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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2020 taxes for Laurel County Sheriff John Root. 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 May 16, 2020 through April 15, 2021 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 Laurel County Sheriff did not have a pledge agreement: The sheriff's bank account balances exceeded the $250,000 in Federal Deposit Insurance Corporation (FDIC) coverage provided by his bank. He did not have a pledge agreement. On April 15, 2021, the sheriff's bank balances were $1,253,654. The sheriff's deposits were covered by FDIC coverage and pledged securities, but the pledges were not perfected by evidence of a written security agreement with the bank,leaving $1,003,654 uncollateralized and uninsured.

The sheriff's office had recently changed banks and were unaware that there was no agreement in place. Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned.

According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance ($250,000), equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

We recommend a pledge agreement be obtained from the bank for the bank accounts. If the bank is unable or unwilling to do this, then uncovered accounts should be moved to another bank that will meet the requirements.

County Sheriff's Response: The official 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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