



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Leslie County Sheriff Delano Huff. 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 1, 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 Leslie County Sheriff's Office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. These control deficiencies are present because the sheriff's bookkeeper's duties include receiving tax payments, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. A proper segregation of duties over 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. If segregation of duties was not feasible due to limited staff, strong oversight over these areas should occur and involve the sheriff or an employee not currently performing any of these functions. We recommend the sheriff segregate duties or implement compensating controls. If the sheriff chooses to implement compensating controls, his oversight should be documented on the appropriate source document. The following are examples of compensating controls the sheriff could implement:

- The sheriff, or his designee, can compare the daily checkout sheet to tax reports and bank deposit receipts and document his review.
- The sheriff, or his designee, can reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff can examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

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

The Leslie County Sheriff's settlement was not accurate. The Leslie County Sheriff's settlement contained numerous computation and reporting errors. The lack of sufficient internal controls over the financial reporting process allowed for multiple undetected errors in the sheriff's county tax settlement. These errors include:

- School commissions were determined based on monthly reports, which incorrectly calculated commissions at four percent. However, the actual school commission rate for the current sheriff's tax collection period was two percent.
- Commissions were calculated at ten percent for the first \$10,000 in collections, and 4.25 percent thereafter. Commissions on districts other than the school district should be calculated at 4.25 percent for all collections.
- School taxes due were not properly calculated.

Effective internal controls over the financial reporting processes are essential to ensure that financial reports are accurate. Controls such as a thorough review of the annual tax settlement that includes tracing amounts to source documentation, recalculation of those amounts, and comparing taxes collected per the settlement to the taxes collected on the monthly reports would have strengthened internal controls over financial reporting, and could have reduced the chances of misstatements going undetected.

We recommend the sheriff implement internal controls over the review of the annual tax settlement by tracing amounts to source documentation, recalculating commission amounts, and comparing taxes collected per settlement to taxes collected per monthly reports.

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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