



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2016 taxes for Livingston County Sheriff Bobby Davidson. 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Livingston County Sheriff's Office lacks adequate segregation of duties: This is a repeat finding and was included the prior year audit report as Finding 2015-001. The Livingston County Sheriff's Office has a lack of adequate segregation of duties over tax collections and disbursements. According to the bookkeeper, this is because of a limited number of staff and the diversity of operations. The office staff is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, the preparation

of monthly reports, and the preparation of checks for disbursements. A lack of adequate segregation of duties increases the risk of undetected fraud or errors.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff implement the following compensating controls to offset this internal control weakness:

- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any difference should be reconciled. The sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should require two signatures on checks, with one being the sheriff's signature.
- The sheriff should compare disbursements to monthly tax reports or other supporting documentation. Any differences should be reconciled. The sheriff should document his oversight by initialing documentation.

Sheriff's Response: We do not generate enough revenue to hire enough employees to provide adequate segregation of duties.

Auditor's Reply: As stated above, the sheriff should implement compensating controls to offset the internal control weakness regarding segregation of duties.

The Livingston County Sheriff lacks internal controls over the tax collection process: The Livingston County Sheriff lacks internal controls over the tax collection process. This lack of controls resulted in the following:

- Multiple errors occurred on the monthly reports such as refunds being added to taxes due to districts, instead of being deducted.
- The sheriff's property settlement was misstated due to the lack of a thorough review.
- Taxes paid per the sheriff's settlement did not agree to the canceled checks for tax distributions.
- Multiple refund checks were calculated incorrectly by the sheriff's office and were written for more than was due to the taxpayer, requiring the taxpayers to refund money to the sheriff's office and requiring some taxpayers be due additional refund money from their previous year's tax payments.

According to the bookkeeper, the miscalculations on refunds were just errors that were not caught until later in the tax year. Rather than implement a systematic approach for handling the collection of taxes, the sheriff relies on two employees without sufficient documented oversight. As a result of the lack of controls, the findings listed above occurred. Additionally, this lack of internal controls has created the opportunity for additional material misstatements.

Strong internal controls over tax collections are essential to ensuring that taxes collected are accounted for properly. Strong internal controls help prevent or detect misstatements due to error, as well as protect against misappropriation of assets. We recommend the sheriff implement internal controls over the tax collection process such as documented management oversight of the daily checkout process, performing monthly reconciliations by comparing daily deposits and checkout sheets to bank statements and the monthly reports, and having another deputy to recalculate any refunds due taxpayers before they are mailed out, to eliminate errors in the future.

Sheriff's Response: We plan on having a third person, the sheriff, look over our work and initialing work to insure internal control.

The Livingston County Sheriff has a \$161 deficit in his 2016 tax account: The sheriff has a deficit of \$161 in his official 2016 tax account. This occurred because of a lack of internal controls in place to ensure all tax monies due the tax account were properly billed, collected, and deposited and all payments were properly paid. As a result, the sheriff's tax account did not receive all monies due, which resulted in the sheriff's office not having the funds needed to settle 2016 taxes as detailed in the attached determination of fund balance.

As collector of taxes, the sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing authority. KRS 134.192 requires the sheriff to settle his or her accounts annually, with each taxing district for which he or she collects taxes. Additionally, good internal controls require oversight of all tax accounting functions. We recommend the sheriff deposit personal funds of \$161 into his 2016 tax account in order to settle his 2016 taxes in accordance with the attached determination of fund balance.

Sheriff's Response: He plans on paying it back to tax account.

The Livingston County Sheriff failed to make daily deposits: During the 2016 tax year, the Livingston County Sheriff did not make daily deposits for tax collections. Instead the sheriff created deposits, but waited to take them to the bank. According to the sheriff's office, because of a limited staff, sometimes the bookkeeper would be the only person working in the sheriff's office and would not be allowed to leave the office to take deposits to the bank. Also, due to the lack of proximity of the bank, it is not always convenient to take the deposit. Failure to make daily deposits leaves tax collections vulnerable to misappropriation and loss. Additionally, the failure to make daily deposits results in the Sheriff not being in compliance with KRS 68.210.

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting requirements, which includes performing daily checkout procedures and making daily deposits intact to a federally insured financial institution. We recommend the sheriff deposit tax collections intact on a daily basis.

Sheriff's Response: He makes daily deposit, employees cannot always get to bank before closing time and deposit will show up on next day work. He plans to have deputy or employees to make sure it gets there on time.

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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