



Auditor of Public Accounts  
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### **Harmon Releases Audit of Leslie County Sheriff's Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2019 taxes for Leslie County Sheriff Billy M. Collett. 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, 2019 through May 15, 2020 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 the internal control over financial operations and reporting.

The audit contains the following comments:

**The Leslie County Sheriff's Office does not have adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The sheriff's bookkeeper collects payments from customers, prepares receipts, prepares deposits, and reconciles the bank statements. The bookkeeper also prepares disbursement checks and monthly tax reports. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and the reconciliation process. According to the sheriff's office, this condition is a result of a limited

budget, which restricts the number of the employees the sheriff can hire or delegate duties to. A lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department of Revenue.

The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls 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 ensure that accounting duties are properly segregated in the future. If this is not feasible, the sheriff should implement adequate compensating controls that would limit the severity of this deficiency in internal controls. Additionally, evidence of the compensating controls implemented should be maintained.

*County Sheriff's Response: The official did not provide a response.*

**The Leslie County Sheriff did not prepare a complete and accurate settlement:** The Leslie County Sheriff did not prepare a complete and accurate settlement for 2019 tax collections. The franchise charges reported on the settlement were understated by \$147,863. Franchise charges being understated resulted in the sheriff's commission and amounts paid to districts being incorrect as well.

The settlement for 2019 taxes was prepared for the period October 1, 2019 through May 31, 2020; and therefore, did not include franchise collections for May 2019 and September 2019. These errors occurred due to a lack of internal controls and oversight over financial reporting. The sheriff did not compare his settlement to his records to ensure all financial activity for period was included. As a result, the sheriff's settlement was materially misstated. The sheriff's settlement presented to the fiscal court was not an accurate representation of taxes collected and paid.

KRS 134.192(2)(b) states, in part, "[t]he sheriff shall settle his or her accounts with the county, the school district, and any other taxing district for which he or she collects taxes." Further, KRS 134.192(5) stated, in part, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts." In addition, the Kentucky Department of Revenue recommends in the *County Clerk's Office Manual* that franchise tax bills be settled at the same time as regular taxes.

We recommend the sheriff ensure that future settlements are reviewed for accuracy and include financial activity for the proper time period. Franchise taxes should be settled at the same time as regular taxes each year.

*County Sheriff's Response: The official 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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