



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

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

The audit contains the following comment:

The former Nelson County Sheriff's office lacked adequate segregation of duties. This is a repeat finding and was included in the prior year audit report as Finding 2015-001. The sheriff's bookkeeper collects taxes, prepares deposits and daily checkout sheets, post to the ledgers, prepares monthly reports, signs disbursement checks, and performs the bank reconciliations. There was not sufficient evidence available that would show that the sheriff or another employee

periodically reviews deposits, daily checkout sheets, ledgers, monthly reports or the bank reconciliations to offset the risk caused by the lack of segregation of duties. According to the sheriff, the sheriff's office does not have enough funds to hire additional personnel to segregate duties. Without segregation of duties, the risk of misstatements in receipts and disbursements due to undetected errors and theft significantly increases. Segregation of duties over receipt procedures, disbursement processing, report preparation, and bank reconciliations is essential for providing protection from fraud and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting and misappropriation of assets, we recommend the sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- The sheriff should compare the daily bank deposit to the daily checkout sheet and then compare to the bank deposit receipt. This should be documented by initialing the bank deposit, daily checkout sheet and bank deposit receipt.
- The sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The sheriff could document this by initialing the bank reconciliation.
- The sheriff should compare the monthly receipts and disbursements ledgers to the monthly tax reports. This should be documented by initialing the receipts and disbursements ledgers or the monthly tax reports.

Sheriff's response: We implemented stronger controls to satisfy this duty.

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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