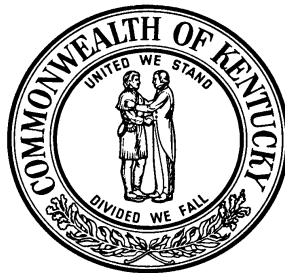


**REPORT OF THE AUDIT OF THE  
CUMBERLAND COUNTY  
SHERIFF'S SETTLEMENT - 2017 TAXES**

**For The Period  
April 18, 2017 Through April 16, 2018**



**MIKE HARMON  
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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 John A. Phelps, Cumberland County Judge/Executive

The Honorable Scot Daniels, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Cumberland County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - 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

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John A. Phelps, Cumberland County Judge/Executive

The Honorable Scot Daniels, Cumberland County Sheriff

Members of the Cumberland County Fiscal Court

### **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 Cumberland 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 Cumberland County Sheriff, for the period April 18, 2017 through April 16, 2018.

### **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 18, 2017 through April 16, 2018 of the Cumberland 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 29, 2019, on our consideration of the Cumberland 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 Cumberland 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 John A. Phelps, Cumberland County Judge/Executive

The Honorable Scot Daniels, Cumberland County Sheriff

Members of the Cumberland 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:

- 2017-001 The Cumberland County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2017-002 The Cumberland County Sheriff's Office Did Not Deposit Receipts Of The Office Intact Daily

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 29, 2019

CUMBERLAND COUNTY  
SCOT DANIELS, SHERIFF  
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through April 16, 2018

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 127,433	\$ 748,826	\$ 1,175,218	\$ 345,486
Tangible Personal Property	7,659	47,489	70,635	37,700
Fire Protection	3,314			
Increases Through Exonerations	17	99	156	46
Franchise Taxes	11,607	71,326	106,396	
Additional Billings	65	391	598	102
Oil Property Taxes	929	5,457	8,565	2,518
Limestone, Sand, and Gravel Reserves	13	78	122	36
Penalties	719	4,142	6,487	2,029
Adjusted to Sheriff's Receipt	(3)	4	(351)	(5)
Gross Chargeable to Sheriff	<u>151,753</u>	<u>877,812</u>	<u>1,367,826</u>	<u>387,912</u>
<u>Credits</u>				
Exonerations	420	2,462	3,863	1,126
Discounts	2,393	13,827	21,615	6,365
Delinquents:				
Real Estate	2,381	13,701	21,502	6,321
Tangible Personal Property	3	19	29	31
Oil	158	929	1,457	428
Uncollected Franchise Taxes	90	559	832	
Total Credits	<u>5,445</u>	<u>31,497</u>	<u>49,298</u>	<u>14,271</u>
Taxes Collected	146,308	846,315	1,318,528	373,641
Less: Commissions *	6,218	35,476	52,741	15,880
Taxes Due	140,090	810,839	1,265,787	357,761
Taxes Paid	140,155	811,204	1,266,327	357,717
Refunds (Current and Prior Year)	16	94	145	44
(Refunds Due Sheriff) as of Completion of Audit	<u>\$ (81)</u>	<u>\$ (459)</u>	<u>\$ (685)</u>	<u>\$ 0</u>

\*\*

\* and \*\* See next page.

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



CUMBERLAND COUNTY  
SCOT DANIELS, SHERIFF  
SHERIFF'S SETTLEMENT - 2017 TAXES  
For The Period April 18, 2017 Through April 16, 2018  
(Continued)

\* Commissions:

4.25% on	\$	1,169,216
4% on	\$	1,515,576

\*\* Special Taxing Districts:

Library District	\$	(140)
Health District		(62)
Extension District		(154)
Ambulance		<u>(103)</u>
(Refunds Due Sheriff)	\$	<u><u>(459)</u></u>

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT

April 16, 2018

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 Cumberland 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 Cumberland 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 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 16, 2018  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. 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 19, 2017 through April 16, 2018.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2017. 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 13, 2017 through May 15, 2018.

C. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2017. 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 13, 2017 through May 15, 2018.

