



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for McCreary County Sheriff Randy Waters. 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 18, 2017 through April 16, 2018 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 McCreary 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 2016-001. A lack of adequate segregation of duties exists over all accounting functions. The sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, prepares monthly tax reports, prepares tax disbursements, and signs those disbursements.

According to the sheriff, a limited budget placed restrictions on the number of employees which could have been hired. However, when faced with limited staff, strong compensating controls should have been in place to offset the lack of segregation of duties.

The lack of segregation or strong compensating controls could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

A segregation of duties over various accounting functions, such as collection of taxes, preparation of monthly reports, and preparation of tax disbursements to the districts or the implementation of compensating controls because 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.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff separate the duties involving the opening of mail, collecting and depositing of cash, preparation of the monthly tax reports, and preparation of tax disbursements. If this is not feasible due to lack of staff, then strong oversight over these areas should occur and involve an employee that wasn't currently performing any of those functions. Additionally, the sheriff could provide this oversight and show evidence of the oversight by initialing the appropriate source documents. For example, the sheriff could compare the daily checkout sheet to the receipts ledger and bank deposit slip then initial the checkout sheet, deposit slip, and ledger. Also, the sheriff could compare the disbursement checks to the districts to the disbursements ledger and to the monthly report then initial the ledger and monthly report when he signs the checks.

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

The sheriff did not review franchise tax bills prepared by the county clerk for accuracy: The McCreary County Sheriff mailed 23 franchise tax bills prepared by the county clerk without reviewing them for accuracy.

This occurred because the sheriff has not developed and implemented controls over the review of franchise tax bills prepared by the county clerk.

The franchise companies underpaid 2016 tax year bills by \$20,112 and 2017 tax year bills by \$48,604. The auditor also noted that one of the 2017 tax year bills was mailed twice resulting in the company submitting a duplicate payment of \$3,026. Additionally, a delinquent 2017 tax year bill was subsequently underpaid by \$1,452 during the 2018 tax collection period.

The development and implementation of good internal controls over reviewing franchise bills prepared by the county clerk is essential to ensuring that franchise companies do not underpay or overpay taxes.

We recommend the sheriff review all franchise tax bills prepared by the county clerk for accuracy and make the necessary corrections before mailing to the franchise company. We also recommend a refund for the duplicate payment of taxes be paid to the franchise company.

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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