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Harmon Releases Audit of Grayson County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Grayson County Sheriff Norman Chaffins. 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 Grayson County Sheriff lacks segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. In the current audit period, the Grayson County Sheriff's bookkeeper performs numerous duties dealing with tax receipts, disbursements, and reconciliations. The bookkeeper is responsible for the collection of cash, preparation of the daily deposits, and daily tax collection journal. She is also responsible for the preparation of monthly reports, distribution of tax payments, and the reconciliation of all bank

statements. The sheriff has attempted to implement compensating controls; however, the individuals performing the compensating controls failed to properly document their oversight.

The sheriff indicated the lack of segregation of duties existed over tax settlement functions of the sheriff's office because a limited number of employees were available to properly segregate these job duties. A lack of segregation of duties could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

A segregation of duties over tax settlement receipts and disbursements activities and reconciliations or implementation of compensating controls, when needed because of limited staff, 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 properly segregate the duties over tax settlement functions in order to help prevent misappropriation of assets, inaccurate financial reporting, and to adequately protect employees in the normal course of performing their daily responsibilities. If these duties cannot be separated, strong documented oversight over these areas should be provided.

Sheriff's Response: Sheriff Norman Chaffins will continue to try to segregate duties.

The Grayson County Sheriff did not have sufficient policies and procedures or internal controls over the fire dues "opt-out" process: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. According to Grayson County Fiscal Court Ordinance 310.01, taxpayers can choose not to pay fire dues subscriber fees (fire dues) by completing a form to "Opt-Out" of Grayson County fire department membership charges/subscriber fees and providing the completed form to the sheriff when they pay their tax bill each year. The form should be completed and maintained on file by the sheriff to document the fire dues that were removed from tax bills. For the 2016 tax collection period, the sheriff included \$139,240 on his settlement as fire dues that were removed at the request of the taxpayer. There should have been approximately 3,480 forms on file for the fire dues removed.

According to the bookkeeper if a tax bill is mailed in and the amount paid is short by \$40, they assumed the taxpayer was "opting out" and they would complete a form and write "mailed" in place of the taxpayer's signature. She also told auditors that they had difficulty obtaining forms for all fire dues opted-out during the office busy periods, therefore making it highly likely that they did not have a form to support all fire dues not collected. The sheriff did not implement policies and procedures or internal controls over the fire dues "opt-out" process leaving a significant amount of transactions susceptible to fraud or material errors. This lack of internal controls leaves \$139,240 at increased risk of fraud or material error.

Good internal controls require clear policies and procedures to address the process and documentation of removing "opted-out" fire dues from a tax bill. Additionally, Grayson County Ordinance 310.01 states "In order to delete any parcel(s) or property from subscriber fees, the owner may choose to opt out of the membership by completing the attached form. This form must be filled out at the time of payment of taxes at the Sheriff's office."

We recommend the sheriff implement sufficient internal controls to ensure accurate processing of fire dues “opt-outs.” The sheriff should develop standardized policies and procedures for staff to follow, including:

- Maintaining properly completed “opt-out” forms for each taxpayer,
- Documenting the forms in an orderly, consistent manner to provide an audit trail,
- Limiting the ability to adjust tax bills for the “opt-out” to designated personnel, and
- Periodic reviewing or spot-checking of “opt-out” credits against the “opt-out” forms.

Sheriff's Response: Sheriff Norman Chaffins plans to develop procedures for staff to follow including: receiving signed “opt-out” forms from each taxpayer.

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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