



Auditor of Public Accounts
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Harmon Releases Audit of Caldwell County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Caldwell County Sheriff Stan Hudson. 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, 2016 through April 17, 2017 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 Caldwell County Sheriff's office lacks adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2015-001. 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 and disbursements ledgers, prepares monthly bank reconciliations, and prepares all monthly tax reports. According to the bookkeeper, the lack of segregation of duties is due to limited staff size.

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. The segregation of duties or the implementation of compensating controls is essential for providing protections from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. We recommend the sheriff 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, cross-checking procedures should be implemented and documented by the individual performing the procedure.

Sheriff's Response: Caldwell County Sheriff's Office is a small agency, which results in limited personnel in the office. In the last year, we have implemented new policies to fulfill the requests made by the auditors, to the best of our abilities. In addition, by the time the audit was conducted, the collection period for the following year was already near completion. I feel my staff has done a fantastic job with the resources we have been allotted. Money and resources are directed to the many obligations of our Sheriff's Office and I don't feel I can decrease law enforcement and public safety assets. We will continue to do double and triple checks to ensure the accuracy of our records. I am proud of my employees who have handled the funds for the Sheriff's Office adequately.

The Caldwell County Sheriff failed to require deposits to be made intact and all payments to be made by check: This is a repeat finding and was included in the prior year audit report as Finding 2015-003. The sheriff's bookkeeper made refunds in cash. According to the bookkeeper, they were not aware they could not make cash refunds. As of March 2017, they have stopped the practice of making cash refunds. Deposits were shorted by the amount of the cash refund. Refunds of the overpayments were made in cash. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires, "[d]aily deposits intact into a federally insured banking institution" and "[d]isbursements by check only." Additionally, good internal controls dictate these requirements are essential and provide protection against fraud and errors. We recommend the sheriff require all daily collections to be deposited intact and checks to be written for all disbursements.

Sheriff's Response: The Caldwell County Sheriff's office will no longer make change for checks written for more than what is due. Due to the audit not ending until the end of the 2016 tax year, the office was unable to complete this task. Upon completion of the tax audit, the Sheriff's office has made many changes and request the tax payers that all checks be made in correct amount due, despite the inconvenience on the tax payers.

The Caldwell County Sheriff failed to distribute interest monthly: This is a repeat finding and was included in the prior year audit report as Finding 2015-002. The sheriff failed to turn over interest payments on a monthly basis. The sheriff made three payments to the school board and three payments to the sheriff's fee account for interest earned on tax collections. According to the bookkeeper, interest checks were written when large amounts of interest were received. Because earnings were not paid to the school district or the fee account on a monthly basis, the school and fiscal court were denied access to proceeds of interest from tax collections. KRS 134.140(2) states in part, "[a]s part of the monthly distribution of taxes to a district board of education as required by KRS 134.191, the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes[.]" We recommend the sheriff turn over all interest earnings to the school and sheriff's fee account as part of the monthly distribution of taxes to the districts.

Sheriff's Response: The Caldwell County Sheriff's Office will include the interest on the monthly checks in the future. By the time of the audit was concluded, the collection period for the 2016 tax year was nearly completed.

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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