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 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Cumberland County Sheriff earned \$1,042 as interest income on 2017 taxes. As of May 29, 2019, the sheriff owed \$42 in interest to the school district and \$36 in interest to his fee account.

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

The Cumberland County Sheriff collected \$10,448 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 John A. Phelps, Cumberland County Judge/Executive  
The Honorable Scot Daniels, Cumberland County Sheriff  
Members of the Cumberland 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 Cumberland County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 29, 2019. The Cumberland 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 Cumberland 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 Cumberland County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cumberland 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 and another deficiency that we consider to be a significant deficiency.

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 2017-001 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)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-002 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Cumberland 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*.

**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 29, 2019



## SCHEDULE OF FINDINGS AND RESPONSES

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CUMBERLAND COUNTY  
SCOT DANIELS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 18, 2017 Through April 16, 2018

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The Cumberland County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

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This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff's office lacks segregation of duties over receipts and disbursements. The sheriff's bookkeeper opens the mail, collects payments from customers, and prepares daily collection reports, deposits, and monthly tax reports. Upon completion of the monthly reports, the bookkeeper prepares and signs the checks and performs the monthly bank reconciliations. The bookkeeper also has administrative rights to the tax program used to collect taxes. In addition, all employees use the same cash drawer for collections.

The lack of segregation of duties occurs because the sheriff has failed to segregate incompatible duties. According to the sheriff, this condition is a result of a limited budget, which restricts the number of employees the sheriff can hire or delegate duties to.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts. Inadequate oversight led to inaccurate financial reporting when the sheriff had to amend the 2017 tax settlement to the fiscal court on July 31, 2018, after discovering a material misstatement on the original June 12, 2018 settlement. Adequate segregation of duties would prevent the same person from having a significant role in the processing and recording of receipts and disbursements. The sheriff should implement oversight when duties cannot be segregated.

We recommend the sheriff segregate duties over accounting functions. If segregation of duties is not feasible due to lack of staff, we recommend the sheriff implement compensating controls to offset this control deficiency. The sheriff has implemented some compensating controls; however, they are not sufficient to mitigate the lack of segregation of duties.

*Sheriff's Response: The sheriff did not provide a response.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-002 The Cumberland County Sheriff's Office Did Not Deposit Receipts Of The Office Intact Daily

---

Deposits are not made intact daily. Overpayments made by checks were issued by cash or withheld from the daily deposits. During the week of November 5 to November 11, overages from checks received from taxpayers totaling \$5 were either refunded by cash, or were withheld from the daily deposit and retained in the office. The sheriff's staff does not document the overpayments kept, including their final disposition.

These deficiencies in internal control over the deposit and refund process were allowed to occur because proper controls and oversight over the deposit and refund process were not put in place by the sheriff. According to the sheriff, small overpayments are sometimes kept under the cash drawer because the taxpayers tell the staff to keep the excess, or the excess is insignificant enough to not warrant a check for overpayment. Failure to deposit taxes collected intact, including depositing overpayments, delaying depositing taxes collected, or refunding overpayments of checks by cash increases the risk of fraud and misappropriation of cash.

CUMBERLAND COUNTY  
SCOT DANIELS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 18, 2017 Through April 16, 2018  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2017-002 The Cumberland County Sheriff's Office Did Not Deposit Receipts Of The Office Intact Daily  
(Continued)

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Proper internal controls over the deposit and refund process are important to ensure deposits are made intact daily and overpayments are properly refunded. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual*. The manual requires daily deposits intact into a federally insured banking institution and disbursements by check only.

The sheriff should implement controls and provide appropriate oversight over the deposit and refund process in his office to assure all deposits are made intact daily to the proper account and refunds of overpayments are properly documented. We recommend deposits be made intact daily to the correct bank account and reconciled to the daily tax collection report total. Any differences should be explained. Review of the deposits or reconciliations should be documented. In addition, we recommend overpayments by check be refunded by check to properly document that the overpayment has been refunded.

*Sheriff's Response: The sheriff did not provide a response.*