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Harmon Releases Audit of Former Franklin County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for former Franklin County Sheriff Pat Melton. 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 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 former Franklin County Sheriff lacked adequate segregation of duties over daily accounting and reporting functions: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former sheriff lacked adequate segregation of duties over accounting and reporting functions of the former sheriff's office. The bookkeeper assisted in collecting tax bill payments, posted to the financial software program, pulled monthly reports for all districts, prepared checks for districts, and prepared the monthly bank reconciliation. The

auditor noted that the former sheriff had implemented dual signatures on all checks and signed monthly tax reports. However, these compensating controls were not effective enough to offset the risk associated with inadequate segregation of duties.

Internal controls were not in place to ensure duties were adequately segregated and sufficient compensating controls were not implemented.

A lack of adequate segregation of duties increases the risk undetected errors could occur and have a material effect on the financial reporting of the office.

When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of adequate segregation of duties. Proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

We recommend the sheriff's office evaluate the controls in place and consider the following controls to adequately protect the office against misappropriation of assets and inaccurate financial reporting:

- Authorize someone other than the person performing closeout procedures, preparing the deposit, and performing the bank reconciliation to agree daily tax collection totals to the deposit slip. This person should also ensure the cash/checks per report agree to deposit slip, then document the review by initialing the bank deposit.
- Authorize someone other than the check preparer to review supporting documentation and sign checks in the sheriff's absence.
- The sheriff or a designated employee should reconcile the daily work to the ledger and monthly reports to ensure accuracy, then document the review by initialing or signing reports.

Former Sheriff's Response: I was proud to serve the citizens of Franklin County for over 8 years as their Sheriff. During my tenure no funds were missing and my team dedicated to make this county a safer place to live, work, and play. I expended funds and staff to address critical public safety issues. I respect the professional manner the APA conducted this audit. It is my understanding all financial issues found in the audit are reconciled with the other agencies and no further action is required. During my tenure my Office collected over \$200,000,000 in taxes as prescribed by law and every single penny was accounted for. The administrative issues identified in the audit were either corrected or in the process of being corrected. Thank you for the opportunity to respond.

The former Franklin County Sheriff did not ensure tax collections were deposited daily: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The former sheriff was not depositing tax collections into the bank daily as required by KRS 68.210. Tax collection were not processed daily during the month of November. The auditor expanded testing for the entire month and found that collections for two days were held in the office 2-3 days before processing them for deposit. See the dates below:

- Collections on November 9th were processed on November 9th per deposit ticket but report attached shows a run date of November 11th and the deposit actually cleared the bank on November 14th. Second deposit for November 9th shows the deposit ticket date of November 9th with the report run date of November 13th, and cleared bank on November 14th. Monies collected on a Thursday were not processed for deposit until the following Tuesday.
- Collections on November 10th show a report date of November 14th. This deposit was all credit cards but the report for this day was not processed until November 14th
- Collections on November 22nd were not processed for deposit until November 29th (per date on deposit ticket) and deposited into bank on December 1st
- Collections on November 27th were not processed for deposit until November 29th (per date on deposit ticket) and deposited into bank on November 29th

The auditor also noted that dates on the reports did not correspond with dates on the deposit ticket. The date on the report would be after the date on the deposit ticket giving the appearance that the deposit ticket was backdated.

The former sheriff did not have controls in place to ensure daily collections were deposited intact on a daily basis.

The practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most susceptible to loss or theft. Delaying processing of deposits can be used to conceal the theft of tax payments to the sheriff's office.

The Department for Local Government (DLG) was given authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the County Budget Preparation and State Local Finance Officer Policy Manual requires that deposits be made daily and intact.

We recommend the sheriff's office implement controls to ensure tax collections are deposited daily and intact.

Former Sheriff's Response: See former sheriff's response to Finding 1.

The former Franklin County Sheriff lacked adequate controls and oversight for daily office procedures: This is a partial repeat finding and was included in the prior year audit report as Finding 2016-004. The following deficiencies were identified related to daily office procedures:

- No documentation on the software report that cash and checks counted from cash drawer by deputy agreed to report;
- No indication that a review of the deposit was performed;
- Tax Software does not have capability to track the employee who took each tax bill collection;
- Various employees work out of the same drawer with the same log in credentials. No control is place to track which employee processes a tax bill payment; and
- Deposits were not made daily – See Finding 2017-002.

- Disbursement made to one district contained a \$30,000 error and resulted in an overpayment to a district. Then the following month this \$30,000 was inaccurately reported as a refund.
- A franchise bill was billed incorrectly resulting in the former sheriff owing the company a refund.
- Multiple franchise bills were not billed timely.
- December 2017 State Tax Collections report shows a refund was owed but was not deducted from amount paid to state. Upon further investigation, this was not a refund and unable to determine why it was written on tax report.

Because of a lack of control and understanding of state statutes, required daily checkout procedures were not performed. By not performing required daily checkout procedures, tax receipts were left vulnerable to misappropriation and loss. Additionally, the former sheriff was not compliant with the Department for Local Government (DLG)'s accounting requirements. Failure to implement controls over the receipt process increases the risk of undetected errors and misappropriation of assets.

Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments. The DLG was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the County Budget Preparation and State Local Finance Office Policy Manual requires that deposits be made daily and properly documented by a daily checkout sheet.

Strong internal controls dictate that checkout procedures be performed daily and that management provide strong oversight of daily operations. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The DLG's *County Budget Preparation And State Local Finance Officer Policy Manual* requires making daily deposits intact into a federally insured banking institution.

We recommend the sheriff's office strengthen controls and provide management oversight of daily procedures to ensure accuracy. Deposits should be made intact and on a daily basis. Furthermore, the sheriff's office could work with the software programmer to see if an audit trail could be added.

Former Sheriff's Response: See former sheriff's response to Finding 1.

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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