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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for 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 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 did not distribute tax collections by the tenth of each month: The sheriff did not distribute franchise tax collections in a timely manner. There were five months of franchise tax collections during the year, of which four were not distributed by the 10th of the following month. This is a repeat finding and was included in the prior year audit report as Finding 2015-001. Payments were not made timely due to oversight of the 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) provides, "[a]t the time of making the report, the sheriff shall pay to the county treasurer. . .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 provide monthly reports and distribute tax payments by the tenth of each month as required by KRS 134.191.

Sheriff's Response: Will try to make sure all questions regarding franchise bills are resolved in a more timely manner. Therefore, distribution will be made more timely.

The sheriff did not make daily deposits: The sheriff did not make daily deposits as required. The auditor randomly selected one week during October 2016 to test. There were four deposits made for receipts received during this week. Two of the deposits, which totaled $219,466 included collections for multiple days, one of which was not made timely. This is a repeat finding and was included in the prior year audit report as Finding 2015-002.

Daily deposits were not made because the sheriff has not adopted 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, 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 start making daily deposits in order to comply with the Department for Local Government requirements and to reduce the risk of undetected errors and misappropriation of assets.

Sheriff's Response: Did deposits daily, but did not go to bank daily. Will try to go to bank more often, but did not always go due to time and staff restraints.

The sheriff's office lacks adequate segregation of duties: The sheriff's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The sheriff's bookkeeper receives payments for taxes, records receipts in the ledger, prepares bank deposits, and performs monthly bank reconciliations. Additionally, the same employee prepares checks for payments from the tax account, records disbursements in the ledger, and prepares monthly reports reflecting amounts to be paid to each taxing district. This is a repeat finding and was included in the prior year audit report as Finding 2015-003.

According to the sheriff, the lack of adequate segregation of duties is a result of a limited budget which restricts the number of employees the sheriff can hire or delegate these duties to, which could result in the undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Furthermore, 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 segregate these duties, or implement steps to strengthen internal controls through compensating controls such as:

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

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

Sheriff's Response: Cannot have segregation of duties due to staff size.

Auditor's Reply: Even with limited staff, the compensating controls mentioned above, including procedures performed by the sheriff, should be implemented.

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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