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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for former Bullitt County Sheriff David Greenwell. 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, 2016 through February 28, 2017 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 sheriff did not have a written agreement to protect deposits: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. On November 9, 2016, $7,159,722 of the former sheriff's deposits of public funds in depository institutions were uninsured and unsecured. The sheriff failed to get a written agreement with a depository institution when he opened multiple accounts with them and the depository institution did not provide sufficient collateral. The former sheriff's office is out of compliance with state laws and regulations because the sheriff did not have a written agreement with the bank.

According to KRS 66.480(1)(d) and KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation (FDIC) insurance, equals or exceeds the amount of public funds on deposit at all times. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

We recommend the sheriff's office enter into a written agreement with the depository institution to adequately pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Former Sheriff's Bookkeeper's Response: We now have a signed agreement.

The former sheriff's office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The former sheriff's office had a lack of adequate segregation of duties over disbursements. These deficiencies were present because one employee's duties included accepting tax payments, recording taxes paid, preparing the daily deposit for her cash drawer, reconciling the bank account, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements. The sheriff's office did not implement segregation of duties as part of the internal control structure.

The lack of oversight can result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government (DLG) and taxing districts. Proper segregation of duties over disbursements is essential for providing protection of asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff's office implement compensating controls to offset this internal control weakness, such as:

- Require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff, or another employee could compare the bank reconciliation to the balance in the checkbook and reconcile any differences. The reviewer should document this oversight by initialing the bank reconciliation and the balance in the checkbook.
- Compare total tax collections per the monthly reports to the total of the monthly disbursement checks. Any discrepancies should be resolved and the review should be documented by initialing and dating the monthly reports.

Former Sheriff's Bookkeeper's Response: There is a segregation of duties in our office. We double check everything we do. In our tax program we have to balance daily, and then the deposit slip from the bank is matched. I don't collect taxes so I do the reconciliations.

Auditor’s Reply: The sheriff’s office has one individual that prepares the daily checkout sheets, posts amounts to the ledger, prepares bank deposits, reconciles accounts, and prepares and signs checks. The sheriff’s office should segregate these duties, but if this is not possible due to lack of staff, compensating controls as suggested in the finding above should be implemented.

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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