



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Knox County Sheriff Mike Smith. 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 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 comment:

The Knox County Sheriff did not segregate the duties of his office. The Knox County Sheriff's Office lacks adequate segregation of duties over receipts, disbursement processes, and reconciliations. As a result of a limited budget which restricts the number of employees the sheriff can hire, the sheriff's bookkeeper's duties include collecting tax payments from

customers, preparing the monthly reports, preparing disbursement checks, and performing the monthly bank reconciliations.

The lack of oversight could result in undetected misappropriation of assets and incorrect financial reporting to external agencies such as the Department of Revenue and other taxing districts. A proper segregation of duties over accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff separate the duties of collecting taxes, preparing and mailing disbursements, preparing monthly reports, and performing the monthly bank reconciliations. If this is not feasible due to lack of staff, then strong oversight over these areas should occur and involve an employee that wasn't currently performing any of these functions. Additionally, the sheriff could provide this oversight and document it on the appropriate source documents.

Sheriff's response: Due to a limited budget, additional Administrative Personnel are not possible therefore other existing personnel will be utilized to review disbursement reports and deposits.

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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