



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for former Leslie County Sheriff Delano Huff. 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.

Our responsibility is to express an opinion on the financial statement based on our audit, which presents the taxes charged, credited and paid for the period April 17, 2018 through December 31, 2018 in conformity with the regulatory basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

The former Leslie County Sheriff did not maintain adequate accounting records of tax receipts and disbursements to allow us to apply auditing procedures to satisfy ourselves as to the validity of tax account collections and disbursements, which resulted in a high level of audit risk. Due to the apparent lack of internal controls and the above noted issues, we were unable to reduce the audit risk to an acceptable level.

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement.

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 Leslie County Sheriff's Office did not have adequate segregation of duties over receipts, disbursements, and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The former Leslie County Sheriff's Office did not have adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper opened mail, collected tax payments, prepared the daily checkout sheet and the daily deposit, opened bank statements, and prepared bank reconciliations. In addition, the bookkeeper was responsible for preparing the monthly tax reports and all disbursements. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

The sheriff's office stated they cannot hire additional employees to allow segregation of duties due to a limited budget. The lack of segregation of duties could result in undetected misappropriation of assets or inaccurate financial reporting to local taxing districts.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, and recording payments and disbursements, is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The former sheriff could have implemented oversight when duties could not be segregated.

We recommend the sheriff's office segregate duties over accounting functions. If this is not feasible due to a limited budget, then strong compensating controls should be implemented and evidence of those controls documented. Examples of such controls include, but are not limited to:

- The sheriff, or his designee (an individual independent of the preparation of the source documents), should compare the daily checkout sheet to tax reports and bank deposit receipts then document the review by signing or initialing all source documents.
- The sheriff, or his designee, should examine the bank reconciliation prepared by the bookkeeper, resolving any discrepancies, and documenting the review by initialing the bank reconciliation and the bank statement.
- The sheriff, or his designee, should compare the bank reconciliation with the receipts and disbursements ledgers then document the comparison by signing or initialing all source documents.
- The sheriff should examine checks prepared by the bookkeeper and compare those disbursements to the monthly tax reports and the disbursements ledger, resolving any discrepancies, then documenting the review by initialing the source documents.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff lost all data pertaining to 2018 tax collections and did not have back up procedures in place for tax collection data: The former Leslie County Sheriff's Office lost all data pertaining to 2018 tax collections. An attempt was made to recover the lost information, but this was unsuccessful. The former sheriff was under the impression that the vendor for the tax collection software provided backup services, but learned that this was a service that had to be purchased separately. As a result, all information concerning 2018 tax collections was lost and unable to be recovered.

Good internal controls require that the sheriff ensure that procedures are in place to protect tax collection data. We recommend the sheriff's office ensure all data is backed up in the event of technology failure.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff's 2018 tax settlement was not accurate and not supported by accounting records: The former Leslie County Sheriff's 2018 tax settlement was not an accurate representation of the tax collections and distributions of the former sheriff's office for tax year 2018. Multiple items on the former sheriff's tax settlement were incorrect and could not be supported by accounting records. The former sheriff was unable to produce supporting documentation for the tax settlement because of a loss of tax collection data from the former sheriff's software system. The former sheriff still owes taxing districts \$104,942 in order to settle 2018 tax collections. Due to the lack of financial records, the former sheriff's tax settlement could not be verified; therefore, auditors are unable to express an opinion on the former sheriff's 2018 tax settlement.

The former sheriff did not maintain supporting documentation for the 2018 tax settlement. The former sheriff's bookkeeper was unavailable, and the former sheriff was unable to obtain any information from the tax collection software system.

The lack of sufficient internal controls over the financial reporting process allowed for multiple errors in the former sheriff's county tax settlement to occur and not be detected. These errors include:

- Charges of at least \$783,232 were not included on the settlement.
- Credits of at least \$872,551 were not included on the settlement.
- Commissions were understated by at least \$59,614.
- Tax payments to districts were understated by at least \$1,960,803.

According to KRS 43.075(3) "[t]he uniform audit standards and procedures promulgated by the Auditor shall include but need not be limited to the requirement that each person performing an audit shall determine whether the fiscal court or county official is complying with the requirements of the uniform system of accounts adopted under KRS 68.210, whether there is accurate recording of receipts by source and expenditures by payee, and whether or not each official is complying

with all other legal requirements relating to the management of public funds by his office[.]” Additionally, effective internal controls over financial reporting are essential to ensure that financial reports are accurate.

We recommend the sheriff’s office ensure compliance with KRS 43.075(3) by guaranteeing the tax settlements are accurate and complete. We also recommend the sheriff’s office implement internal controls such as, but not limited to, a person other than the bookkeeper tracing amounts from the settlement to source documentation, recalculating commissions, and comparing taxes collected on the settlement to the monthly reports. These additional controls should be evidenced by the reviewer’s initials or signature on the supporting documentation.

Former Sheriff’s Response: The former sheriff did not provide a response.

