



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2014 taxes for Lawrence County Sheriff Garrett Roberts. 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, 2014 through April 15, 2015 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:

Receipts were not deposited daily. Funds are not deposited daily. For example, during the month of January, deposits were made on five days of the month. Also, we discovered two instances of late unmined coal deposits. An unmined coal deposit in the amount of \$8,395 dated May 29, 2015 was not deposited until July 7, 2015, and another unmined coal deposit in the amount of \$86,013 dated October 16, 2015 was not deposited until November 3, 2015. It

appears the sheriff often holds several deposits and then takes them to the bank rather than making daily deposits. Further, policies and procedures are not in place to ensure that tax receipts are deposited daily. Undeposited receipts are susceptible to misappropriation or theft. Such occurrences could materially affect the financial statements. Under the authority of KRS 68.210, the Department for Local Government has established requirements for all local government officials handling public funds. These requirements include “daily deposits intact into a federally insured banking institution.” We recommend that the sheriff implement policies and procedures to ensure that tax receipts are deposited intact daily.

Sheriff's response: Policy will be put in place.

Certificates of delinquency were not promptly transferred to the county clerk's office. Certificates of delinquency for unmined coal taxes were not promptly transferred to the county clerk's office. The sheriff neglected to perform this duty. Unmined coal tax collections began April 1, 2015, and became delinquent May 31, 2015 and should have been transferred on September, 15, 2015. However, the delinquent unmined coal transfer was not completed until February 23, 2016. The delay in transferring the delinquent unmined coal certificates to the county clerk meant that the taxpayers were unable to pay the delinquent bills during that time period. The delinquent bills were also incurring interest charges during that time period that the taxpayer would be responsible for paying. KRS 134.122(1)(a) states that the sheriff shall file all delinquent tax claims remaining in his possession with the county clerk within three months and fifteen days from the date the taxes were due. According to KRS 134.122(1)(d), the non-compliance also holds the sheriff liable on his bond for the aggregate amount of the tax claims not filed with the clerk. We recommend the sheriff turn the delinquent unmined coal tax bills over to the county clerk timely.

Sheriff's response: No response.

The sheriff did not remit payments to taxing districts timely. Unmined coal taxes collected totaling \$137,075 were collected beginning in April 2015. The sheriff collected unmined coal taxes through July 2015 but did not prepare monthly reports as required and did not distribute to the taxing districts until March 2016. Also, franchise taxes in the amount of \$447,392 collected in July 2015 were not paid out to the taxing districts until April 2016. In addition to these late payments, six out of seven months of collections were not delivered to the districts on time. These checks were dated beyond the 10th of the month following the month of collections, and it appears they were held and not delivered or mailed until weeks later. By not preparing and delivering checks to the districts on time, the county, school, and other taxing districts were not able to use funds totaling \$584,467. These taxing districts rely on the timely receipt of tax revenues, and their budgets and cash flows were negatively affected. KRS 134.191(1) requires the sheriff to provide monthly reports by the tenth day of each month to the taxing districts. KRS 134.191(3) requires the sheriff to pay the taxing districts all funds that were collected during the period covered by the report. Pursuant to KRS 134.191, any sheriff failing to pay over taxes collected as required by law shall be subject to a penalty of one percent (1%) for each thirty (30) day period or fraction thereof that the payment is not made, plus interest at the tax interest rate provided in KRS 131.183 on such amounts. The governing body of a county, the department, or the other district for which the sheriff collects taxes, in its settlement with the

sheriff, shall charge him or her with such penalties and interest. We recommend the sheriff prepare monthly reports for all taxes collected and pay the taxing districts timely in the future.

Sheriff's response: No response.

The sheriff did not remit interest payments to the school and fee account monthly. The sheriff did not distribute interest earned on tax collections to the school or the fee account on a monthly basis. The sheriff earned \$2,547 in interest on his 2014 tax account, and only paid it to the school and fee account for the months of October and November. Policies and procedures are not currently in place to ensure that interest earned from tax collection deposits is paid to the school district and fee account timely. Failure to distribute interest earnings monthly results in a noncompliance. Based on the amount of interest earned and after factoring in what the sheriff has already paid for October and November, the sheriff still owes \$942 to the school district and \$1,024 to the fee account. The sheriff should distribute the investment earnings at the same time as monthly tax collections. KRS 134.140(2) requires the sheriff to pay monthly “that part of the investment earnings for the month which are attributable to the investment of school taxes.” According to KRS 134.140(4), the balance of investment income should be paid to the sheriff’s operating account. We recommend the sheriff comply with KRS 134.140 by remitting the interest due to the school and fee account on a monthly basis.

Sheriff's response: No response.

The sheriff’s office lacks adequate segregation of duties. The sheriff’s office lacks adequate segregation of duties. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements which would increase the risk of undetected misappropriation of assets and inaccurate financial reporting. The sheriff’s bookkeeper collected payments from customers, recorded transactions in the ledgers, prepared deposits, and reconciled the bank account. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. The sheriff could implement some compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit. Although they do not eliminate the lack of adequate segregation of duties, compensating controls do decrease the risk present in the absence of proper segregation of duties. We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, strong oversight over the employee’s work should be provided and documented.

Sheriff's response: No response.

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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