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Harmon Releases Audit of Lee County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Lee County Sheriff Wendell Childers, Jr. 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 comments:

The sheriff did not properly account for two franchise tax bills. Two franchise tax bills were turned over to the county clerk as delinquent on April 15, 2016. However, these tax bills were paid to the sheriff's office in May 2015 and the sheriff disbursed those funds to the districts in June 2015.

When the tax bills were received, the sheriff's computer software had not been updated for the 2015 tax year. The bookkeeper manually paid out the collections for these two franchise tax bills by creating a spreadsheet. After the sheriff's software was updated, the franchise bills were entered into the system but the date collected was not. The sheriff does not maintain a receipts and disbursements ledger for the tax account, so when the county settlement was prepared, this manual report was not included.

As a result, the sheriff's county settlement submitted to fiscal court was materially inaccurate because the two franchise bills were listed as delinquent instead of collected and paid to the districts.

KRS 134.122(1)(a) states "[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due. . .file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]" Only *unpaid* tax claims should be in the sheriff's possession. KRS 134.192(1) requires "[e]ach sheriff [to] annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." Inherent in this requirement is the annual settlement be an *accurate* accounting of taxes collected and distributed.

We recommend the sheriff take the steps necessary to ensure that only unpaid tax bills are certified to the county clerk as delinquent and that the county settlement submitted to the fiscal court is accurate. This could be accomplished by maintaining tax account receipts and disbursements ledgers, then comparing the ledgers to the yearly totals per tax collection reports and to the county settlement. This review should be evidenced by the initials of the preparer and a separate reviewer on the ledgers, collection reports, and settlement.

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

The sheriff did not segregate accounting duties. The bookkeeper and part-time deputy clerk both collect and deposit tax receipts, record transactions, prepare the monthly reports, issue disbursements to the taxing districts, and authorize those disbursements. The sheriff instituted compensating controls to offset the lack of segregation, such as reviewing and initialing bank reconciliations, agreeing daily tax collections to the bank deposit ticket, and agreeing tax reports to the disbursements prepared. However, one of these controls was not designed properly. The bank statement was reconciled to the checkbook instead of a receipts and disbursements ledger. The sheriff's office also lacked controls over additional tax bills. There was no second level review of additional bills after they were entered into the computer system.

The lack of segregation is due to the sheriff having a limited budget for hiring office personnel. Having one person responsible for the complete accounting cycle resulted in inaccurate financial reporting to the Lee County Fiscal Court and to the taxing districts and allowed a tax bill to be collected for less than the certification.

Proper segregation of 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.

We recommend the sheriff segregate accounting duties or institute properly designed compensating controls. This could be accomplished by the sheriff reviewing and authorizing all tax disbursements along with another individual who did not prepare the disbursements. The review should be documented by initialing the report used to prepare the disbursements. Additionally, the sheriff, or an individual who does not post deposits and checks to the ledgers could compare the receipts and disbursements ledgers with the monthly and yearly reports to ensure accuracy. This review should be documented by initialing the ledgers and reports. We also recommend the additional tax bills be reviewed by someone other than the person who enters them into the computer system.

Sheriff's response: The 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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