

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

**For The Period  
April 16, 2016 Through April 17, 2017**



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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 Ellen Dunning, Caldwell County Judge/Executive  
The Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Caldwell County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 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.

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

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To the People of Kentucky

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### **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 Caldwell 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 Caldwell County Sheriff, for the period April 16, 2016 through April 17, 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 April 17, 2017 of the Caldwell 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 February 15, 2018, on our consideration of the Caldwell 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 Caldwell 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 Ellen Dunning, Caldwell County Judge/Executive  
The Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell 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 comments:

- 2016-001 The Caldwell County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2016-002 The Caldwell County Sheriff Failed To Require Deposits To Be Made Intact And All Payments To Be Made By Checks
- 2016-003 The Caldwell County Sheriff Failed To Distribute Interest Monthly

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

February 15, 2018

CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 436,475	\$ 649,963	\$ 1,635,723	\$ 518,507
Tangible Personal Property	62,073	109,029	199,130	325,784
Fire Protection	744			
Omitted Taxes	2,564	3,585	9,610	3,037
Franchise Taxes	66,764	127,532	228,614	
Additional Billings	16	25	54	63
Oil Property Taxes	22	30	82	26
Limestone, Sand and Gravel Reserves	232	325	870	275
Penalties	2,752	4,164	10,274	4,273
Adjusted to Sheriff's Receipt	(1,671)	(29)	(27)	(23)
Gross Chargeable to Sheriff	<u>569,971</u>	<u>894,624</u>	<u>2,084,330</u>	<u>851,942</u>
 <u>Credits</u>				
Exonerations	2,370	3,473	8,883	2,807
Discounts	8,191	12,593	30,081	13,986
Delinquents:				
Real Estate	7,110	10,649	26,629	8,416
Tangible Personal Property	520	1,313	1,746	2,019
Franchise Taxes	635	1,271	2,077	
Total Credits	<u>18,826</u>	<u>29,299</u>	<u>69,416</u>	<u>27,228</u>
Taxes Collected	551,145	865,325	2,014,914	824,714
Less: Commissions *	<u>23,424</u>	<u>36,776</u>	<u>60,448</u>	<u>35,050</u>
Taxes Due	527,721	828,549	1,954,466	789,664
Taxes Paid	526,843	827,043	1,950,360	788,605
Refunds (Current and Prior Year)	<u>878</u>	<u>1,605</u>	<u>3,246</u>	<u>1,059</u>
Due District or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ (99)</u>	<u>\$ 860</u>	<u>\$ 0</u>

\*\*

\* and \*\* See next page.

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



CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES  
For The Period April 16, 2016 Through April 17, 2017  
(Continued)

\* Commissions:

4.25% on	\$	2,241,184
3% on	\$	2,014,914

\*\* Special Taxing Districts:

Library District	\$	(78)
Hospital District		<u>(21)</u>
(Refunds Due Sheriff)	\$	<u><u>(99)</u></u>

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

April 17, 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 Caldwell 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.

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 Caldwell County 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. As of April 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 17, 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 October 24, 2016 through April 17, 2017.

B. Oil Property Taxes

The oil 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 April 17, 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 April 17, 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 April 17, 2017.

Note 4. Interest Income

The Caldwell County Sheriff earned \$284 as interest income on 2016 taxes. As of April 17, 2017, the sheriff owed \$7 in interest to the school district and \$14 in interest to his fee account.

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

The Caldwell County Sheriff collected \$15,577 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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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*

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Ellen Dunning, Caldwell County Judge/Executive  
The Honorable Stan Hudson, Caldwell County Sheriff  
Members of the Caldwell 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 Caldwell County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 15, 2018. The Caldwell 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 Caldwell 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 Caldwell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Caldwell 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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 to be material weaknesses.



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 Caldwell 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-002 and 2016-003.

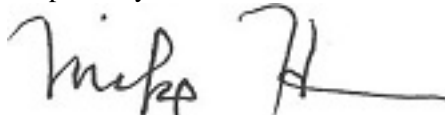
### **Views of Responsible Official and Planned Corrective Action**

The Caldwell 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 sheriff's 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

February 15, 2018



SCHEDULE OF FINDINGS AND RESPONSES

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CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

FINANCIAL STATEMENT FINDINGS:

2016-001 The Caldwell County Sheriff's Office Lacks Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2015-001. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts and disbursements ledgers, prepares monthly bank reconciliations, and prepares all monthly tax reports. According to the bookkeeper, the lack of segregation of duties is due to limited staff size. A lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies, such as the Department of Revenue. The segregation of duties or the implementation of compensating controls is essential for providing protections from 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 separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible, cross-checking procedures should be implemented and documented by the individual performing the procedure.

*Sheriff's Response: Caldwell County Sheriff's Office is a small agency, which results in limited personnel in the office. In the last year, we have implemented new policies to fulfill the requests made by the auditors, to the best of our abilities. In addition, by the time the audit was conducted, the collection period for the following year was already near completion. I feel my staff has done a fantastic job with the resources we have been allotted. Money and resources are directed to the many obligations of our Sheriff's Office and I don't feel I can decrease law enforcement and public safety assets. We will continue to do double and triple checks to ensure the accuracy of our records. I am proud of my employees who have handled the funds for the Sheriff's Office adequately.*

2016-002 The Caldwell County Sheriff Failed To Require Deposits To Be Made Intact And All Payments To Be Made By Check

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This is a repeat finding and was included in the prior year audit report as finding 2015-003. The sheriff's bookkeeper made refunds in cash. According to the bookkeeper, they were not aware they could not make cash refunds. As of March 2017, they have stopped the practice of making cash refunds. Deposits were shorted by the amount of the cash refund. Refunds of the overpayments were made in cash. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual* requires, "[d]aily deposits intact into a federally insured banking institution" and "[d]isbursements by check only." Additionally, good internal controls dictate these requirements are essential and provide protection against fraud and errors. We recommend the sheriff require all daily collections to be deposited intact and checks to be written for all disbursements.

*Sheriff's Response: The Caldwell County Sheriff's office will no longer make change for checks written for more than what is due. Due to the audit not ending until the end of the 2016 tax year, the office was unable to complete this task. Upon completion of the tax audit, the Sheriff's office has made many changes and request the tax payers that all checks be made in correct amount due, despite the inconvenience on the tax payers.*

CALDWELL COUNTY  
STAN HUDSON, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 16, 2016 Through April 17, 2017  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-003 The Caldwell County Sheriff Failed To Distribute Interest Monthly

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This is a repeat finding and was included in the prior year audit report as finding 2015-002. The sheriff failed to turn over interest payments on a monthly basis. The sheriff made three payments to the school board and three payments to the sheriff's fee account for interest earned on tax collections. According to the bookkeeper, interest checks were written when large amounts of interest were received. Because earnings were not paid to the school district or the fee account on a monthly basis, the school and fiscal court were denied access to proceeds of interest from tax collections. KRS 134.140(2) states in part, "[a]s part of the monthly distribution of taxes to a district board of education as required by KRS 134.191, the sheriff shall pay to the board of education that part of the investment earnings for the month which are attributable to the investment of school taxes[.]" We recommend the sheriff turn over all interest earnings to the school and sheriff's fee account as part of the monthly distribution of taxes to the districts.

*Sheriff's Response: The Caldwell County Sheriff's Office will include the interest on the monthly checks in the future. By the time of the audit was concluded, the collection period for the 2016 tax year was nearly completed.*