Auditor of Public Accounts
Mike Harmon

FOR IMMEDIATE RELEASE

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

Harmon Releases Audit of Powell County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2014 taxes for Powell County Sheriff Danny Rogers. 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, 2014 through April 15, 2015 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 sheriff diverted tax collections to be used for operating disbursements before paying the taxing districts. KRS 64.850 prohibits the withdrawal of public funds for any purpose other than that for which they were received and deposited. Further, KRS 134.191(1) requires the sheriff to provide monthly reports by the 10th day of each month to the taxing districts. KRS

134.191(3) requires the sheriff to pay the taxing districts all funds that were collected during the period covered by the report. Tax collections were diverted as follows:

- The sheriff collected franchise taxes in the amount of $43,649 in July and October 2014 and then made five transfers totaling $28,348 to the fee account for operating disbursements. The sheriff repaid the franchise tax account in January and disbursed to the taxing districts in February 2015.
- The sheriff collected a franchise tax bill in October in the amount of $15,621 that was deposited directly into the fee account, and then transferred into the franchise account on January 12, 2015 and disbursed to the taxing districts in February 2015.
- The sheriff transferred $15,000 and $10,000 in November and December, respectively, from his tax account to the fee account. This was repaid to the tax account on January 12, 2015.
- The sheriff transferred $5,000 on June 30, 2014 from his tax account to his fee account. This was repaid to the tax account on February 11, 2015.

By using tax collections for operating disbursements, the county, school, and other taxing districts did not receive their tax revenues timely. These tax districts rely on the timely receipt of tax revenues and their budgets and cash flows were negatively affected. We recommend the sheriff prepare monthly reports for all franchise taxes collected and pay the taxing districts timely in the future.

Sheriff's Response: No response.

The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities.

A lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue. This condition is a result of budgetary constraints that limit the number of employees the sheriff can hire or delegate duties to. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: No response.

The sheriff did not have proper controls over bank reconciliations. The sheriff did not have internal controls in place over bank reconciliations. Good internal controls dictate that the bank statement be reconciled monthly and reviewed by a person independent of making deposits and writing checks. Bank reconciliations are a tool that can be used to determine that all deposits have been made and that taxes have been properly paid. The sheriff does not have procedures in place to ensure that the bank account is reconciled each month and reviewed. This could result in taxes being collected and not paid timely to the taxing districts. We recommend that monthly bank reconciliations be prepared and reviewed by the sheriff to determine that all taxes collected have been paid to the taxing districts properly.

Sheriff's Response: No 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.

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.