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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for former Franklin County Sheriff Pat Melton. 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 January 6, 2019 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 Franklin County Sheriff lacked adequate controls and oversight for daily office procedures: This is a partial repeat finding and was included in the prior year audit report as Finding 2017-003. The following deficiencies were identified related to daily office procedures:

- Tax software did not have the capability to track the employee who took each tax bill collection;
- Various employees worked out of the same drawer with the same log in credentials. No control was in place to track which employee processes a tax bill payment;
- Thirteen bank statements for the three tax bank accounts were not available for audit, along with their corresponding reconciliations. The auditor obtained the bank statements from the bank.
- A franchise bill was billed incorrectly resulting in the former sheriff owing the company a refund.
- Three franchise bills were prepared by the county clerk and sent to the former sheriff in December 2018, but the former sheriff did not send them to the vendors to collect payment, and one franchise certification was not received by the county clerk from the Department of Revenue, so a bill was not prepared and sent to the former sheriff.
- The 2018 tax settlement required a net adjustment of \$268,575 - see Finding 2018-003.
- Tax account interest of \$4,260 was not paid to the fee account and the school is still owed \$333 in interest.
- Follow-up on insufficient funds checks being collected was not documented to evidence the funds being redeposited.
- The tax bill for insurance capital of \$36,308 did not have the supporting official receipt maintained.

Internal controls were not in place to ensure adequate oversight was in place over daily operations. The lack of adequate controls over daily operations increases the risk that errors could occur and go undetected and materially affect financial reporting.

Strong internal controls dictate that effective monitoring and oversight procedures be in place over the daily operations of an office. Effective internal controls are essential for providing protection from asset misappropriation and inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

We recommend the sheriff's office strengthen controls and provide management oversight over daily procedures to ensure accurate financial reporting. In addition, the sheriff should work with the software programmer to see if an audit trail can be added.

Former Sheriff's Response: No response provided.

The former Franklin County Sheriff lacked adequate segregation of duties over daily accounting and reporting functions: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The former sheriff lacked adequate segregation of duties over accounting and reporting functions of the former sheriff's office. The bookkeeper collected tax bill payments, posted to the financial software program, prepared monthly reports for all districts, prepared checks for districts, and prepared the monthly bank reconciliation. The former sheriff implemented dual signatures on all checks and signed monthly tax reports.

The former sheriff indicated that he reviewed bank reconciliations but there were several bank statements for the tax accounts and their corresponding reconciliations that were unavailable for audit. Those bank statements were requested from the bank and provided to the auditor. The compensating controls over disbursements and reconciliations were ineffective to offset the risk associated with inadequate segregation of duties.

Internal controls were not in place to ensure duties were adequately segregated and sufficient compensating controls were not implemented. The lack of adequate segregation of duties increases the risk that undetected errors could occur and that the errors could have a material effect on the financial reporting of the office.

Strong compensating controls should be in place to offset the lack of adequate segregation of duties. Proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

We recommend the sheriff's office evaluate the controls that are in place and consider the following controls to adequately protect the office against misappropriation of assets and inaccurate financial reporting:

- Authorize someone other than the person performing closeout procedures, preparing the deposit, and performing the bank reconciliation to agree daily tax collection totals to the deposit slip. This person should also ensure the cash/checks per report agree to deposit slip, then document the review by initialing the bank deposit.
- Authorize someone other than the check preparer to review supporting documentation and sign checks in the sheriff's absence.
- The sheriff or a designated employee should reconcile the daily work to the ledger and monthly reports to ensure accuracy, then document the review by initialing or signing reports.

Former Sheriff's Response: No response provided.

The former Franklin County Sheriff's tax settlement was inaccurate: The former sheriff's tax settlement was inaccurate due to the following:

- Franchise taxes of \$170,138 and insurance capital tax collections of \$36,308 were not included on the settlement,
- School district tax collections were understated on the settlement by \$270,000, and
- Exoneration increases and decreases were netted on the settlement resulting in adjustments to each of those categories.

The former sheriff did not have controls in place over tax collection reporting to ensure the tax settlement financial statement included all taxes collected and correct exoneration increases and decreases to ensure compliance with state law.

The former Franklin County Sheriff's tax settlement financial statement was adjusted by a net amount of \$268,575 to ensure the settlement included all collections, charges, credits and payments made to each district in compliance with state law.

Strong internal controls dictate that all tax collections, charges and credits should be included on the tax settlement reported by the sheriff.

KRS 134.192(5) requires the tax settlement to show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district and the all taxing districts.

We recommend the sheriff's office implement controls to ensure that all taxes charged, collected and paid were reported on the tax settlement financial statement accurately to comply with state law.

Former Sheriff's Response: No response provided.

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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