The former Leslie County Sheriff has not properly settled 2018 tax account receivables and liabilities: The following 2018 tax account receivables and liabilities have not been properly settled:

Assets

Reconciled Cash Balance		\$	95,206
Receivables at Year End:			
Due from 2018 Fee Account for Check Order Charges	\$	32	
Due from 2018 Fee Account for Tax Collection Deposit Error		9,425	
Due from 2017 Tax Account for Tax Collection Deposit Errors		<u>3,500</u>	12,957
Total Assets			<u>108,163</u>

Liabilities

Unpaid Obligations:

 Based On Available Records

State		30	
County		15,216	
School		60,747	
Library		15,245	
Health		4,498	
Extension		8,757	
Soil		449	
Refunds Due Taxpayers		296	
Tax Commissions Due Sheriff’s Fee Account		1,256	
Tax Commissions Due School		<u>1,963</u>	
Total Unpaid Obligations			<u>108,457</u>
Total Fund Deficit as of December 31, 2018			<u>\$ (294)</u>

Note: This schedule was prepared by auditors, based on available records, in an attempt to account for the remaining cash balance maintained by the former sheriff. Auditors cannot express an

opinion on the former sheriff's tax settlement, but were able to verify that these amounts are still due to/due from taxpayers and taxing districts to settle 2018 tax collections.

The former sheriff was unaware of these receivables and liabilities. As a result of not settling the prior year tax accounts, taxing districts have not received all of the collections that were due to them, taxpayers have not received refunds, and commissions have not been properly paid to the former sheriff's fee account.

KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. If any sheriff resigns, dies, or otherwise vacates his or her office, the books and records shall be made available to the department, the county, and any other district for which the sheriff collects taxes within thirty (30) days from the date that the office is vacated. The annual settlement of the sheriff shall be audited in accordance with KRS 43.070 and 64.810.” KRS 64.820(1) states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official[.]”

We recommend the former sheriff personally deposit the \$294 to the 2018 tax account. We further recommend the former sheriff collect and distribute the receivables and liabilities identified to settle all tax collections.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff has not settled his 2014, 2015, 2016, and 2017 tax accounts: The 2014, 2015, 2016, and 2017 tax account receivables and liabilities have not been properly settled. The receivables and liabilities from all prior tax years have been consolidated as follows:

Cash in Bank		\$	9,160
Receivables:			
Due From Library	\$	47	
Service Charges Due From 2017 Fee Account		25	
Service Charges Due From Former Sheriff Personally		150	
Refunds In Error Due From Taxpayers		2,841	
Due from 2016 Oil & Gas Tax Account		102	
Due from 2016 UMC Tax Account		85	3,250
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Total Assets			12,410
Liabilities:			
Due 2018 Tax Account for 2018 Franchise Bill Received July 2018			3,235
Refunds Due to Taxpayers			3,050
Due 2018 Tax Account from 2017 Tax Account for Supplemental Bill			266
Due Districts Per Draft Settlements -			
State		157	
County		1,302	
School		2,663	
Health		158	
Extension		357	
Soil		371	
City of Hyden		5	5,013
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Total Liabilities			11,564
Total Fund Surplus		\$	<u>846</u>

The former sheriff was unaware that these liabilities had not been settled by the former bookkeeper. As a result of not settling the prior year tax accounts, taxing districts have not received all of the collections that were due to them. KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year. If any sheriff resigns, dies, or otherwise vacates his or her office, the books and records shall be made available to the department, the county, and any other district for which the sheriff collects taxes within thirty (30) days from the date that the office is vacated. The annual settlement of the sheriff shall be audited in accordance with KRS 43.070 and 64.810.” KRS 64.820(1) states, “[t]he fiscal court shall collect any amount due the county from county officials as determined by the audit of the official[.]”

We recommend the former sheriff collect and distribute the receivables and liabilities identified to settle all tax collections. We further recommend the former sheriff pay any surplus to the Leslie County Fiscal Court.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff distributed taxes late: This is a repeat finding and was included in the prior year audit report as Finding 2017-003. The former Leslie County Sheriff was responsible for collecting taxes from taxpayers and reporting and paying collections to taxing districts on a monthly basis. All tax payments are required to be distributed by the tenth of the

month following collections. The former sheriff's office did not always distribute these taxes within the required time. Four of the former sheriff's months of collections were distributed late totaling \$58,930.

According to the former sheriff, the former bookkeeper did not always distribute taxes timely. As a result, taxing districts did not always receive their portion of taxes in the time required.

Strong internal controls require the sheriff monitor tax distributions to taxing districts. KRS 134.191(1) states in part, "[t]he sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county the department, and any other district for which the sheriff collects taxes." KRS 134.191(3) states, "[a]t the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the other district that were collected during the period covered by the report."

We recommend the sheriff's office implement internal controls to ensure that taxes are prepared and funds distributed by the tenth of each month as required by KRS 134.191.

Former Sheriff's Response: The former sheriff did not provide a 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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