



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Gallatin County Sheriff Josh Neale. 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, 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 adequate segregation of duties over receipts and disbursements. The sheriff's bookkeeper collects receipts, batches receipts to a daily collection report, prepares the deposit ticket, takes the deposit to the bank, prepares tax disbursement reports, prepares checks, signs checks, and reconciles the bank account. There is no independent review in place. Adequate segregation of duties over receipts and disbursements protects employees in their day-

to-day functions, and it reduces the risk of undetected misappropriation of assets and inaccurate financial reporting.

We recommend the sheriff either segregate duties over receipts and disbursements, or implement compensating controls. Examples of compensating controls would require the sheriff or a designee not involved in these duties to:

- Review deposit tickets to ensure they agree with daily collection reports.
- Review disbursement checks to ensure they agree to the corresponding monthly tax distribution reports.
- Review bank reconciliations to ensure they account for all receipts and disbursements activity.

Reviews should be documented by initials of the reviewer on deposit tickets, daily collection reports, checks, monthly distribution reports, and bank reconciliations.

Sheriff's response: None.

The sheriff did not pay correct interest amounts to the school district and fee account monthly. The sheriff did not distribute and make accurate interest payments to the school district and fee account monthly. During the 2015 tax year, the school district was underpaid interest by \$82, and the fee account was underpaid interest by \$69. The sheriff does not have a policy to ensure that interest is paid to the school district monthly and accurately.

KRS 134.140(2) states that the sheriff shall monthly pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes. In those counties where the office of the sheriff is funded in whole or part by fees and commissions, the sheriff may use investment earnings, other than those which must be paid to the board of education in compliance with subsection (2) of this section, to pay lawful expenses of his or her office. We recommend the sheriff pay the school district \$82 and the fee account \$69 for interest to comply with KRS 134.140. We also recommend the sheriff establish a policy to ensure interest earnings are distributed accurately and monthly.

Sheriff's response: None.

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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