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Harmon Releases Audit of Former Leslie County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for former Leslie County Sheriff Delano Huff. 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 former 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 former sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the former sheriff's settlement is an acceptable reporting methodology, and this reporting methodology is followed for all 120 sheriff settlements in Kentucky.

The former 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 former Leslie County Sheriff's Office lacked adequate segregation of duties over receipts, disbursements and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2016-001. The former Leslie County Sheriff's Office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper opened mail, collected tax payments, prepared the daily checkout sheet and the daily deposit, opened bank statements, and prepared bank reconciliations. In addition, the bookkeeper

was responsible for preparing the monthly tax reports and all disbursements. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

The sheriff's office stated they cannot hire additional employees to allow segregation of duties due to a limited budget. A lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to local taxing districts.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, and recording payments and disbursements, is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The former sheriff could have implemented oversight when duties could not be segregated.

We recommend the sheriff's office segregate duties or implement compensating controls. If compensating controls are implemented, oversight should be documented on the appropriate source document. The following are examples of compensating controls that could be implemented:

- The sheriff, or designee, could compare the daily checkout sheet to tax reports and bank deposit receipts and document the review.
- The sheriff, or designee, could reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff could examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

Former Sheriff's Response: The former sheriff did not provide a response.

The former Leslie County Sheriff's settlement was not accurate, and tax collections should be settled: This is a repeat finding and was included in the prior year audit report as Finding 2016-002. The former Leslie County Sheriff's 2017 settlement of tax collections contained numerous errors and was materially misstated. The former sheriff still owes the taxing districts \$5,009 and a refund of \$47 is due to the former sheriff in order to settle 2017 tax collections.

According to the former sheriff, the settlement was not reviewed for accuracy.

The lack of sufficient internal controls over the financial reporting process allowed for multiple errors in the former sheriff's county tax settlement to occur and not be detected. These errors include:

- Charges of \$521,386 were not included on the former sheriff's settlement.
- Uncollected franchise taxes in the amount of \$268,494 were not included.
- Commissions were overstated by \$23,709.
- Taxes paid to districts was understated by \$7,123.

Effective internal controls over financial reporting are essential to ensure that financial reports are accurate. Relating to the settlement of collections, KRS 134.192(2)(b) states, “[t]he sheriff shall settle his or her accounts with the county, the school district, and any other taxing district for which he or she collects taxes.”

We recommend the sheriff’s office implement internal controls over the review of the annual tax settlement, such as:

- Tracing amounts to source documentation.
- Recalculating commissions.
- Comparing taxes collected on the settlement to his monthly reports.

Also, the former sheriff should settle tax collections with taxing districts per the audit.

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

The former Leslie County Sheriff distributed taxes late: The former Leslie County Sheriff was responsible for collecting taxes from taxpayers, and reporting and paying collections to taxing districts on a monthly basis. All tax payments are required to be distributed by the tenth of the month following collections. The former sheriff’s office did not always distribute these taxes within the required time. Two of the seven months the sheriff’s office collected property taxes were distributed late: March 2018 payments totaled \$55,713 and April 2018 payments totaled \$126,239.

According to the former sheriff, the former bookkeeper did not always distribute taxes timely. As a result, taxing districts did not always receive their portion of taxes in the amount of time that they were due.

Strong internal controls require the sheriff monitor tax distributions to taxing districts. According to KRS 134.191(1), “[t]he sheriff shall provide monthly reports by the tenth day of each month to the chief executive of the county, the department, and any other district for which the sheriff collects taxes.” KRS 134.191(3) states, “[a]t the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the other district that were collected during the period covered by the report.”

We recommend the sheriff’s office implement internal controls to ensure that taxes are distributed timely as required by KRS 134.191.

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

Receivables and liabilities are due to properly settle 2014, 2015 and 2016 tax collections: The former Leslie County Sheriff has the following receivables and unpaid obligations due to properly settle his 2014, 2015, and 2016 tax accounts.

Cash in Bank: December 2018		\$ 13,897
Uncollected Receivables:		
Due from Taxing Districts:		
State	\$ 37,192	
Refunds Due from Taxpayers	2,841	
Due from Tax Account	188	40,221
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Total Assets		54,118
Due to Taxpayers	3,050	
Due to Sheriff's Fee Account	23,061	
Due to Taxing Districts:		
School	12,585	
County	3,753	
Health	1,676	
City of Hyden	34	
Library	6,232	
Extension	3,589	
Soil	32	
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Total Liabilities		<hr/> 54,012
Ending Fund Balance - To be escrowed		<hr/> \$ 106

The former sheriff was unaware that these liabilities had not been settled by the former bookkeeper. As a result, the former sheriff lacked a sufficient cash balance to settle unpaid tax liabilities.

KRS 134.192(2)(b) states, “[t]he sheriff shall settle his or her accounts with the county, the school district, and any other taxing district for which he or she collects taxes.”

We recommend the former sheriff collect and distribute the receivables and liabilities identified to settle all tax collections.

Former Sheriff's Response: The former sheriff did not provide a response.

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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