



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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### **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 – 2016 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, 2016 through April 17, 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 Graves County Sheriff failed to include franchise taxes on his 2016 tax settlement:** The Graves County Sheriff collected \$1,185,133 of franchise taxes for tax year 2016. However, the sheriff failed to include franchise taxes collected or franchise taxes paid to districts on his 2016 Tax Settlement that was presented to the fiscal court.

According to the Graves County Sheriff, the bookkeeper, whose duties included preparing the franchise tax settlement, failed to prepare a separate franchise settlement. 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 failing to ensure that franchise taxes were properly reported on the tax settlement that was presented to fiscal court for approval.

The sheriff's settlement of taxes was materially misstated because the sheriff failed to include franchise taxes collected and paid on his tax settlement that was presented to fiscal court. Additionally, he is not in compliance with KRS 134.192(5).

KRS 134.192(5) states, "[t]he report of the state and local settlement shall be filed in the county clerk's office and approved by the governing body of the county no later than September 1 of each year. The 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." Additionally, good internal controls dictate an internal review of the sheriff's settlement to determine that amounts presented are comprehensive and accurate.

We recommend the sheriff strengthen internal controls over preparation of the tax settlement to make sure that all taxes collected and remitted are included on the settlement that is presented to fiscal court.

*Sheriff's Response: The lady who was responsible for Franchises failed to do a settlement, not sure why. She is no longer with us and we will see that this gets done in the future.*

**The Graves County Sheriff's office lacks adequate segregation of duties:** This is a repeat finding and was included in the prior year audit report as Finding 2015-002. For tax year 2016, the Graves County Sheriff's office lacked adequate segregation of duties over the accounting and reporting functions of the sheriff's office. The sheriff's bookkeeper collects cash, prepares monthly and quarterly reports, prepares deposits, prepares and signs checks, posts to the ledgers, and performs the monthly bank reconciliations.

Rather than segregate the accounting functions of the office, the sheriff has placed reliance on his trust in the bookkeeper. A lack of segregation of duties or strong oversight increases the risk of undetected errors and fraud.

Good internal controls dictate that the 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. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets and undetected misstatements, we recommend the sheriff segregate the duties noted above by allowing different deputies to perform them. For those duties that cannot be segregated due to a limited number staff, strong management oversight by the sheriff or designee could be a cost effective alternative. This oversight should include reviewing the daily deposits, comparing the daily checkout sheets to the monthly reports,

and reviewing the monthly bank reconciliations. Documentation, such as the sheriff's or designee's initials or signature, should be provided on those items that are reviewed.

*Sheriff's Response: We are a small office, we are trying to implement others in the process of collecting taxes.*

**The Graves County Sheriff has a \$554 deficit in his 2016 tax account:** This is a repeat finding and was included in the prior year audit report as Finding 2015-003. For tax year 2016, the Graves County Sheriff has a deficit in his official tax account in the amount of \$554. 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 2016 taxes. As a 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 tax district for which he or she collects taxes. We recommend the Graves County Sheriff deposit personal funds of \$554 into his official 2016 tax account and settle his 2016 taxes.

*Sheriff's Response: The sheriff will pay the necessary funds to the property tax account to take care of the deficit.*

**The Graves County Sheriff failed to settle franchise taxes associated with prior years:** The proper distribution of franchise taxes collected by the Graves County Sheriff's office in prior years 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 corresponding taxes. For 2012, receivables are \$97 with no liabilities; for 2013, receivables are \$183 and liabilities are \$324; for 2014, receivables are \$1,083 and liabilities are \$1,043; and for 2015, liabilities are \$10,811 with no receivables.

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, 2014, and 2015, 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 sheriff's fee account.

We recommend the sheriff settle franchise taxes associated with the prior years by collecting all receivables and paying all liabilities for the 2012, 2013, 2014, and 2015 tax years.

*Sheriff's Response: The lady previously in charge of Franchise Taxes did not take care of this. It will be taken care of within the next month.*

**The Graves County Sheriff did not perform daily checkout procedures or make daily deposits:** This is a repeat finding and was included in the prior year audit report as Finding 2015-004. The Graves County Sheriff's office did not perform checkout procedures or make a daily deposit for a certain day that was included in testing procedures. Instead, the sheriff held

collections for that day and performed checkout procedures the following day. Thus, the checkout sheet included collections for two business days. Therefore, the deposit that included receipts collected on February 10, 2017, did not clear the bank until February 14, 2017.

According to the staff of the sheriff's office, checkout procedures were not performed and a deposit was not made on February 10, 2017, because the amount collected that day was nominal. Failure to perform daily checkout procedures and make daily deposits leaves tax collections vulnerable to misappropriation and loss. Also, because the sheriff did not make daily deposits, he is not in compliance with KRS 68.210.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* require daily deposits.

We recommend the sheriff perform checkout procedures each day taxes are collected and ensure that all deposits are made and deposited into a federally insured banking institution daily.

*Sheriff's Response: This was discussed while the previous audit was being performed. It has been corrected.*

**The Graves County Sheriff failed to distribute interest as required by statute:** The sheriff failed to distribute interest to the school and to his fee account. According to the sheriff, due to the fact that interest earned on the tax accounts was trivial in amount, the sheriff elected not to distribute it. KRS 134.140(2) states, “[a]s part of the monthly distribution of taxes to a district board of education as required by KRS 134.191, the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes[.]” Because the sheriff did not distribute interest to the school, the sheriff is not in compliance with KRS 134.140(2). We recommend the sheriff comply with KRS 134.140(2) by distributing interest earned to the school and fee account each month.

*Sheriff's Response: This has been corrected for the property tax account and will be for the franchise account for the up coming tax year.*

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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