



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Harmon Releases Audit of Owsley County Sheriff's Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2015 taxes for Owsley County Sheriff Kelly Shouse. 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 Owsley County Sheriff's Office lacks adequate segregation of duties.** The sheriff's office lacks adequate segregation of duties because the sheriff's bookkeeper maintains the ledgers, deposits the collections, collects funds from customers and prepares checks. The sheriff indicated that due to limited staff size, the sheriff cannot segregate the duties over receipts, disbursements, and reconciliations. Because only one person performs most of these functions,

there is no assurance that financial transactions are accurate, complete, and free of errors or misstatements. Good internal controls dictate that the functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk of undetected errors, misstatements, and fraud. We recommend the sheriff either segregate these duties or implement steps to strengthen internal controls, such as:

- The sheriff should periodically compare daily bank deposit to the daily tax collection printout. Any differences should be reconciled. The sheriff should document this by initialing the bank deposit and the daily tax collection printout.
- The sheriff should compare his daily tax collection printouts for each month to his monthly tax collection report for each district. Any differences should be reconciled. The sheriff should document this by initialing this district's monthly tax collection report for the month being examined.
- The sheriff should periodically compare payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The sheriff should document this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The sheriff should periodically compare the bank reconciliation to the checkbook balance. Any differences should be reconciled. The sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should personally sign each check paid out of his office.
- The sheriff should personally mail or deliver tax payments to the districts.

*Sheriff's response: We do the best we can with limited staff.*

Auditor's Reply: Even with limited staff, the sheriff should implement the compensating controls above in an attempt to offset the lack of segregation of duties where segregation is not possible.

**The Owsley County Sheriff should ensure the county clerk prepares franchise bills timely.** The county clerk did not prepare franchise tax bills for 2015 tax collections. This was also a reportable finding in the prior year audit. The county clerk failed to perform this duty. Upon inquiry, the clerk gave no reason why franchise bills were not prepared. Including franchise bills not prepared in the prior tax settlement, 36 franchise bills totaling \$383,362 were not billed as of April 18, 2016. As a result, taxing districts may experience revenue shortfalls needed to meet annual budget expenses. The county clerk should prepare franchise bills upon receipt of the state assessment certification and promptly deliver the bills to the sheriff to mail. KRS 133.220(2) requires the county clerk to prepare tax bills and states, in part, "the county clerk shall prepare for the use of the sheriff or collector a correct tax bill for each taxpayer in the county[.]" The sheriff should work with the county clerk to ensure that franchise bills are prepared and mailed timely.

*Sheriff's response: We mail the Franchise Tax bills as soon as we receive them.*

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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