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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Pulaski County Sheriff Greg Speck. 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 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 sheriff's office lacks adequate segregation of duties over receipts. The Pulaski County Sheriff's Office lacks adequate segregation of duties over the receipt of tax payments. This control deficiency is present because one employee is collecting payments from customers and is responsible for verifying individual checkout sheets, preparing an office wide checkout sheet, preparing the daily deposit, and preparing the monthly tax reports. No documented oversight of these processes occurs. To adequately protect against misappropriation of assets and inaccurate financial reporting, the sheriff should separate the duties of preparing cash deposits, preparing daily checkout sheets, and preparing monthly tax reports. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure. The lack of oversight could result in undetected misappropriation of assets , and inaccurate financial reporting to external agencies such as the taxing districts.

The segregation of duties over various accounting functions, such as preparing cash deposits, preparing daily checkout sheets, preparing monthly tax reports, or the implementation of compensating controls, 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.

We recommend the sheriff separate the duties related to receipt processing, or implement effective compensating controls to offset the effects of this weakness. If the sheriff chooses to implement compensating controls, he should document his oversight on the appropriate source document.

Sheriff's response: We have designated two individuals from our dispatch office to recount and verify our daily deposits. The two clerks are not involved with daily tax collections.

Franchise tax bills were not properly reviewed for accuracy prior to billing. Assessments for three franchise companies were amended during the 2015 tax year. The tax bills were prepared on the amended assessment amounts, however, no credits were given for the taxes already paid for the original bills. Therefore, these franchise companies are due a refund. A two percent discount was applied to the amended tax bills. These errors occurred due to a lack of review and internal controls over the franchise bill preparation process. As a result of the billing errors, the three franchise companies are due back refunds totaling $10,410. In addition, taxing districts were paid inaccurate monthly tax distributions.

Good internal controls dictate that strong oversight over franchise bill preparation should have been in place, ensuring all bills prepared were accurate. This would have ensured taxpayers were paid correct amounts and the taxing districts received the proper amount due. Additionally, KRS 134.015(6) states, in part, "[a] tax bill issued against omitted property or an increase in valuation over that claimed by the taxpayer. . .shall be due the day the bill is prepared and shall be considered delinquent on that date." Therefore, amended bills are not eligible for the two percent discount.

The sheriff should contact the taxing districts to collect then disburse the refunds to the three franchise companies. The sheriff, in connection with the county clerk, should have internal controls in place to ensure all franchise bills are reviewed and accurate and that the bills comply with KRS 134.015(6).

Sheriff's response: The County Clerk's bookkeeper has already been contacted and has agreed to forward emails sent to her by the state regarding franchise bills. Also the tax clerk will make monthly phone calls to follow-up on the emails.

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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