

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

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



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
SHERIFF’S SETTLEMENT - 2016 TAXES .....	4
NOTES TO FINANCIAL STATEMENT .....	6
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	11
SCHEDULE OF FINDINGS AND RESPONSES .....	15

THIS PAGE LEFT BLANK INTENTIONALLY



**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 Kevin Henderson, Grayson County Judge/Executive

The Honorable Norman Chaffins, Grayson County Sheriff

Members of the Grayson County Fiscal Court

**Independent Auditor's Report**

**Report on the Financial Statement**

We have audited the Grayson 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.



To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Kevin Henderson, Grayson County Judge/Executive

The Honorable Norman Chaffins, Grayson County Sheriff

Members of the Grayson 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 Grayson 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 Grayson 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 Grayson 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 4, 2017, on our consideration of the Grayson 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 Grayson 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 Kevin Henderson, Grayson County Judge/Executive

The Honorable Norman Chaffins, Grayson County Sheriff

Members of the Grayson 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 Grayson County Sheriff Lacks Segregation Of Duties

2016-002 The Grayson County Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over The Fire Dues "Opt-Out" Process

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

December 4, 2017

GRAYSON COUNTY  
NORMAN CHAFFINS, 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	\$ 729,681	\$ 2,863,317	\$ 5,308,694	\$ 1,292,801
Tangible Personal Property	63,421	310,363	401,159	311,898
Fire Protection	2,533			
Franchise Taxes	53,233	214,128	335,125	
Additional Billings	309	1,069	2,226	541
Oil and Gas Property Taxes	155	459	1,128	274
Limestone, Sand, and Gravel	444	1,316	3,232	785
Bank Franchises	97,097			
Penalties	5,692	17,860	39,352	8,326
Adjusted to Sheriff's Receipt	(49)	(130)	(298)	(169)
Gross Chargeable to Sheriff	<u>952,516</u>	<u>3,408,382</u>	<u>6,090,618</u>	<u>1,614,456</u>
 <u>Credits</u>				
Exonerations	3,329	149,636	23,887	5,664
Discounts	15,305	42,631	95,745	26,874
Delinquents:				
Real Estate	15,099	73,217	109,637	26,645
Tangible Personal Property	394	1,708	2,505	809
Limestone, Sand, and Gravel	76	225	553	134
Franchise Taxes - Uncollected	<u>2,294</u>	<u>9,115</u>	<u>14,117</u>	
Total Credits	<u>36,497</u>	<u>276,532</u>	<u>246,444</u>	<u>60,126</u>
Taxes Collected	916,019	3,131,850	5,844,174	1,554,330
Less: Commissions *	<u>38,931</u>	<u>116,960</u>	<u>233,767</u>	<u>66,059</u>
Taxes Due	877,088	3,014,890	5,610,407	1,488,271
Taxes Paid	875,740	3,010,391	5,599,536	1,482,696
Refunds (Current and Prior Year)	<u>1,126</u>	<u>3,269</u>	<u>8,146</u>	<u>4,484</u>
Due Districts				
as of Completion of Audit	<u>\$ 222</u>	<u>\$ 1,230</u>	<u>\$ 2,725</u>	<u>\$ 1,091</u>
		**		

\* and \*\* See next page.

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



GRAYSON COUNTY  
 NORMAN CHAFFINS, SHERIFF  
 SHERIFF'S SETTLEMENT - 2016 TAXES  
 For The Period April 16, 2016 Through April 17, 2017  
 (Continued)

\* Commissions:

4.25% on	\$	5,105,480
4% on	\$	5,844,174
1% on	\$	496,719

\*\* Special Taxing Districts:

Library District	\$	502
Health District		128
Extension District		230
Hospital District		254
Caney Creek Watershed		(5)
Wax Fire Department		1
Leitchfield Fire Department		40
East Fire Department		40
Caneyville Fire Department		40
		<hr/>
Due Districts or (Refunds Due Sheriff)	\$	<u>1,230</u>

GRAYSON 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 Grayson 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 Grayson 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.

GRAYSON 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 16, 2016 through April 17, 2017.

B. Oil and Gas Property Taxes

The oil and gas 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 May 15, 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 May 15, 2017.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2016 through April 30, 2017.

