



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for Ohio County Sheriff Tracy Beatty. 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 internal control over financial operations and reporting.

The audit contains the following comments:

The Ohio County Sheriff did not make daily deposits: This is a repeat finding and was included in the prior year audit report as Finding 2016-006. The Ohio County Sheriff's Office did not make daily deposits. For the daily collections on November 14, 2017, auditors noted the deposit was not made until November 16, 2017. For the daily collections on November 17, 2017, auditors noted the deposit was not made until November 21, 2017. According to the sheriff, the former bookkeeper was not diligent about making sure deposits were accurate or complete. By not making

daily deposits the sheriff's office could create the opportunity for undetected misappropriation of assets to occur. Additionally, the sheriff was not in compliance with the uniform system of accounts prescribed by the State Local Finance Officer pursuant to KRS 68.210. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, includes performing daily check-out procedures and making daily deposits intact into a federal insured banking institution.

We recommend the sheriff's office make daily deposits in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*.

Sheriff's Response: The previous bookkeeper failed to make daily deposits. The new bookkeeper has been instructed by the sheriff to make daily deposits.

The Ohio County Sheriff did not maintain documentation for all penalties waived: This is a repeat finding and was included in the prior year audit report as Finding 2016-005. The Ohio County Sheriff's Office waived penalties on a total of 39 tax bills. Supporting documentation was maintained for most of the waived penalties; however, auditors noted 10 tax bills in which penalties were waived and no supporting documentation was maintained. According to the sheriff, the former bookkeeper was not diligent about maintaining proper documentation. Without maintaining proper documentation, the sheriff's office has no way to show these penalties were waived for legitimate reasons and taxpayers could avoid paying the appropriate penalties. Good internal controls dictate that the sheriff complete a penalty waiver form or maintain supporting documentation for any penalties waived in order to prevent abuse of the system and to ensure that taxes are received and disbursed properly. We recommend that the Sheriff maintain the appropriate documentation to support all penalties waived.

Sheriff's Response: The previous bookkeeper failed to maintain documentation for penalties waived. The new bookkeeper now has all waived penalties approved by the Sheriff. A second tax clerk reviews all waived penalties to insure all documentation is correct.

The Ohio 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. The Ohio County Sheriff's Office lacks segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, and the preparation of checks for disbursements. According to the sheriff, the lack of segregation of duties is due to a small budget which limits staff size. Segregation of duties over these tasks and cross-training deputies, when needed because the number of staff is limited, are 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. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and back reconciling duties be segregated. A lack of segregation of duties or strong oversight could result in undetected misappropriation of assets or incorrect financial reporting.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff segregate the duties noted above and cross-train deputies to accommodate

the rotation of these functions. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties and to document oversight. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper were absent.

Sheriff's Response: The Ohio County Sheriff's office works on a small budget which limits our staff size. Sheriff Beatty has implemented internal controls which includes cross training and reviewing all financial statements and reports by at least two staff members. All bank statements, monthly reports and checks are reviewed by Sheriff Beatty and one other tax clerk. The sheriff has installed a camera system in the tax office for monitoring transactions between the public and the employees during the sheriff's office collection process.

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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