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Harmon Releases Audit of Ohio County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Ohio County Sheriff Tracy Beatty. 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, 2016 through April 17, 2017 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Ohio 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 2015-001. The Ohio County Sheriff's Office lacks segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, and the preparation of checks for disbursements. According to the sheriff, the lack of segregation of duties is due to a small budget which limits staff size. Segregation of duties over these tasks and

cross-training deputies, when needed because the number of staff is limited, are 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. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and bank reconciling duties be segregated. A lack of segregation of duties or strong oversight could result in undetected misappropriation of assets or incorrect financial reporting.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff segregate the duties noted above and cross-train deputies to accommodate the rotation of these functions. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties and to document oversight. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

Sheriff's Response: The Ohio County Sheriff's Office works on a small budget which limits our staff size. Sheriff Beatty has implemented internal controls which includes cross-training and reviewing all financial statements and reports by at least two staff members. All bank statements, monthly reports and checks are reviewed by Sheriff Beatty and one other tax clerk before sending out monthly disbursements. The sheriff has installed a camera system in the tax office for monitoring transactions involving money between the public and the employees during the sheriff's collection process.

The Ohio County Sheriff does not have sufficient internal controls or policies and procedures in place for reconciling and settling the tax account: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The sheriff's office does not have policies and procedures in place to ensure all receipts are accounted for by reconciling the daily deposits, bank statements, credit card payments, and omitted bills to the tax accounting software. We reviewed the sheriff's tax settlement and bank statements and noted the following control deficiencies:

- Credit card payments were not reconciled regularly to ensure all payments were posted accurately, and multiple credit card payments were automatically deposited into the wrong bank account.
- The sheriff paid \$337 in penalty and interest to his fee account that were owed to the districts.
- Reconciliations were only prepared for part of the year. In the middle of the tax year, the former bookkeeper stopped reconciling the property tax bank account.

According to the sheriff, the prior bookkeeper was not diligent about good recordkeeping. Without these policies and procedures, the risk of misstatements in reconciling receipts and disbursements due to errors or fraud significantly increases. Strong internal controls and proper accounting procedures dictate that all receipts and disbursements be accounted for, maintained with supporting documentation, and reconciled to the bank accounts. A sheriff tax settlement should balance to

zero every year, as all funds received are paid out to the districts or to the sheriff's fee account in the form of commissions, penalties, and interest.

Monthly bank reconciliations are essential to detect any errors made in the previous month, payments not posted to the tax accounting system, or credit card payment issues.

We recommend the sheriff improve internal controls and implement policies and procedures for reconciling and settling the tax account.

Sheriff's Response: The Ohio County Sheriff's office now has procedures in place to insure all monthly reports, bank statements and accounts are reviewed. Sheriff Beatty has implemented that all reports be reviewed by a second tax clerk. This will help insure all accounts are being reconciled correctly.

The Ohio County Sheriff has poor internal controls over franchise tax collections: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The Ohio County Sheriff's Office has poor internal controls over franchise tax collections. Auditors noted the following exceptions during testing:

- A franchise bill was sent out to the taxpayer with an incorrect amount due to the library. The taxpayer paid the bill with the wrong amount due, resulting in a \$17,152 overpayment to the library.
- A bank franchise bill was not turned over as delinquent.
- The county was paid an incorrect amount for June 2016 monthly collections, and the difference owed to the county was paid by the bookkeeper a month later.

According to the sheriff, these franchise collection errors are due to his own lack of oversight. Errors were not caught by the previous bookkeeper because reports were not being reviewed in order to catch and correct these errors. The lack of oversight and poor internal controls over franchise tax collections have resulted in inaccurate financial reporting and incorrect distributions to the taxing districts, as well as late payments to the taxing districts. The sheriff's office has also created the opportunity for undetected misappropriation of assets. According to KRS 134.191(1), "[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." Good internal controls also dictate the sheriff's office review monthly reports and ensure reports are prepared accurately and timely in order to reduce the risk of misappropriation of assets and inaccurate financial reporting.

We recommend the sheriff's office strengthen internal controls over franchise tax collections and comply with KRS 134.191.

Sheriff's Response: The Ohio County Sheriff's office now has procedures in place to insure all Franchise reports are being reviewed. Sheriff Beatty has implemented that all Franchise bills, reports and checks are reviewed by a second tax clerk. This will help insure all documentation is correct.

