



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for Perry County Sheriff Joe Engle. 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 January 1, 2019 through April 15, 2019 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 comment:

The sheriff's office does not have adequate segregation of duties: The sheriff's office does not have adequate segregation of duties and internal controls over tax receipts and disbursements. The bookkeeper and two deputy clerks, and occasionally the sheriff, collected tax receipts. The bookkeeper and deputy clerks reconciled the daily receipts to the daily tax collection report. The bookkeeper posted items to the receipts ledger. There were no initials on the deposit ticket documenting who prepared and reviewed the deposit ticket. The bookkeeper prepared the month-

end tax reports, prepared checks for tax distribution based on the month-end tax reports, and posted checks to the disbursements ledger. Dual signatures were not required on checks. The sheriff or bookkeeper signed the tax distribution checks. A deputy clerk was also authorized to sign checks when needed.

This is the sheriff and bookkeeper's first year in office and they did not know that accounting functions should be segregated. Without internal controls in place, there is no way to know that the tax account financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud occurring.

Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not post to the receipts ledger or prepare bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

County Sheriff's Response: The Perry County Sheriff's Office will work with the auditor's office and try to segregate as many office duties as possible. A complete segregation of duties may not be possible with the limited number of office staff; but we will continue to work with the auditors to achieve this goal.

There were two initials on all deposit slips going to the bank. We will design a report with the deposit that states who created the deposit and who reviewed the deposit and will start 8/1/2020 along with the daily deposit sheet already in use as of November 2019.

We will also require that two signatures are on all Bank Reconciliations, Daily Receipt Ledger reports starting on 8/1/2020.

The Sheriff currently looks at all reports. We will also have the Sheriff sign all reports verifying that he has reviewed them starting on 8/1/2020. Starting in November 2019 we required that all checks have two signatures. We have assigned tasks to each office staff to help segregate duties starting on 8/1/2020. As this is my first audit on 2018 Taxes we will learn, grow and work with the state auditors to improve our segregation of duties.

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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