



Auditor of Public Accounts
Mike Harmon

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

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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for former Russell County Sheriff Clete McAninch. 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 17, 2018 through November 30, 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 comment:

The former 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 2017-001. The former sheriff's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. The former sheriff's bookkeeper collected tax payments from customers, prepared daily tax collections journals, prepared and delivered the bank

deposits, posted receipts and disbursements to the ledgers as well as prepared the monthly tax reports. The former bookkeeper also prepared the monthly payments to the taxing districts, signed checks, and performed monthly bank reconciliations. In addition, the former bookkeeper also has administrative rights to the tax program used to collect taxes.

According to the former sheriff, a limited budget placed restrictions on the number of employees the former sheriff could hire. When faced with limited number of staff, strong compensating controls could be in place to mitigate the lack of segregation of duties. A lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

Proper segregation of duties over collecting taxes, preparing daily tax collection journals, preparing monthly reports, preparing deposits, and preparing disbursements is essential protection from asset misappropriation and inaccurate financial reporting. Additionally proper segregation of duties protects employees in the course of performing their daily responsibilities.

We recommend the sheriff's office separate the duties in receiving cash, preparing deposits, posting to ledgers, and preparing monthly bank reconciliations. If this is not feasible due to lack of staff, then strong oversight over those areas should occur and involve an employee not currently performing any of those functions. For example, the sheriff could assign the tax program administrative rights to an employee other than the bookkeeper. Also the sheriff could provide oversight such as reviewing bank reconciliations then sign or initial the source documents as evidence of the review.

Former County 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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