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Harmon Releases Audit of Former Ohio County Sheriff's Tax Settlement

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2021 taxes for former 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 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 August 31, 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 findings:

The former Ohio County Sheriff's franchise settlement was materially misstated: The former sheriff's 2021 franchise tax settlement reported to the Ohio County Fiscal Court was materially understated by $551,302. This misstatement was due to the former sheriff's office including two monthly franchise tax reports from the prior tax year while also omitting franchise tax collections for April 2022. By not including these totals on the former sheriff's franchise tax settlement, the financial statement presented to the fiscal court and available to the public was materially incorrect and does not present a fair and accurate representation of the financial status of the 2021 tax collections.

KRS 134.192 directs the sheriff to provide to the fiscal court, a settlement for all taxes collected.

Good internal controls dictate that controls be in place to ensure the franchise tax settlement shows all franchise taxes collected by the office. All transactions should be included in the franchise settlement to ensure accurate information is being provided to the taxing districts and to the public.

We recommend the sheriff's office ensure that all financial activities related to franchise tax collections are reported on the franchise tax settlement.

Former Sheriff's Response: The franchise settlement was material misstated due to an oversight by the Tax Office Manager hired by the Sheriff. The Tax Collection Manager will ensure that all financial activity related to franchise tax collections are reported on the franchise tax settlement. This has been corrected.

The former Ohio County Sheriff's Office did not have adequate segregation of duties: The former Ohio County Sheriff's Office did not segregate the financial responsibilities between various individuals for the tax collection processes. The bookkeeper was required to perform multiple tasks such as deposit preparation, bookkeeping, bank reconciliations, writing checks for disbursements, and prepare the annual tax settlements. While the former sheriff implemented compensating controls to help mitigate these risks, these compensating controls were not effective. According to the former sheriff, the lack of segregation of duties is caused by the diversity of operations with a limited number of staff. A lack of segregation of duties or strong oversight increases the risk that errors and fraud could occur and not be detected.

Segregation of duties, or the implementation of compensating controls when limited by the number of staff, is essential for providing protection against the misappropriation of assets and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff's office segregate the duties noted above to the extent possible. For those duties that cannot be segregated due to a limited number of staff, we recommend the sheriff's office implement compensating controls that will help mitigate these risks.

Former Sheriff's Response: The lack of segregation of duties is caused by the diversity of operations with a limited number of staff which is limited also by the Sheriff's budget. As Sheriff I installed a camera system in the Sheriff's office which were intended to protect the taxpayer and to ensure that money collected was counted correctly by the Sheriff's Office staff. Hiring extra staff in the Sheriff's Office would help limit oversights and reduce the risks of errors and fraud. This is difficult to do with a limited budget to hire extra personnel. As Sheriff I would continue to monitor the collection closely.

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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