

**REPORT OF THE AUDIT OF THE
FORMER BULLITT COUNTY
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period
April 16, 2016 Through February 28, 2017**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Melanie Roberts, Bullitt County Judge/Executive
The Honorable David Greenwell, Former Bullitt County Sheriff
The Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Bullitt County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through February 28, 2017 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the former Bullitt County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the former Bullitt County Sheriff, for the period April 16, 2016 through February 28, 2017.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2016 through February 28, 2017 of the former Bullitt County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2018, on our consideration of the former Bullitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Bullitt County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Melanie Roberts, Bullitt County Judge/Executive

The Honorable David Greenwell, Former Bullitt County Sheriff

The Honorable Donnie Tinnell, Bullitt County Sheriff

Members of the Bullitt County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report findings:

2016-001 The Former Sheriff Did Not Have A Written Agreement To Protect Deposits

2016-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon

Auditor of Public Accounts

May 3, 2018

BULLITT COUNTY
DAVID GREENWELL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through February 28, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 4,678,632	\$ 10,912,201	\$ 33,822,613	\$ 5,949,338
Tangible Personal Property	470,863	4,318,435	3,270,628	1,963,945
Fire Protection	531			
Increases Through Exonerations	3,451	7,547	24,847	6,137
Franchise Taxes	71,427	203,628	484,790	
Distilled Spirits Taxes	237,909	320,236	1,652,742	
Additional Billings	5,141	10,045	36,485	5,723
Clay Property Taxes	91	193	658	115
Limestone, Sand, and Gravel Reserves	830	2,522	6,000	1,055
Bank Franchises	112,749			
Penalties	5,296	10,837	38,203	7,790
Adjusted to Sheriff's Receipt	(22)	462	(153)	(86)
Gross Chargeable to Sheriff	<u>5,586,898</u>	<u>15,786,106</u>	<u>39,336,813</u>	<u>7,934,017</u>
 <u>Credits</u>				
Exonerations	17,220	43,651	124,135	20,962
Discounts	97,803	264,259	689,768	141,328
Transferred to Incoming Sheriff	120,984	300,638	868,165	147,626
Franchise Taxes - Delinquent	86	171	600	
Bank Franchise - Delinquent	21,296			
Total Credits	<u>257,389</u>	<u>608,719</u>	<u>1,682,668</u>	<u>309,916</u>
Taxes Collected	5,329,509	15,177,387	37,654,145	7,624,101
Less: Commissions *	<u>226,504</u>	<u>471,559</u>	<u>828,391</u>	<u>324,024</u>
Taxes Due	5,103,005	14,705,828	36,825,754	7,300,077
Taxes Paid	5,098,721	14,711,111	36,795,895	7,294,699
Refunds (Current and Prior Year)	<u>4,256</u>	<u>8,460</u>	<u>29,712</u>	<u>5,352</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 28</u>	<u>\$ (13,743)</u>	<u>\$ 147</u>	<u>\$ 26</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 DAVID GREENWELL, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2016 TAXES
 For The Period April 16, 2016 Through February 28, 2017
 (Continued)

* Commissions:

4.25% on \$ 22,793,165

2.2% on \$ 37,654,144

1% on \$ 5,337,833

** Special Taxing Districts:

Library District	\$	24
Health District		8
Extension District		(1,925)
Zoneton Fire District		23
Emergency 911 District		39
Southeast Bullitt Fire District		(11,887)
City of Hillview		(25)
		<u>(25)</u>

Due Districts or

(Refunds Due Sheriff) \$ (13,743)

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT

February 28, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Bullitt County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, because the sheriff did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On November 9, 2016, the sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$7,159,772

BULLITT COUNTY
 NOTES TO FINANCIAL STATEMENT
 February 28, 2017
 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2016 through February 28, 2017.

B. Clay Property Taxes

The clay property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2016 through February 28, 2017.

C. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 16, 2016 through February 28, 2017.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2016 through February 28, 2017.

Note 4. Interest Income

The former Bullitt County Sheriff earned \$1,270 as interest income on 2016 taxes. The former sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office. As of May 3, 2018, the former sheriff owed \$443 in interest to the school district and \$559 in interest to the fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Bullitt County Sheriff collected \$29,035 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The former sheriff's escrowed amounts were as follows:

2014	\$6,073
2015	\$669

KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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The Honorable David Greenwell, Former Bullitt County Sheriff
The Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Bullitt County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through February 28, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 3, 2018. The former Bullitt County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Bullitt County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Bullitt County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2016-002 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bullitt County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

Views of Responsible Official and Planned Corrective Action

The office of the former Bullitt County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 3, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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BULLITT COUNTY
DAVID GREENWELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through February 28, 2017

STATE LAWS AND REGULATIONS:

2016-001 The Former Sheriff Did Not Have A Written Agreement To Protect Deposits

This is a repeat finding and was included in the prior year audit report as finding 2015-001. On November 9, 2016, \$7,159,722 of the former sheriff's deposits of public funds in depository institutions were uninsured and unsecured. The sheriff failed to get a written agreement with a depository institution when he opened multiple accounts with them and the depository institution did not provide sufficient collateral. The former sheriff's office is out of compliance with state laws and regulations because the sheriff did not have a written agreement with the bank.

According to KRS 66.480(1)(d) and KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

We recommend the sheriff's office enter into a written agreement with the depository institution to adequately pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Former Sheriff's Bookkeeper's Response: We now have a signed agreement.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-002 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 2015-002. The former sheriff's office had a lack of adequate segregation of duties over disbursements. These deficiencies were present because one employee's duties included accepting tax payments, recording taxes paid, preparing the daily deposit for her cash drawer, reconciling the bank account, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements. The sheriff's office did not implement segregation of duties as part of the internal control structure. Lack of oversight can result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department for Local Government and taxing districts. Proper segregation of duties over disbursements is essential for providing protection of asset misappropriation 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 implement compensating controls to offset this internal control weakness, such as:

- Require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff, or another employee could compare the bank reconciliation to the balance in the checkbook and reconcile any differences. The reviewer should document this oversight by initialing the bank reconciliation and the balance in the checkbook.
- Compare total tax collections per the monthly reports to the total of the monthly disbursement checks. Any discrepancies should be resolved and the review should be documented by initialing and dating the monthly reports.

BULLITT COUNTY
DAVID GREENWELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2016 Through February 28, 2017
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2016-002 The Former Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Former Sheriff's Bookkeeper's Response: There is a segregation of duties in our office. We double check everything we do. In our tax program we have to balance daily, and then the deposit slip from the bank is matched. I don't collect taxes so I do the reconciliations.

Auditor's Reply: The sheriff's office has one individual that prepares the daily checkout sheets, posts amounts to the ledger, prepares bank deposits, reconciles accounts, and prepares and signs checks. The sheriff's office should segregate these duties, but if this is not possible due to lack of staff, compensating controls as suggested in the finding above should be implemented.