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Harmon Releases Audit of Grayson County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Grayson County Sheriff Norman Chaffins. 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 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 Grayson County Sheriff's Office lacks segregation of duties. The Grayson County Sheriff's bookkeeper performs numerous duties dealing with tax receipts, disbursements, and reconciliations. The bookkeeper is responsible for the collection of cash, preparation of the daily deposits, and the daily tax collection journal. She is also responsible for the preparation of monthly reports, distribution of tax payments, and the reconciliation of all bank statements. The

sheriff has attempted to implement compensating controls, but the individuals performing the compensating controls failed to properly document their oversight.

The lack of segregation of duties existed over tax settlement functions of the sheriff's office because a limited number of employees were available to properly segregate these job duties.

A lack of segregation of duties could result in the misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue.

A segregation of duties over tax settlement receipts and disbursements activities and reconciliations or implementation of compensating controls, when needed because the number of staff is limited, 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 properly segregate the duties over tax settlement functions in order to help prevent misappropriation of assets, inaccurate financial reporting, and to adequately protect employees in the normal course of performing their daily responsibilities. If these duties cannot be separated, strong documented oversight over these areas should be provided.

Sheriff's response: No response.

The sheriff did not have sufficient policies and procedures or internal controls over fire dues exonerations processing. According to a fiscal court ordinance, taxpayers can choose not to pay fire dues subscriber fees (fire dues) by completing a form to "opt-out" of Grayson County Fire Department Membership Charges/Subscriber Fees and providing the completed form to the sheriff when they pay their tax bill each year. The form should be completed and maintained on file by the sheriff to support the fire dues that are exonerated or removed from tax bills. For the 2015 tax collection period, the sheriff included \$119,960 on his settlement as fire dues that were exonerated. There should have been a properly completed form on file for each \$40 fire due, or approximately 2,999 forms. The bookkeeper told the auditor that if the bill is mailed in and the amount paid is short by \$40, they assumed the taxpayer was "opting out" and they would complete a form and write "mailed" in place of the taxpayer's signature. She also told the auditor that they had difficulty obtaining "opt-out" forms for all tax bills with fire dues exonerations during their busy periods, making it highly likely that they didn't have a form to support every fire dues exonerated.

At the end of the 2015 property tax collections, the sheriff's office gave all the "opt-out" forms to the corresponding fire departments and did not keep copies of the forms on file in the sheriff's office. Because of this this, the auditor could not obtain sufficient audit evidence to determine that the \$119,960 in fire dues were legitimately exonerated. This lack of internal controls leaves \$119,960 at increased risk of fraud or material error.

The sheriff has not implemented policies and procedures or internal controls over the exoneration process, leaving a significant amount of money susceptible to fraud or material errors. Good internal controls require clear policies and procedures to address the process and documentation of exonerating any part of a tax bill. The process of exonerating a bill should be documented and should be limited to only certain personnel.

We recommend the sheriff implement sufficient internal controls to ensure accurate processing of fire dues exonerations. The sheriff should develop standardized policies and procedures for staff to follow, including:

- Maintaining properly completed “opt-out” forms for each taxpayer;
- Documenting the forms in an orderly, consistent manner to provide an audit trail;
- Limiting the ability to exonerate to only certain personnel; and
- Periodic reviewing or spot-checking exonerations against the “opt-out” forms.

Sheriff's Response: 2015 was the first year of collecting the fire dues for this office. Since then, policies and procedures have been implemented to address the issue of opt-out forms not being readily available for the auditor(s). An ordinance is currently being introduced to fiscal court where opt out forms will be included in the tax bill.

Interest was not properly distributed. The Grayson County Sheriff did not properly distribute the interest earned on all of his tax accounts. The bookkeeper only distributed the interest earned for November and December from the property tax account. She forgot about subsequent months and the interest earned on the franchise tax account. By not properly disbursing interest each month, the fee account and the board of education have not received all funds that are due to them. This also can create reconciliation issues since all funds received for the month are not distributed.

KRS 134.140 details how the sheriff is to distribute tax commissions received in all tax accounts each month between his fee account and the local board of education based on the amount of taxes collected during the month. Also, KRS 160.500 gives the sheriff the authority to keep a four percent commission on the board of education's portion of the interest. The sheriff should properly distribute interest earned on all tax accounts on a monthly basis pursuant to KRS 134.140 and KRS 160.500.

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](#).

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