Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

Contact: Michael Goins
Michael.Goins@ky.gov
502.564.5841
502.209.2867

Harmon Releases Audit of Scott County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2021 taxes for Scott County Sheriff Tony Hampton. 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, 2021 through August 31, 2022 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 findings:

The Scott County Sheriff did not complete his tax settlement in compliance with KRS 134.192: The Scott County Sheriff prepared and submitted an incomplete 2021 tax settlement statement to the Scott County Fiscal Court. The sheriff's bookkeeper prepared a settlement statement that only included Scott County Fiscal Court tax collections and excluded the Scott County Schools, Library, Health Department, and Cooperative Extension tax districts. This partial statement was filed with the county clerk's office and approved by the fiscal court on September

22, 2022, after the September 1st deadline. The bookkeeper prepared a complete settlement statement to provide to the Auditor of Public Accounts field staff to audit in compliance with KRS 134.192(1) after it was requested and brought to the sheriff's attention.

Due to management oversight, the settlement was not prepared accurately and presented to the fiscal court timely to comply with applicable laws and regulations. The sheriff has delegated most accounting duties to the bookkeeper, with no internal controls in place to verify compliance.

The lack of effective internal controls over financial reporting increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Additionally, ineffective oversight over financial reporting can result in failure to comply with applicable laws and regulations and result in noncompliance with KRS 134.192.

Strong internal controls dictate effective monitoring by those charged with governance over financial reporting.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year."

KRS 134.192(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

KRS 134.192(2)(b) states, in part, "[o]n request of the governing body of the county or any other district for which the sheriff collects taxes, the department may conduct the local settlement. If no local settlement has been initiated by July 1 of any year, the department may initiate the local settlement on behalf of the county, the school district, and the taxing districts. Upon completion of the local settlement, the department may receive reasonable reimbursement for expenses incurred."

We recommend the sheriff strengthen internal controls and oversight over financial reporting to ensure compliance with applicable laws and regulations. This could include but is not limited to the following:

- The sheriff (or designee) should monitor the annual tax settlement process for risk of noncompliance.
- The sheriff should consider the use of an outside agent such as the Department of Revenue, a Certified Public Accountant (CPA), or another qualified party to assist in the completion of the annual tax settlement, if needed.

Sheriff's Response: The Department of Revenue advised our office to complete only the state and county settlement to receive our quietus in time to collect 2022 property taxes. Each year we have prepared our settlement in full, and due to schedule conflicts, timing was a key factor in the noncompletion of the settlements for our local districts. So, in this case, we disagree with the auditor's finding. We believe our actions meet the requirements of the program based off advice given by another state department.

Auditor's Reply: As stated in the finding KRS 134.192(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

The Scott County Sheriff does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2021-001. The sheriff's bookkeeper prepares daily check-out sheets, daily deposit tickets, signs disbursement checks, and prepares quarterly reports. The sheriff and his staff did not maintain a detailed receipts and disbursements ledger, or document bank statement reconciliations monthly. The bookkeeper did maintain a check register and monitor bank activity online to confirm when checks cleared; however, there was no documented review. The bookkeeper also posts payments to the sheriff's tax software for taxes collected via online processing and those collected by the sheriff's bank, as well as manually tracks franchise payments. Deposits are being taken to the bank by someone other than the bookkeeper, although there is no documentation of by whom. Disbursement checks are completed with a second signature of the sheriff or office manager, although it is not required to validate the check. Further, there is no documentation of review of daily checkout sheets, deposit slips, or bank statements.

According to the sheriff, the sheriff's office has a small administrative staff, and the bookkeeper has been delegated to execute most accounting functions. The sheriff has not implemented compensating controls sufficient to offset the control weakness noted.

The lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. By the same employee primarily performing related functions without sufficient oversight and review, the risk increases that errors or fraud may go undetected. Additionally, proper segregation of duties and/or oversight and review protect employees in the course of performing their daily responsibilities. Segregation of duties and the implementation of compensating controls due to limited staff size, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having all the significant roles over various accounting functions. Strong internal controls dictate oversight and review procedures to ensure accountability for public funds.

We recommend the sheriff implement the segregation of duties over custody of assets, recording function, authorization of disbursements, and reconciliation of book balance to bank balance. If these duties cannot be segregated, then the sheriff should implement compensating controls to strengthen oversight of duties performed by the same person. This could include but is not limited to the following:

- The sheriff (or designee) should review and initial the daily checkout sheet to agree to the daily deposit and initial the deposit slip.
- The sheriff (or designee) should review and initial the monthly receipts and disbursements ledger when compared to the monthly bank reconciliations and bank statements. Documentation of review should be indicated on the bank reconciliation and bank statements as well.
- The sheriff (or designee) should review and initial the monthly bank statements and reconciliations.
- The sheriff should evaluate the potential for increased use of information technologies to strengthen internal controls over financial reporting.

