



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2020 taxes for Menifee County Sheriff Roger Smallwood. 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 May 16, 2020 through April 15, 2021 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 sheriff's annual settlement was materially misstated: The sheriff's annual settlement was materially misstated due to three months of franchise collections not being included. As a result of this omission, the following adjustments had to be made to the annual settlement:

- Franchise taxes of \$216,729

- Franchise tax discounts of \$1,092
- Franchise taxes paid \$207,364
- Commissions of \$8,273

The sheriff did not implement proper internal controls to ensure the activity for tax collections was accurately reflected in the annual tax settlement. By not having an accurate tax settlement the fiscal court cannot determine whether problems exist in tax collections. Effective internal controls over financial reporting are essential to ensure financial reports are accurate. The settlement should show the amount of taxes collected and disbursed for the county, school, and each taxing district.

We recommend the sheriff's office prepare an accurate annual settlement.

County Sheriff's Response: Our settlement is done by an outside source that is hired. For an unknown reason at this time, the agency that was hired to do the settlement overlooked the franchise portion.

The 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 2019-001. The sheriff's office does not have adequate segregation of duties. The employee responsible for handling tax receipts also records the receipts in the ledger and prepares the bank deposits.

The sheriff indicated that this was caused by a limited number of employees that were available to segregate these job duties. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is 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. If this is not feasible due to budgetary constraints, cross checking procedures should be implemented and documented by the individual performing the procedure.

We recommend the sheriff segregate duties over accounting functions. If these duties cannot be segregated, the sheriff should implement and document compensating controls to help offset this weakness, such as:

- Recount and make the daily deposits.
- Agree daily tax collections total to the receipts ledger and deposit slip.
- Agree monthly tax reports to receipts ledger and disbursements ledger.

County Sheriff's Response: The office will segregate duties as much as possible with the current staff. We have limited budget and a low number of employees. The sheriff will review and sign/initial paperwork as available to do so.

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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