

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
January 1, 2015 Through April 15, 2015**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CAMPBELL COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
January 1, 2015 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Campbell County Sheriff for the period January 1, 2015 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2014 taxes of \$3,701,889 for the districts, retaining commissions of \$96,115 to operate the sheriff's office. The sheriff distributed 2014 taxes of \$3,665,101 to the districts. Refunds of \$91,873 are due to the sheriff from the taxing districts.

Report Comments:

- 2014-001 The Sheriff Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight
- 2014-002 The Sheriff Did Not Report Penalties Correctly On The Monthly Reports And Did Not Close Out The Account
- 2014-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Steve Pendery, Campbell County Judge/Executive
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Campbell County Sheriff's Settlement - 2014 Taxes for the period January 1, 2015 through April 15, 2015 - 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.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
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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 Campbell County Sheriff on the basis of the 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 Campbell County Sheriff, for the period January 1, 2015 through April 15, 2015.

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 January 1, 2015 through April 15, 2015 of the Campbell 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 December 9, 2016, on our consideration of the Campbell 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 effectiveness of the Campbell County Sheriff's 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 Campbell County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Steve Pendery, Campbell County Judge/Executive
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell County Fiscal Court

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

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Sheriff Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight
- 2014-002 The Sheriff Did Not Report Penalties Correctly On The Monthly Reports And Did Not Close Out The Account
- 2014-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

December 9, 2016

CAMPBELL COUNTY
MIKE JANSEN, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period January 1, 2015 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff:				
Real Estate	\$ 428,265	\$ 553,040	\$ 1,172,832	\$ 339,275
Tangible Personal Property	19,816	16,693	19,567	32,658
911 Fees	213,014			
Increases Through Exonerations	125	189	495	99
Franchise Taxes	321,816	321,814	680,337	
Penalties	47,136	52,677	110,609	20,129
Gross Chargeable to Sheriff	<u>1,030,172</u>	<u>944,413</u>	<u>1,983,840</u>	<u>392,161</u>
<u>Credits</u>				
Exonerations	790	1,250	3,954	626
Discounts	35	53	141	28
Delinquents:				
Real Estate	89,541	101,504	251,592	70,935
Tangible Personal Property	2,194	1,865	1,918	3,058
911 Fees Not Collected By Sheriff	108,400			
Uncollected Franchise Taxes	2,309	2,872	5,632	
Total Credits	<u>203,269</u>	<u>107,544</u>	<u>263,237</u>	<u>74,647</u>
Taxes Collected	826,903	836,869	1,720,603	317,514
Less: Commissions *	29,285	27,527	25,809	13,494
Taxes Due	797,618	809,342	1,694,794	304,020
Taxes Paid	814,310	824,865	1,725,510	300,416
Refunds (Current and Prior Year)	4,483	7,433	17,026	3,604
Refunds Due Sheriff				
as of Completion of Audit	<u>\$ (21,175)</u>	<u>\$ (22,956)</u>	<u>\$ (47,742)</u>	<u>\$ 0</u>

**

* and ** See next page.

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

CAMPBELL COUNTY
MIKE JANSEN, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period January 1, 2015 Through April 15, 2015
(Continued)

* Commissions:

4.25% on	\$ 1,520,885
1.5% on	1,933,617
1% on	247,386

** School Districts

Common School	\$ (31,864)
Bellevue School	(6,963)
Dayton School	(7,642)
Silver Grove School	<u>(1,273)</u>
(Refunds Due Sheriff)	<u>\$ (47,742)</u>

*** Special Taxing Districts:

Library District	\$ (10,656)
Health District	(2,775)
Extension District	(5,218)
Soil	(198)
Fire #1	(667)
Central Fire	(1,085)
Southern Campbell Fire	(23)
Alexandria Fire	(2,308)
Fire #6	<u>(26)</u>
(Refunds Due Sheriff)	<u>\$ (22,956)</u>

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

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 Campbell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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 Campbell 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 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CAMPBELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 APRIL 15, 2015
 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 8, 2015 through April 15, 2015.

Note 4. Interest Income

The Campbell County Sheriff earned \$104 as interest income on 2014 taxes. The sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office.

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

The Campbell County Sheriff collected \$100,445 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of December 9, 2016, the sheriff owed \$92,747 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

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

2008	\$298
2009	\$662
2010	\$5,880

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

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Pendery, Campbell County Judge/Executive
Honorable Mike Jansen, Campbell County Sheriff
Members of the Campbell 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 Campbell County Sheriff's Settlement - 2014 Taxes for the period January 1, 2015 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 9, 2016. The Campbell 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 Campbell 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 Campbell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Campbell County Sheriff's internal control over financial reporting.