Sheriff's Response: Due to the small administrative staff within the Scott County Sheriff's Office, there is one employee responsible for both the bookkeeping and accounting responsibilities, which has resulted in this comment each year. To provide both transparency and efficiency, within our organization, and to be compliant with the State Auditor's Office, we are presenting the following recommendations be made to our Fiscal Court:

Invest in an additional position within the Scott County Sheriff's Office that is responsible for the accounting duties apart from the Bookkeeper. There is a definite demand for this designated role within our institution and will only become more evident as our county continues to thrive and prosper.

The Scott County Sheriff does not have adequate internal controls over daily receipt processing: A test of daily checkout sheets found several internal control deficiencies that when taken in total amount to a significant deficiency. No copies of tax bills or list of bills collected were included in the daily collection paperwork and no receipts ledger was maintained for the 2021 tax collection period. There were tax bill payments that were omitted or not recorded in the tax software in a timely manner, including:

- Tax bills in the amount of $2,756 paid by taxpayers to the sheriff's bank account on December 16, 2021, were not recorded as paid until January 19, 2022.
- Tax bills in the amount of $22,315 paid by taxpayers online and posted to the sheriff's account on December 17, 2021, were not recorded as paid until January 20, 2022.
- Tax bills in the amount of $8,885 paid by taxpayers to the sheriff's bank account on January 12, 2022, were not recorded as paid until January 18, 2022.
- Franchise tax bills in the amount of $436,638 paid on January 18, 2022 were not recorded in the tax software or daily receipts checkout paperwork.

Additionally, there was no documentation of review and approval of daily checkout sheets or deposits.

According to the sheriff, the sheriff's office has a small administrative staff, and the bookkeeper has been delegated to execute most accounting functions. Due to management oversight, recording of tax receipts were not promptly recorded. The sheriff has not implemented compensating controls sufficient to offset the control weakness noted.

When tax receipts are not promptly recorded, taxpayers may inadvertently make duplicate payments or appear on the delinquent list mistakenly. Failure to record receipts in a receipts ledger prevents those charged with oversight from having a source document to reconcile the bank statements to. A lack of review of the daily checkout sheets and deposits by someone other than that person preparing these can also result in misappropriation of assets, occurrence of undetected errors, and inaccurate financial reporting. Failure to implement controls resulted in noncompliance with KRS 134.160, 68.210 and the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*.

Strong internal controls dictate oversight and procedures to ensure accountability for public funds. This includes the maintenance of accurate detailed records such as daily receipts checkout paperwork with a detailed listing of bills paid, a receipts ledger, prompt recording of the payment of bills, and review of daily checkout sheets and deposits by a person that did not prepare them.

KRS 134.160(2)(a) states, "[t]he sheriff shall keep an accurate account of all moneys received and all disbursements made, showing: 1. The amount; 2. The date and time of payment or disbursement; 3. The name of the person making the payment or to whom the disbursement was made; and 4. The account the payment was credited to or the disbursement deducted from."

KRS 134.160(3) states, in part, "[a]ll payments received by the sheriff shall be entered immediately by the sheriff on his or her books."

KRS 68.210 gives the state local finance officer authority to prescribe a uniform system of accounts, which sets certain minimum accounting requirements for local officials. The DLG *County Budget Preparation and State Local Finance Officer Policy Manual*, page 64 requires "[b]ooks of original entry for receipts and expenditures and/or utilization of daily cash check-out sheets."

We recommend the Scott County Sheriff strengthen internal controls over receipts. This could include but is not limited to the following:

- Include a detailed listing of bills paid with the daily checkout paperwork.
- Tax bill payments should be recorded as paid in the tax software within a timely manner
- Franchise collections should be included on the daily checkout sheet paperwork.
- Maintain a receipts and disbursements ledger for comparison to and reconciliation of bank statements.
- Daily checkout sheets and deposits slips should be agreed and initialed by a person that did not prepare them.
- The sheriff should review accounting duties assigned to bookkeeping staff and evaluate the need for additional staff coverage.
- The sheriff should evaluate the potential for increased use of information technologies to strengthen internal controls over financial reporting.

Sheriff's Response: We will have these items reviewed by the supervisor daily, to provide a better segregation of duties, as recommended by the auditor. This will be implemented immediately.

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.

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.