



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

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the sheriff's settlement – 2018 taxes for Breathitt County Sheriff John Hollan. 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 January 1, 2019 through April 15, 2019 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 sheriff's annual settlement was materially misstated: The sheriff's annual settlement did not include the following:

- Franchise taxes of \$745,575
- Franchise tax penalties of \$18
- Franchise tax discounts of \$180

- Franchise tax delinquents of \$1,811
- Franchise tax commissions of \$27,335
- Franchise taxes paid \$716,280

Since the settlement was not complete, the amount shown owed or due the taxing districts may have been incorrect. Adjustments and reclassifications have been made to correctly account for the tax collections of the audited period.

The sheriff did not implement proper internal controls to ensure the activity for tax collections was accurately reflected in the annual tax settlement. In addition, the sheriff did not know that franchise taxes should have had an annual settlement performed for this collection period. By not having an accurate tax settlement the fiscal court cannot determine whether problems exist in tax collections. Effective internal controls over financial reporting are essential to ensure financial reports are accurate. The settlement shall show the amount of taxes collected and disbursed for the county, school, and each taxing district.

We recommend the sheriff's office prepare an accurate annual settlement.

County Sheriff's Response: The audit report notes that the annual settlement did not include activity for franchise taxes. Franchise taxes were the first tax type to end its collection period shortly after Sheriff Hollan's staff took office. At that time, the department was unaware and not directed as to the need to complete a tax settlement report for each type of tax as their individual collection periods end.

It is important for readers of this report to know that the tax dollars were collected and disbursed by the sheriff's department with no material problems. The issue here is a report summarizing those transactions (collections, disbursements, refunds, etc.) was not prepared.

The department is now aware of the requirement to file settlement reports. These reports will be prepared by the accountant upon completion of the tax collection period for each tax type effective immediately.

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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