



Auditor of Public Accounts
Mike Harmon

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

Harmon Releases Audit of Graves County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Graves County Sheriff Dewayne Redmon. 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, 2015 through April 15, 2016 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 comments:

The Graves County Sheriff's franchise tax settlement was materially misstated. The sheriff's franchise tax settlement was materially misstated and required audit adjustments to correct. The misstatements are outlined below:

- The settlement improperly included \$381,145 of franchise taxes collected in May 2015, which were included in the prior year tax settlement.
- The settlement did not include \$108,350 of bank franchise tax collections.
- The settlement did not include \$778,303 of taxes paid to the districts.

Strong internal controls over financial reporting are needed in order to ensure accurate reporting of tax collections and distributions. Accurate financial reporting helps ensure the proper amounts of taxes are distributed to the taxing districts. KRS 134.192(5) states, “[t]he 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.”

A lack of internal controls over the reporting of franchise taxes and a lack of understanding of the reporting requirements of KRS 134.192(5) resulted in the sheriff’s franchise tax settlement being materially misstated and out of compliance with KRS 134.192(5).

We recommend the sheriff strengthen internal controls over preparing the franchise tax settlement to ensure that the settlement is accurately stated. We also recommend the sheriff’s annual settlement be prepared in accordance with state law.

Sheriff’s response: The sheriff did not provide a response.

The Graves County Sheriff’s Office lacks adequate segregation of duties. The bookkeeper performs multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, preparation of monthly reports, the preparation of checks for disbursements, and the preparation of the annual tax settlement.

Segregation of duties over these tasks, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping to prevent inaccurate financial reporting. A lack of segregation of duties or strong oversight increases the risk of undetected fraud or errors. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Rather than segregate the accounting functions of the office, the sheriff has placed reliance on the bookkeeper.

To adequately protect against the misappropriation of assets and undetected misstatements, we recommend the sheriff segregate the duties noted above by assigning different deputies to perform them. In addition to proper segregation of duties, the sheriff or a designee should provide adequate oversight of these accounting functions.

Sheriff’s response: We are a small office, but we will work on getting this taken care of.

The Graves County Sheriff has a \$694 deficit in his official 2015 tax account. This occurred because of a lack of internal controls in place to ensure all tax monies due the tax account were properly billed, collected, and deposited, and that all payments were properly paid. As a result, the sheriff’s tax account did not receive all monies due, which resulted in the sheriff’s office not having the funds needed to settle 2015 taxes. As collector of property taxes, the sheriff assumes

full responsibility for all tax collections and complete distribution of these collections to the proper taxing authorities. KRS 134.192 requires the sheriff to settle his or her accounts annually with each taxing district for which he or she collects taxes. We recommend the sheriff deposit personal funds of \$694 into his official 2015 tax account and settle his 2015 taxes.

Sheriff's response: The sheriff paid the deficit owed to the tax account.

The Graves County Sheriff did not perform daily checkout procedures or make daily deposits. The sheriff's tax collections were held from two to four days before checkout procedures were performed or deposits were made.

Strong internal controls dictate that checkout procedures be performed daily. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government's (DLG) *County Budget Preparation And State Local Finance Officer Policy Manual* requires making daily deposits intact into a federally insured banking institution.

Because of a lack of control awareness and understanding of state statutes, daily checkout procedures were not performed, and daily deposits were not made. By not performing daily checkout procedures or making daily deposits, tax receipts were left vulnerable to misappropriation and loss. Additionally, the sheriff is not in compliance with DLG's accounting requirements.

We recommend the sheriff comply with DLG requirements and perform daily checkout procedures and make daily deposits.

Sheriff's response: In the future will do a daily checkout sheet and daily deposit, no matter the amount of daily business.

The Graves County Sheriff failed to settle franchise taxes associated with prior years. The proper distribution of tax money collected by the sheriff requires the collection of receivables, including overpayments to some taxing districts, and the payment of these funds to the appropriate taxing districts and fee account. However, due to the fact that receivables associated with these taxes approximate payables, the sheriff's office has elected not to settle the taxes for these prior years. For 2012, receivables are \$97 with no liabilities; for 2013, receivables are \$183 and liabilities are \$324; and for 2014, receivables are \$1,083 and liabilities are \$1,043.

KRS 134.192 requires the sheriff to settle his or her accounts annually with each taxing district for which he or she collects taxes. Because the sheriff failed to settle franchise tax collections associated with 2012, 2013, and 2014, the sheriff is not in compliance with KRS 134.192. Failure to settle franchise taxes associated with prior years has also resulted in the wrong amounts being distributed to the taxing districts and fee account.

We recommend the sheriff comply with KRS 134.192 and settle franchise taxes associated with prior years by collecting all receivables and paying all liabilities for the 2012, 2013, and 2014 tax years.

Sheriff's response: Will comply.

The Graves County Sheriff failed to pay school commissions for additional bills and limestone, sand, and gravel bills. The sheriff did not pay tax commissions to the Graves County Board of Education for the additional tax bills and limestone, sand, and gravel (LSG) tax bills for the months of November, December, and April. Due to the amount of the commissions being minimal, the sheriff opted not to pay these commissions to the school.

KRS 160.510 states, in part, “[t]he tax collector shall, on or before the tenth day of each month, pay to the depository of the district board of education the amount of school tax collected up to and including the last day of the preceding month.” By not paying the commission portion of tax collections to the board of education for additional bills and LSG bills, the sheriff was not in compliance with KRS 160.510. Therefore, we recommend that the sheriff pay commissions to the Graves County Board of Education for all taxes collected on behalf of the school district.

Sheriff's response: Will comply. Oversight of these 3 months.

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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