



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2017 taxes for former 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 former 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 former sheriff's settlement is prepared on the regulatory basis, which is described in the auditor's opinion letter. Regulatory basis reporting for the former 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 the internal control over financial operations and reporting.

The audit contains the following comment:

The former Owsley 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 2016-001. The former sheriff's office lacked adequate segregation of duties. The former sheriff's bookkeeper maintained receipts and disbursements ledgers, deposited the collections, collected funds from customers, prepared bank reconciliations, and prepared payments to taxing districts.

According to the former sheriff, due to his limited number of office personnel, he could not segregate the duties over receipts, disbursements, and reconciliations. Since only one person performed these functions, there was limited assurance that financial transactions were accurate, complete, and free of errors or misstatements. 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's office either segregate these duties or implement steps to strengthen internal controls. The former sheriff could have implemented the following compensating controls:

- The former sheriff could have periodically compared daily bank deposit to the daily tax collection printout. Any differences should have been reconciled. The former sheriff could have documented this by initialing the bank deposit and the daily tax collection printout.
- The former sheriff could have compared his daily tax collection printouts for each month to his monthly tax collection report for each district. Any differences should have been reconciled. The former sheriff should have documented this by initialing this district's monthly tax collection report for the month being examined.
- The former sheriff could have periodically compared payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The former sheriff could have documented this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The former sheriff could have periodically compared the bank reconciliation to the checkbook balance. Any differences should have been reconciled. The former sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response: The former sheriff did not provide a response.

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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