



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 – 2016 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, 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 comment:

The 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 2015-001. The sheriff's office lacks adequate segregation of duties over receipts and disbursements. All employees of the sheriff's office collect receipts. The office manager prepares the daily bank deposit and daily checkout sheet and then posts items to the receipts ledger. The office manager prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and

disbursements ledgers. The office manager prepares checks for all disbursements including payroll and posts to the disbursements ledger. The sheriff and office manager are the only authorized check signers. The sheriff does not require dual signatures on checks; however, the office manager generally signs checks.

Due to the sheriff's office having a small office staff composed of two full-time employees, it is very difficult to segregate duties over receipts and disbursements in a positive and constructive manner.

A lack of segregation of duties over receipts and disbursements creates an opportunity for misappropriation of assets such as cash. By having the same employee perform these functions, the risk of undetected errors or fraud increases, such as misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government.

Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements.

We recommend the sheriff implement compensating controls to offset this weakness. The sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compares the daily checkout sheet to the receipts ledger when prepared by another employee. The sheriff should document this review process by initialing the daily checkout sheets and deposit slips. The sheriff should review the quarterly financial report and compare amounts reported on the receipts and disbursements ledger. Bank statements should be reconciled regularly and reviewed by another person. This review should be documented the review process by dating/initialing the bank statement, along with the reconciliation sheets.

Sheriff's Response: We are a small office and myself and the part time clerk try to split up as much work as possible.

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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