



Auditor of Public Accounts
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Harmon Releases Audit of Former Owsley County Sheriff's Fee Account

FRANKFORT, Ky. – State Auditor Mike Harmon today released the audit of the 2018 financial statement of 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 financial statement presents fairly the receipts, disbursements and excess fees of the former Owsley County Sheriff in accordance with accounting principles generally accepted in the United States of America. The former sheriff's financial statement did not follow this format. However, the former sheriff's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for all 120 sheriff audits in Kentucky.

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 sheriff's office lacked adequate segregation of duties: This is a repeat finding and was included in the prior year audit report as Finding 2017-001. The former sheriff's office lacked adequate segregation of duties. The former sheriff's bookkeeper collected payments from customers, prepared deposits, wrote checks, posted transactions to the receipts ledger, posted checks to the disbursements ledger, prepared monthly and quarterly reports, and prepared all reconciliations. The former sheriff or another employee did not document oversight of any of these activities.

According to former sheriff, the limited budget placed restrictions on the number of employees the former sheriff could hire. Inadequate segregation of duties and lack of oversight increases the risk that undetected errors or fraud will occur. There is also less assurance that the financial information is complete, accurate, and free of misstatements.

A lack of adequate segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Furthermore, 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's office 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.

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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