



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Hardin County Sheriff John Ward. 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 internal control over financial operations and reporting.

The audit contains the following comment:

The sheriff's office lacks adequate segregation of duties over receipts: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The sheriff's bookkeeper collects taxes, prepares deposits, posts to the ledgers, prepares monthly reports, and performs the bank reconciliations. There was not sufficient evidence available that would show that the sheriff or another employee periodically reviews deposits, ledgers, monthly reports or the bank reconciliations to offset the risk caused by the lack of segregation of duties.

The sheriff's office had corrected the prior year comment about printing a master copy of daily collections and comparing to each employee's daily checkout deposits and thought they were handling receipts correctly. Without segregation of duties, the risk of misstatements in receipts significantly increases because of undetected errors and theft. Segregation of duties over receipt procedures, report preparation, and bank reconciliations is essential for providing protection from fraud and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting and misappropriation of assets, we recommend the sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- Compare the daily bank deposit to the daily checkout sheets and then compare to the bank deposit receipt received from bank once deposit has been made by others. This should be documented by initialing the total deposit sheet on the master copy of daily checkout sheet and the bank deposit receipt.
- Compare each daily checkout sheet to the master copy and document by initialing.
- Bank reconciliation balance should be reconciled to zero on a monthly basis. Large unreconciled balances should be investigated immediately. All supporting documentation to reconcile should be approved. The sheriff could document this by initialing the bank reconciliation.

Sheriff's Response: The Hardin County Sheriff's Office was responsible for collecting over \$51,000,000 for tax year 2016, per this audit all tax dollars were accounted for and distributed to taxing jurisdictions.

Most Sheriff's Offices have an issue with the lack of adequate segregation of duties, this is due to the deficiency of employees needed to perform the task.

For tax collections purposes we have three full-time staff members (plus CFO) who also perform their regular office duties, one seasonal tax worker, and one part time college student. Taxes (\$51,000,000) are collected in 5 ½ months, with the majority in November and emphasis in December 31, January 31, and April 15. At HCSO, we do have procedures in process and try to take precautions to prevent any problems.

We will take all recommendations under consideration and implement any and all if possible.

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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