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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Nelson County Sheriff Ed Mattingly. 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, 2015 through April 15, 2016 in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance 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 sheriff lacks adequate segregation of duties in accounting functions. The sheriff's office lacks adequate segregation of duties in receipts, disbursements, and reconciliations. The bookkeeper collected taxes, prepared deposits and daily checkout sheets, posted to the ledgers, prepared monthly reports, wrote disbursement checks and performed the bank reconciliations.

The sheriff's office has implemented the following compensating controls to offset this control deficiency:

- The sheriff examined tax distributions prepared by the bookkeeper.
- The sheriff occasionally made deposits.
- Two people, one being the sheriff, signed all checks.

By allowing the same employee to perform most of the necessary tax collection functions, the risk that errors or fraud may go undetected increases. Errors did occur during the 2015 tax settlement process, including underpayment of one taxing district and discounts and penalties granted without sufficient reason or supporting documentation. The sheriff has not become sufficiently involved in the tax settlement process to identify and address the control weaknesses. A segregation of duties over receipt procedures, disbursement processing, report preparation, and bank reconciliations is essential for providing protection from fraud or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff implement additional compensating controls to mitigate the risk caused by the lack of segregation of duties. Those controls could include the following, performed by the sheriff or another designated employee:

- Recount and initial the deposit ticket before taking the deposit to the bank, and compare the deposit total to the daily checkout sheet and receipts ledger posting to ensure the deposit is posted correctly.
- Review the monthly bank reconciliation and compare to the ledgers.
- Review and approve adjustments made to monthly reports, the tax system, or the ledgers.
- Review tax rates and commission rates at the beginning of the tax collection period to ensure they have been entered into the tax software accurately.

The sheriff should also develop a policy addressing discounts and penalty waivers and communicate the policy to all office staff.

Sheriff's response: None.

The sheriff did not maintain copies of receipts issued for tax payments as required by statute. The sheriff could not provide auditors with copies of receipts issued for tax payments during the 2015 tax settlement period. The sheriff's bookkeeper told auditors the receipts must have been lost or destroyed. The sheriff was not able to reprint these receipts from the accounting system.

The lack of copies of receipts limits the audit trail required for each transaction and increases the work and time necessary to complete audit testing. KRS 64.840 requires receipts to be issued in triplicate for any fine, forfeiture, tax or fee paid in cash, in person, or if requested by mail. KRS 64.840(2) states "[o]ne (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." We recommend the sheriff comply with KRS 64.840 by maintaining copies of each receipt issued. We further recommend the sheriff ensure that documents are maintained in a secure location and retained in accordance with the county's records retention policy.

Sheriff's response: None.

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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