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 Former Estill County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for former 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 former 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 former sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the former sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The former sheriff's financial statement fairly presents the taxes charged, credited and paid for the period April 17, 2018 through December 31, 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 former sheriff did not make daily deposits: This is a prior year finding and was included in the prior year audit report as Finding 2017-002. The former sheriff did not make daily deposits as required. The auditor randomly selected one week during October 2018 to test. During the October dates, it appeared that deposits were not made daily even though collections on hand were significant.

Daily deposits were not made because the former sheriff did not adopt a policy requiring daily deposits. Failure to make daily deposits increases the risk of undetected errors and misappropriation of assets. 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* which states, "daily deposits intact into a federally insured banking institution."

We recommend the sheriff's office make daily deposits in order to comply with DLG's requirements, and to reduce the risk of undetected errors and misappropriation of assets.

Former Sheriff's Response: Will forward to next Sheriff.

The former sheriff's office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2017-003. The former sheriff's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. The former sheriff's bookkeeper received payments for taxes, recorded receipts in the ledger, prepared bank deposits, and performed monthly bank reconciliations. Additionally, the same employee prepared checks for payments from the tax account, recorded disbursements in the ledger, and prepared monthly reports reflecting amounts to be paid to each taxing district.

The lack of adequate segregation of duties was a result of a limited budget, which restricted the number of employees the former sheriff could hire or delegate these duties to. A lack of adequate segregation of duties 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. Further, 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's office segregated these duties, or implement steps to strengthen internal controls through compensating controls such as:

- The sheriff or his designee should compare the daily bank deposit to the daily checkout sheet, and then compare the daily checkout sheet to the receipts ledger.
- The sheriff or his designee should compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff or his designee should periodically compare the amounts due districts per the monthly reports to the payments to the taxing districts.
- The sheriff or his designee 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 or his designee.
- The sheriff or his designee should personally mail or deliver tax payments to the taxing districts.

All of the compensating controls should have been documented by the sheriff's office by initialing and dating the documents used to perform the comparisons.

Former Sheriff's Response: Will forward to next Sheriff.

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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