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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for Fleming County Sheriff Gary Kinder. 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 sheriff did not report and pay monthly taxes to districts timely: This is a repeat finding and was included in the prior year report as Finding 2016-001. The sheriff's monthly tax reports and payments for October 2017 were late, depriving the taxing districts of timely receipt of their tax collections. For the October franchise payments, checks were written on November 15, 2017, and cleared between November 15 and December 5, 2017.

The sheriff is not ensuring his office is complying with the requirement to report and pay taxes collected to districts by the tenth of each month.

Taxing districts rely on tax collections to fund a significant portion of their budgeted services. Not receiving these payments timely can lead to cash flow problems for taxing districts. While the sheriff cannot control when districts deposit their checks, he can control when he distributes the checks.

KRS 134.191 requires the sheriff to provide monthly reports by the tenth day of each month. Any sheriff failing to pay over taxes collected shall by subject to a penalty of one percent for each 30 day period or fraction thereof that the payment is not made, plus interest. The governing body of a county or taxing district shall charge the sheriff with penalties and interest. The county judge/executive may grant an extension of time, not to exceed 15 days, for filing the monthly reports. Penalties and interest would be suspended during an extension, but would apply at the expiration of the extension.

We recommend the sheriff ensure monthly tax reports are prepared and paid by the tenth of each month. We also recommend the sheriff consider mailing tax collection payments to the districts. As long as the payments are postmarked by the tenth of the month, the sheriff would be in compliance with KRS 134.191. This would also give the districts a more consistent timeframe in which to expect their payments.

Sheriff's Response: We have made changes to get checks to districts on time.

The sheriff's office lacks internal controls over tax receipts and disbursements: This is a repeat finding and was reported in the prior year audit report as Finding 2016-004. The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. The bookkeeper, deputy clerk, and the sheriff collect tax receipts. The bookkeeper or deputy clerk prepares the daily bank deposit. The bookkeeper reconciles the daily receipts to the daily collection report, and posts items to the receipts ledger. The bookkeeper prepares the month-end tax reports, prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper signs the majority of tax distribution checks, with the sheriff signing on occasion. The bookkeeper prepares the monthly bank reconciliation.

As previously described, the sheriff has not structured his office in a way that segregates duties and responsibilities. The sheriff has also not provided sufficient oversight of the financial reporting process.

Without internal controls in place, there is no way to know that the tax account financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud.

Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews should be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information is not an effective internal control. The sheriff could also choose to prepare the bank reconciliations and other reports himself. Furthermore, the sheriff could require dual signatures on all checks, with one signature being the sheriff's.

Sheriff's Response: Will make changes to help with control on paperwork.

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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