There were inadequate controls to ensure the official receipt was correctly prepared: Upon reviewing the official receipt and tax rate sheets filled out by the taxing districts, we noted the library and cooperative extension districts did not elect to tax inventory-in-transit. However, inventory-in-transit tax was included on the official receipt and billed to the taxpayers. This resulted in an overpayment in taxes of \$1,941 to the library, and \$731 to the cooperative extension taxing districts. According to the sheriff, this occurred because the rate sheets were not compared to the official receipt. The sheriff's office does not have policies and procedures in place to ensure the official receipt matches the taxing district rate sheets. Without these policies and procedures, the billing of taxpayers has a significant risk of potential errors or fraud. Strong controls and proper procedures dictate that all tax bills should match the official receipt, and the tax rates on the official receipt should match the tax rate sheets sent in by each district. This ensures all bills are printed with the correct rates before they are sent to the taxpayer.

We recommend the sheriff work with the county clerk and property valuation administrator to implement controls over the preparation of the official receipt.

Sheriff's Response: The Ohio County Sheriff's office has placed adequate controls such as checking all official receipts with the Ohio County Clerk and the Property Valuation Administrator. This will help insure all tax rates are correct.

The Ohio County Sheriff did not have adequate controls over penalties waived: The Ohio County Sheriff's Office waived penalties on a total of 318 tax bills. Supporting documentation was maintained for most of the waived penalties, however auditors noted 136 tax bills in which penalties were waived and no supporting documentation was maintained. The former bookkeeper often did not reconcile online credit card payments timely. This resulted in a large number of waived penalties and missing documentation. According to the sheriff, the former bookkeeper was not diligent about maintaining proper documentation. Without maintaining proper documentation and timely reconciliations, the sheriff's office has no way to show these penalties were waived for legitimate reasons and taxpayers could avoid paying the appropriate penalties. Good internal controls dictate the sheriff reconcile online credit card payments timely and complete a penalty waiver form or maintain supporting documentation for any penalties waived in order to prevent abuse of the system and to ensure that taxes are received and disbursed properly.

We recommend the sheriff maintain the appropriate documentation to support all penalties waived and reconcile online credit card payments in a timely manner.

Sheriff's Response: The Ohio County Sheriff's office is now diligent on reconciling online credit card payments. The Sheriff's Office now pulls credit card payments daily. All penalties waived are approved by Sheriff Beatty before they are waived. A second tax clerk reviews all credit card payments to insure all online payments and penalties waived are accounted for weekly.

The Ohio County Sheriff did not make daily deposits: The Ohio County Sheriff's Office did not make daily deposits. For the daily collections on November 7, 2016, auditors noted the deposit was not made until November 9, 2016. According to the sheriff, the former bookkeeper was not diligent about making sure deposits were accurate or complete. By not making daily deposits, the sheriff's office could create the opportunity for undetected misappropriation of assets.

Additionally, the sheriff is not in compliance with the uniform system of accounts prescribed by the State Local Finance Officer pursuant to KRS 68.210. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, includes performing daily check-out procedures and making daily deposits intact into a federal insured banking institution.

We recommend the sheriff's office make daily deposits in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Sheriff's Response: The previous bookkeeper failed to make daily deposits. The new bookkeeper has been instructed by the sheriff to make daily deposits.

The Ohio County Sheriff did not pay interest to the board of education or county treasurer:

This is a repeat finding and was included in the prior year audit report as Finding 2015-004. The Ohio County Sheriff did not make consistent interest payments to the board of education or to the county treasurer. Auditors noted that the board of education is due \$35 in interest, and the county treasurer is due \$32. According to the sheriff, the former bookkeeper was not diligent about making sure payments were made correctly or timely. By not paying interest to the board of education or the county treasurer, the sheriff is not in compliance with KRS 134.140. KRS 134.140 requires the fee official to pay the board of education the part of the investment earnings which are attributable to the investment of school taxes and pay the remaining investment earnings to the county treasurer as part of the monthly distribution of taxes.

We recommend the sheriff comply with KRS 134.140 and make interest payments to the board of education and county treasurer timely.

Sheriff's Response: The previous bookkeeper failed to pay bank interest to the Board of Education and the County Treasurer. The sheriff's office now pays all interest to the Board of Education and the County Treasurer. The bank interest will be paid by the 10th of each month.

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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