



Auditor of Public Accounts  
Mike Harmon

**FOR IMMEDIATE RELEASE**

Contact: **Michael Goins**  
[Michael.Goins@ky.gov](mailto:Michael.Goins@ky.gov)  
**502.564.5841**  
**502.209.2867**

### **Harmon Releases Audit of Crittenden County Sheriff's Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for Crittenden County Sheriff Wayne Agent. 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 18, 2017 through April 16, 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 Crittenden County Sheriff's Office lacks adequate internal controls over tax collections including adequate segregation of duties:** This is a repeat issue and was included in the prior year report as Findings 2016-001 and 2016-002. The Crittenden County Sheriff's Office lacks adequate segregation of duties and has no internal controls in place over the tax collection process. The bookkeeper is required to perform multiple tasks such as the collection of taxes from customers, deposit preparation, the bookkeeping functions, bank reconciliations, the preparation

of monthly reports, and the preparation of checks for disbursements. The lack of internal controls resulted in the following:

- Multiple errors occurred on the monthly reports such as payments handled outside of the system not being added to the monthly reports properly.
- Bank reconciliations were not done correctly which resulted in \$5,323 being deposited into the tax account from the fee account in error.
- Endorsements were not verified since the bank did not provide the backs of checks to the sheriff.
- Three bills were included on the delinquent tax list that had been paid prior to being turned over to the county clerk. Furthermore, one unpaid additional bill was not included on the delinquent tax list. However, the bill was turned over to the county clerk.
- An exonerated bill was incorrectly posted by the bookkeeper in the sheriff's system and the incorrect exoneration was included on the exoneration list.
- December franchise collections were disbursed out of a prior year account resulting in the account accruing overdraft penalties. December franchise collections for three districts were also disbursed from the current year franchise account. One district was shorted to correct the error and the other two refunded the amount disbursed.
- Limestone, sand, and gravel monthly reports were not accurate due to being recorded at face value instead of at a discount.
- Franchise monthly reports were not accurate due to omitting collected franchises.
- The property and franchise settlements presented to the fiscal court were not accurate due to multiple errors and omissions.

Rather than implement a systematic approach for handling the collection of taxes, the sheriff relies on a single employee without sufficient documented oversight. As a result of the lack of controls, the findings listed above occurred. Additionally, this lack of internal controls has created the opportunity for fraud and undetected errors.

Strong internal controls over tax collections are essential to ensure that taxes collected are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets. Additionally, KRS 134.119(3)(b) states, "[a]ll payments received by the sheriff shall be entered immediately by the sheriff on his or her books."

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff segregate the duties noted above. However, if those duties cannot be segregated due to a limited staff, we recommend that the sheriff implement internal controls over the tax collection process, such as documented management oversight of the daily checkout process, performing monthly reconciliations by comparing daily deposits and checkout sheets to bank statements and the monthly reports, documented management oversight of monthly reports and reconciliations, and comparing daily collection reports to the deposits. We also recommend the sheriff receive the back of cancelled checks on the bank statements to verify endorsements.

*Sheriff's Response: We are a small department and are trying to abide by the recommendations set for by the Auditor of Public Accounts.*

**The Crittenden County Sheriff failed to properly maintain franchise tax bills:** The Crittenden County Sheriff failed to provide sufficient oversight to ensure his bookkeeper maintained all franchise tax bills received from the county clerk. The sheriff's bookkeeper improperly disposed of, or misplaced, 16 franchise tax bills totaling \$156,397. These franchise tax bills were prepared by the county clerk and remitted to the sheriff's office. Copies of the missing franchise tax bills had to be obtained from the county clerk in order to verify franchise tax collections since there was no documentation to substantiate amounts on franchise tax reports.

Poor record keeping and a lack of oversight by the sheriff allowed for the improper disposal of franchise tax bills created by the county clerk. Per the bookkeeper, some bills were improperly disposed of due to a leak in the ceiling which damaged the bills. As a result, the sheriff is unable to ensure that all franchise tax bills have been accounted for as either collected, uncollected, or delinquent.

Good internal controls require maintenance of adequate accounting records to support amounts reported as franchise tax collections and distributions to the taxing districts.

We recommend the sheriff improve record keeping by maintaining copies of all franchise tax bills received from the county clerk as well as the paid franchise tax bills received from franchise companies.

*Sheriff's Response: We had a leak in the ceiling resulting in destruction to several documents. We had thought we had replaced all the documents and had not.*

**The Crittenden County Sheriff failed to distribute franchise and limestone, sand, and gravel taxes by the 10th day each month:** This is a repeat of a prior year finding which was included in the prior year audit report as Finding 2016-004. The Crittenden County Sheriff did not prepare monthly tax reports nor make payment of franchise taxes of \$161,520, or limestone, sand, and gravel (LGS) taxes of \$3,829 to the taxing districts by the tenth day of the month following collections. Late payments to the taxing districts are the result of poor internal controls and lack of oversight over tax collections and distributions.

Because the sheriff failed to distribute tax collections by the tenth day of the month following collections, he is not in compliance with KRS 134.191. Furthermore, the taxing districts rely on these tax collections to provide public services, and these services could suffer as a result of not receiving tax collections timely.

KRS 134.191(1) states, "[t]he sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes." KRS 134.191(3) states, "[a]t the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report."

We recommend the Crittenden County Sheriff ensure all monthly tax reports are prepared, and tax payments are made to the taxing districts by the tenth day of the month following collections.

*Sheriff's Response: The sheriff 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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