



Auditor of Public Accounts
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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 – 2020 taxes for Owsley County Sheriff Brent Lynch. 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 May 16, 2020 through April 15, 2021 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 2020 tax settlement was materially misstated: The final Owsley County Sheriff's 2020 tax settlement presented to the fiscal court was materially misstated due to not including \$87,196 of franchises taxes collected. The sheriff collects franchises taxes when the bills are received intermittently throughout the year. The sheriff stated his office submits monthly tax reports and supporting documentation to a third party to complete the tax settlement however several franchises reports were accidentally overlooked and did not get submitted to the third party

so they could be included in the settlement. He further stated his office has implemented a new procedure to ensure this error will not occur again. The sheriff's tax settlement was not an accurate representation of the actual financial activity of the office for the 2020 tax year.

KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year, which includes: (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses."

Good internal controls dictate strong oversight over the preparation of the sheriff's tax settlement to ensure all tax collections are included on the settlement.

We recommend the Owsley County Sheriff strengthen internal controls over the settlement and report preparation process and comply with KRS 134.192(11) and ensure all tax collections, commissions, and taxes paid are included on future settlements.

County Sheriff's Response: No response.

The Owsley County Sheriff's Office does not have adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The sheriff's office does not have adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipt ledger, posts checks to the disbursement ledger, prepares monthly and quarterly reports, and prepares all reconciliations.

The sheriff or another employee did not document oversight of any of these activities. According to the sheriff, the limited budget placed restrictions on the number of employees the sheriff could hire. Without adequate segregation of duties, there is an increased risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies, such as the Department for Local Government (DLG).

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly 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. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

We recommend the sheriff separate the duties of receiving, processing, recording, reconciling, and reporting financial activity to separate individuals or implement and document compensating controls to offset this weakness.

County Sheriff's Response: No 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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