposit receipts of the office intact daily: Deposits are not made intact daily. Overpayments made by checks were issued by cash or withheld from the daily deposits. During the week of November 5 to November 11, overages from checks received from taxpayers totaling \$5 were either refunded by cash, or were withheld from the daily deposit and retained in the office. The sheriff's staff does not document the overpayments kept, including their final disposition.

These deficiencies in internal control over the deposit and refund process were allowed to occur because proper controls and oversight over the deposit and refund process were not put in place by the sheriff. According to the sheriff, small overpayments are sometimes kept under the cash drawer because the taxpayers tell the staff to keep the excess, or the excess is insignificant enough to not warrant a check for overpayment. Failure to deposit taxes collected intact, including depositing overpayments, delaying depositing taxes collected, or refunding overpayments of checks by cash increases the risk of fraud and misappropriation of cash.

Proper internal controls over the deposit and refund process are important to ensure deposits are made intact daily and overpayments are properly refunded. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires daily deposits intact into a federally insured banking institution and disbursements by check only.

The sheriff should implement controls and provide appropriate oversight over the deposit and refund process in his office to assure all deposits are made intact daily to the proper account and refunds of overpayments are properly documented. We recommend deposits be made intact daily to the correct bank account and reconciled to the daily tax collection report total. Any differences should be explained. Review of the deposits or reconciliations should be documented. In addition, we recommend overpayments by check be refunded by check to properly document that the overpayment has been refunded.

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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