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Harmon Releases Audit of Former Rockcastle County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for former Rockcastle County Sheriff Mike Peters. 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 former 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 former sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the former sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The former sheriff's financial statement fairly presents the taxes charged, credited and paid for the period April 17, 2018 through December 31, 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 former Rockcastle County Sheriff's Office lacked adequate segregation of duties over receipts and disbursements: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The former sheriff had two bookkeepers. One bookkeeper was responsible for opening mail and writing checks. The second bookkeeper, who was part-time, was responsible for posting receipts and disbursements to the ledgers as well as preparing the bank reconciliation. Both bookkeepers collected receipts, prepared bank deposits, prepared the daily tax report, and could initiate voided transactions in the computerized tax system.

The former sheriff's office stated that a lack of segregation of duties existed because a limited number of employees were available to properly segregate job duties. A limited budget placed restrictions on the number of employees the former sheriff could hire.

A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department of Revenue and other taxing districts.

A proper segregation of duties over accounting functions is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff's office can implement oversight when duties cannot be segregated.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff's office separate the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing financial reports. If this is not feasible due to lack of staff, then strong oversight over these areas should occur and involve an employee that is not currently performing any of these functions. Additionally, the sheriff's office could implement compensating controls by providing oversight and documenting the oversight on the appropriate source documents.

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

The former sheriff did not include $235,406 in franchise tax collections on his 2018 outgoing tax settlement: The former sheriff did not include $235,406 of franchise tax collections on his 2018 outgoing tax settlement. The error occurred due to a lack of internal controls and oversight over financial reporting. As a result, the former sheriff's tax settlement was materially understated.

KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement:

(a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
(b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses."

Good internal controls dictate that the tax settlement be complete and accurate.

We recommend the sheriff's office comply with KRS 134.192(11) by submitting a complete and accurate settlement of all funds received.

Former 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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