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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 – 2018 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 17, 2018 through April 15, 2019 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 Livingston 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 2017-002. The Livingston County Sheriff's Office lacks adequate segregation of duties over tax collections and disbursements. The bookkeeper 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 with little to no oversight. A lack of adequate segregation of duties increases the risk of undetected errors or inaccurate reporting.

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. According to the staff of the sheriff's office, this is because of a limited number of staff and the diversity of operations.

We recommend the sheriff should segregate duties to the extent possible or implement compensating controls to offset this internal control weakness. The following procedures could be implemented by the sheriff to segregate duties or implement compensating controls:

- 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 the monthly tax reports or other supporting documentation. Any differences should be reconciled. The sheriff should document his oversight by initialing documentation.

Sheriff's Response: The sheriff and bookkeepers are implementing procedures to have more internal controls.

The Livingston County Sheriff did not have adequate controls to ensure the county tax settlement was accurate: This is a repeat finding and was included in the prior year audit report as Finding 2017-002. The Livingston County Sheriff's tax settlement had significant errors. Taxes paid per the sheriff's settlement did not agree to the cancelled checks for tax distributions. The sheriff did not accurately total the settlement for Ledbetter Fire Department. The sheriff recorded exoneration decreases as delinquent real estate and the special taxing districts had \$7,018 of exoneration errors. The county district included a \$5,000 error in limestone, sand, and gravel recording. Commissions were not calculated accurately for limestone, sand, and gravel due to failing to include penalties and using the wrong calculations. The sheriff's franchise settlement showed refunds due to the sheriff of \$20,037. This is due to the sheriff recording delinquent franchises without charging franchise collections. This lack of internal controls creates the opportunity for additional errors and material misstatements to potentially occur.

Strong internal controls over reporting of taxes are essential to ensuring that taxes collected and distributed are accounted for properly. Strong internal controls help to prevent or detect misstatements due to errors, as well as protect against misappropriation of assets. Due to a lack of controls over the reporting of taxes, these errors were not detected. Rather than implement a systematic approach for handling these functions, the sheriff relies on two employees without sufficient documented oversight.

We recommend the sheriff implement internal controls over the tax reporting process. Implemented internal controls could include comparing cancelled checks to the monthly reports and comparing the monthly reports to the sheriff's settlement to ensure that taxes collected are properly paid to the districts and accurately reflected on the sheriff's settlement. Further the sheriff or another employee should take source documentation such as delinquent tax listing, exoneration listing, additional billings, and official receipts for limestone, sand, and gravel to ensure that the settlement is accurate.

Sheriff's Response: This was due to bookkeeper error and not understanding full concept of the settlement, and the scope of the process.

The Livingston County Sheriff's Office did not make deposits intact: The Livingston County Sheriff did not make deposits intact. The bookkeeper would prepare the daily checkout sheet daily. When a customer overpaid with a check and did not accept a refund, the bookkeeper will take the difference out of cash and place it in a bank bag in the sheriff's office. During the two weeks tested there was \$91 of overpaid checks, however there was only \$15 in the bank bag on October 9, 2019. Failure to make deposits intact causes tax collections to be vulnerable to misappropriation and loss. Additionally the sheriff is not in compliance with KRS 68.210.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for the handling of public funds by all local government officials, including making "[d]aily deposits intact into a federally insured banking institution."

Per inquiry with the bookkeeper, she thought this was the best practice to ensure that the bank deposit agreed with the daily checkout sheet. We recommend that the sheriff discontinues the practice of shorting cash for overpaid tax collection checks and to deposit all tax collections intact daily.

Sheriff's Response: The Sheriff and the Staff will only accept exact amounts on taxes collected from the property owner cards, and will mail back any payments not exact.

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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