



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2014 taxes for Breathitt County Sheriff Ray Clemons. 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, 2014 through April 15, 2015 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance 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 did not have adequate segregation of duties. The sheriff's office lacks adequate segregation of duties due to the responsibilities of receiving, recording, depositing, disbursing, and reconciling funds being delegated to the same individual. The sheriff's bookkeeper receives payments for taxes, records receipts, prepares deposits, prepares checks for payments, records disbursements, prepares monthly tax reports, and completes monthly bank

reconciliations. Since only one person performs all the accounting functions, there is no assurance that financial transactions are accurate, complete, and free of error and misstatement. The lack of adequate segregation of duties increases the risk of undetected misappropriation of funds, misstatements, errors, and fraud.

Good internal controls require the duties of receiving, recording, depositing, disbursing, and reconciling to be separated when possible. If these duties cannot be separated due to a small number of staff, the official should provide strong oversight and implement compensating controls to decrease the risk associated with inadequate segregation of duties.

We recommend the sheriff segregate the duties of receiving, recording, depositing, disbursing, and reconciling tax funds or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the sheriff comparing the daily checkout sheet to the receipts ledger and bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, and reviewing all financial reports. The sheriff could document his review process by initialing reports and supporting documentation.

Sheriff's response: The Sheriff will implement the recommended compensating controls to ensure continued accuracy of all financial transactions.

The sheriff has a deficit of \$313 in his 2009 tax account. The sheriff must deposit personal funds to cover the deficit. The sheriff has failed to take corrective action regarding this deficit for several years, resulting in a taxing district being deprived of resources for a significant time period. KRS 64.820 states, “(1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor or certified public accountant to be due the county within ninety (90) days from the date of receiving the Auditor's or certified public accountant's report.”

The sheriff needs to distribute \$313 to the Extension District in order to settle the 2009 tax account.

We recommend the sheriff take corrective action to settle the 2009 tax account immediately.

Sheriff's response: The Sheriff shall deposit personal funds to satisfy the deficit. The funds shall then be dispersed accordingly.

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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