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 comments and recommendations as items 2014-001, 2014-002, and 2014-003 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 Campbell 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sheriff's Response to Findings

The Campbell County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. 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

December 9, 2016

COMMENTS AND RECOMMENDATIONS

CAMPBELL COUNTY
MIKE JANSEN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2015 Through April 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-001 The Sheriff Lacked Controls Over The 911 Service Fee And Did Not Provide Adequate Oversight

The 911 service fee originated with the passing of county ordinance O-04-13 for the purpose of providing additional funding for the operation of enhanced 911 emergency services. These 911 service fees were included on the Campbell County property tax bills, to be collected by the sheriff and disbursed to the Campbell County Consolidated Dispatch Board.

The 911 service fee was not included on the sheriff's official receipt or the 2014 tax settlement. This resulted in a material adjustment to the sheriff's 2014 tax settlement.

The sheriff's tax software did not maintain documentation for paid and unpaid 911 service fees. The finance officer would print a report showing the amount of 911 fees to be collected before tax collections began, and then had to keep a separate ledger on a daily basis to account for the 911 fees actually collected.

We recommend the sheriff immediately implement controls over the handling of the 911 service fee. We further recommend the following:

- The sheriff should include all taxes and fees charged on the tax bills on the settlement.
- The sheriff/fiscal court should implement software adjustments to be able to provide all information related to the 911 service fee.

Additionally, we recommend the sheriff implement controls and procedures for handling of the 911 service fee when it comes to documenting charges, credits, collected, and distributed.

Sheriff's Response: Has been addressed and corrected with the implementation of a new property tax collection software system.

2014-002 The Sheriff Did Not Report Penalties Correctly On The Monthly Reports And Did Not Close Out The Account

The sheriff reported penalties collected as part of the franchise tax collected instead of separately as its own line item. A tax bill that was paid late had approximately \$94,286 worth of penalty and interest. Total collection for this tax bill was posted as franchises on the sheriff's monthly reports and the settlement.

Because all amounts were posted under franchise, the entire amount was distributed to the districts, even though the sheriff's add on fees should have gone to the sheriff's fee account. This resulted in large refunds due from the various districts to the sheriff. Department of Revenue requires the sheriff to maintain correct monthly reports and settlement amounts.

CAMPBELL COUNTY
 MIKE JANSEN, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period January 1, 2015 Through April 15, 2015
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2014-002 The Sheriff Did Not Report Penalties Correctly On The Monthly Reports And Did Not Close Out The Account (Continued)

We recommend the sheriff include penalties as a separate line item on the monthly reports and close out the 2014 tax account by collecting the following amounts:

Fiscal Court	\$ 24,156	Extension Service	\$ 5,218
Common School	29,711	Soil Conservation	198
Bellevue School	6,962	Fire #1	667
Dayton School	7,688	Central Fire	1,085
Silver Grove School	1,273	Southern Campbell Fire	23
Library	10,656	Alexandria Fire	2,308
Health	2,775	Fire #6	27

Once all receivables have been collected, the sheriff should remit a \$2,126 refund due to a taxpayer and \$92,747 due to the sheriff's fee account.

Sheriff's Response: Will be billed/collected during the 2016 Property Tax Collection.

2014-003 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts And Disbursements

The sheriff's office lacks adequate segregation of duties over tax receipts and disbursements. The employee responsible for handling tax receipts also records the receipts in the ledger, prepares the bank deposit, and performs the monthly bank reconciliation. In addition, the employee prepares the disbursement checks and is an authorized signer on checks.

By the same employee performing these functions, the risk that undetected errors or fraud may occur increases. Segregating duties over tax receipts and disbursements is essential for providing protection from misappropriation of assets and inaccurate financial reporting. Additionally, segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate duties over tax receipts and disbursement. If not feasible due to a limited staff, the following compensating controls should be implemented to offset this internal control weakness:

- The sheriff should periodically compare a daily bank deposit to the daily checkout sheet and compare the daily checkout sheet to the receipts ledger. Any difference should be reconciled. The sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and the receipts ledger.
- The sheriff should periodically perform surprise cash counts and recount cash. The sheriff should document this by initialing the bank deposit ticket.
- The sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any difference should be reconciled. The sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Has been addressed/corrected by the Sheriff now performing periodic audits of the daily bank deposits/checkout sheets and all bank reconciliations.

