



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 – 2019 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 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 Livingston 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 Livingston County Sheriff's Office does not have 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 check for disbursements with little to no

oversight. A lack of adequate segregation of duties increases the risk of undetected error or inaccurate reporting occurring.

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. According to the staff of the sheriff's office, this is because of a limited number of staff and the diversity of operations.

We recommend the sheriff segregate duties to the extent possible or implement compensating controls to offset this internal control weakness. The following procedures should be implemented by the sheriff to segregate duties or implement compensating controls:

- 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.
- The sheriff should review the settlement and ensure that each column foots properly.
- 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 reconciliations and the balance in the checkbook.

County Sheriff's Response: The office does not generate enough revenue to have more employees to cover all aspects of this office.

Auditor's Reply: The sheriff can implement the compensating controls with existing staff and can also perform the compensating controls personally.

The Livingston County Sheriff did not have adequate controls to ensure the county tax settlement was accurate: This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The Livingston County Sheriff's tax settlement had significant errors. The sheriff did not accurately foot the settlement for the soil conservation district, the Grand Lakes Fire Department, the Ledbetter Fire Department, or Salem Fire Department. Taxes paid per the sheriff's settlement did not agree to the cancelled checks for the tax districts. The sheriff left off \$142,000 of taxes paid to the Ledbetter Fire District. The sheriff recorded delinquent tangible taxes as delinquent real estate. The commissions were not calculated correctly for the school district. And the sheriff included a \$49,170 error in the refunds for the Salem Fire District. This lack of internal controls creates the opportunity for additional errors and material misstatements to potentially occur.

Strong internal controls over 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. Due to a lack of controls over 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.

We recommend that the sheriff implement internal controls over the tax 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. Additionally, the sheriff or another employee should take source documentation such as the delinquent tax listing, exoneration listing, additional billings, and official receipts for limestone, sand, and gravel to ensure that the settlement is accurate. The sheriff or another employee should also check the settlement for mathematical accuracy.

County Sheriff's Response: We plan on all of us going over the settlement to insure accuracy.

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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