



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for Livingston County Sheriff Bobby Davidson. 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 18, 2017 through April 16, 2018 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 Livingston County Sheriff failed to make daily deposits: This is a repeat finding and was included in the prior year audit report as Finding 2016-004. During the 2017 tax year, the Livingston County Sheriff did not make daily deposits for tax collections. Instead, the sheriff created deposits but waited to take them to the bank.

According to the sheriff's office, because of a limited staff, sometimes the bookkeeper would be the only person working in the sheriff's office and would not be allowed to leave the office to take deposits to the bank. Also, due to the lack of proximity of the bank, it is not always convenient to take the deposit. Failure to make daily deposits leaves tax collections vulnerable to misappropriation and loss. Additionally, the failure to make daily deposits results in the sheriff not being in compliance with KRS 68.210.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for the handling of public funds by all local government officials, including making "[d]aily deposits intact into a federally insured banking institution." We recommend the sheriff deposit tax collections intact on a daily basis in order to ensure compliance with KRS 68.210.

Sheriff's Response: Our bank, where we make deposits, is several miles away and makes it hard for us to make daily deposits, but we are making daily trips to bank now.

The Livingston County Sheriff's Office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The Livingston County Sheriff's Office lacks adequate segregation of duties over tax collections and disbursements. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, the preparation of monthly reports, and the preparation of checks for disbursements. According to staff of the sheriff's office, this is because of a limited number of staff and the diversity of operations. A lack of adequate segregation of duties increases the risk of undetected fraud or errors.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate the duties of tax collections and disbursements when possible or implement and document compensating controls to offset the weakness in internal controls. Examples of compensating controls include, but are not limited to:

- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any difference should be reconciled. The sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should require two signatures on checks, with one being the sheriff's signature.
- The sheriff should compare disbursements to the monthly tax reports or other supporting documentation. Any differences should be reconciled. The sheriff should document his oversight by initialing documentation.

Sheriff's Response: Our office does not generate enough revenue to have enough employees to provide adequate segregation of duties, but we plan to have sheriff oversee paperwork closely to help with this issue.

The Livingston County Sheriff's Office lacks internal controls over tax collections, tax distributions and the reporting of taxes: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The Livingston County Sheriff's settlement was misstated due to multiple errors. Taxes paid per the sheriff's settlement did not agree to the cancelled checks for tax distributions, and refunds paid per the settlement did not agree to the cancelled checks written to individuals. Also, penalties collected on mineral bills were not properly distributed to the taxing districts, and commissions earned on mineral bills for the month of February were not calculated correctly on the monthly reports.

Due to a lack of controls over tax collections, tax distributions, and the reporting of taxes, these errors were not detected. Rather than implement a systematic approach for handling these functions, the sheriff relies on two employees without sufficient documented oversight. This lack of internal controls has created the opportunity for additional errors and misstatements to potentially occur.

Strong internal controls over tax collections, distributions, and reporting of taxes are essential to ensuring that taxes collected and distributed are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets.

We recommend that the sheriff implement internal controls over the tax collection, distribution, and reporting process. Implemented internal controls could include comparing cancelled checks to the monthly reports and comparing the monthly reports to the sheriff's settlement to ensure that taxes collected are properly paid to the districts and accurately reflected on the sheriff's settlement.

Sheriff's Response: We do not generate enough revenue to have enough employees to accommodate these collections, but we plan to have sheriff to look over these reports closely.

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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