



Auditor of Public Accounts  
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## **Harmon Releases Audit of Former Caldwell County Sheriff's Tax Settlement**

**FRANKFORT, Ky.** – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2021 taxes for former Caldwell County Sheriff Stan Hudson. 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 former sheriff's financial statement fairly presents the taxes charged, credited and paid for the period April 16, 2021 through June 30, 2022 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 finding:

**The former Caldwell County Sheriff's tax settlement was materially misstated:** The former Caldwell County Sheriff's tax settlement that was presented and approved by the fiscal court was not a complete and accurate reporting of the taxes collected and disbursed as of June 30, 2022, which was the former sheriff's last day in office. The former sheriff's tax settlement misclassified gas franchise taxes of \$257,602 as gas property taxes. This caused property tax collections to be overstated and franchise taxes to be understated by the same amount. Additionally, May 2022

franchise collections totaling \$282,851 and the corresponding tax payments to districts of \$266,163 were omitted from the former sheriff's tax settlement.

According to the bookkeeper, they were unaware how to handle the franchises collected by the sheriff prior to his retirement. Due to the errors above, the former sheriff's tax settlement gave an inaccurate accounting of the taxes collected and remitted to the districts.

KRS 134.215(3) states, "[e]ach outgoing sheriff shall make a final settlement with the department, the fiscal court, and all districts for which his or her office collected taxes by March 15 immediately following the expiration of his or her term of office. The settlement shall address all charges of taxes made against the sheriff and all money received by him or her as sheriff, and shall include all of the information required for the annual settlement pursuant to KRS 134.192." Additionally, strong internal controls dictate the sheriff should have ensured that final settlement is made with all taxing districts.

We recommend the Caldwell County Sheriff's office review future tax settlements to ensure the settlement is complete and accurate, including franchise taxes collected and taxes paid, prior to being submitted for approval.

*Former Sheriff's Response: The material adjustments being required for this audit were due to, historically, no franchise bills being collected in the timeframe and past settlements being settled through May; therefore the "final" settlement for the outgoing sheriff was conducted in the same manner. The sheriff's office was unaware the auditing standards are changed from previous practices and has made immediate note of this change. It is also noted while the wording was misstated, the funds were deposited and dispersed from the correct accounts. As this was the first year having an outgoing sheriff settlement, notations for future settlements have been noted to ensure no material adjustments will need to be made to future settlements.*

Auditor's Reply: There were no changes in auditing standards that affected the former sheriff's tax settlement. Franchise taxes were erroneously reported as property taxes and the omission of May 2022 franchise taxes collected and remitted by the former sheriff's office caused the former sheriff's final tax settlement to be materially misstated.

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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