Note 4. Interest Income

The Grayson County Sheriff earned \$350 as interest income on 2016 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Grayson County Sheriff collected \$52,510 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of December 4, 2017, the sheriff owed \$29 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 interest-bearing accounts. The sheriff's escrowed amounts were as follows:

2014	\$769
2015	\$332

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.

THIS PAGE LEFT BLANK INTENTIONALLY

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*

THIS PAGE LEFT BLANK INTENTIONALLY



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

The Honorable Kevin Henderson, Grayson County Judge/Executive  
The Honorable Norman Chaffins, Grayson County Sheriff  
Members of the Grayson 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 Grayson 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 December 4, 2017. The Grayson 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 Grayson 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 Grayson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grayson 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 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 Grayson 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 2016-002.

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

The Grayson 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 Grayson County 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 4, 2017



SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

GRAYSON COUNTY  
NORMAN CHAFFINS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

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

FINANCIAL STATEMENT FINDINGS:

2016-001 The Grayson County Sheriff Lacks Segregation Of Duties

---

This is a repeat finding and was included in the prior year audit report as finding 2015-001. In the current audit period, the Grayson County Sheriff's bookkeeper performs numerous duties dealing with tax receipts, disbursements, and reconciliations. The bookkeeper is responsible for the collection of cash, preparation of the daily deposits, and daily tax collection journal. She is also responsible for the preparation of monthly reports, distribution of tax payments, and the reconciliation of all bank statements. The sheriff has attempted to implement compensating controls; however, the individuals performing the compensating controls failed to properly document their oversight.

The sheriff indicated the lack of segregation of duties existed over tax settlement functions of the sheriff's office because a limited number of employees were available to properly segregate these job duties. A lack of segregation of duties could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

A segregation of duties over tax settlement receipts and disbursements activities and reconciliations or implementation of compensating controls, when needed because of limited staff, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff properly segregate the duties over tax settlement functions in order to help prevent misappropriation of assets, inaccurate financial reporting, and to adequately protect employees in the normal course of performing their daily responsibilities. If these duties cannot be separated, strong documented oversight over these areas should be provided.

*Sheriff's Response: Sheriff Norman Chaffins will continue to try to segregate duties.*

2016-002 The Grayson County Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over The Fire Dues "Opt-Out" Process

---

This is a repeat finding and was included in the prior year audit report as finding 2015-002. According to Grayson County Fiscal Court Ordinance 310.01, taxpayers can choose not to pay fire dues subscriber fees (fire dues) by completing a form to "Opt-Out" of Grayson County fire department membership charges/subscriber fees and providing the completed form to the sheriff when they pay their tax bill each year. The form should be completed and maintained on file by the sheriff to document the fire dues that were removed from tax bills. For the 2016 tax collection period, the sheriff included \$139,240 on his settlement as fire dues that were removed at the request of the taxpayer. There should have been approximately 3,480 forms on file for the fire dues removed.

According to the bookkeeper if a tax bill is mailed in and the amount paid is short by \$40, they assumed the taxpayer was "opting out" and they would complete a form and write "mailed" in place of the taxpayer's signature. She also told auditors that they had difficulty obtaining forms for all fire dues opted-out during the office busy periods, therefore making it highly likely that they did not have a form to support all fire dues not collected. The sheriff did not implement policies and procedures or internal controls over the fire dues "opt-out" process leaving a significant amount of transactions susceptible to fraud or material errors. This lack of internal controls leaves \$139,240 at increased risk of fraud or material error.

GRAYSON COUNTY  
NORMAN CHAFFINS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Period April 16, 2016 Through April 17, 2017  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2016-002 The Grayson County Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over The Fire Dues “Opt-Out” Process (Continued)

---

Good internal controls require clear policies and procedures to address the process and documentation of removing “opted-out” fire dues from a tax bill. Additionally, Grayson County Ordinance 310.01 states “In order to delete any parcel(s) or property from subscriber fees, the owner may choose to opt out of the membership by completing the attached form. This form must be filled out at the time of payment of taxes at the Sheriff’s office.”

We recommend the sheriff implement sufficient internal controls to ensure accurate processing of fire dues “opt-outs.” The sheriff should develop standardized policies and procedures for staff to follow, including:

- Maintaining properly completed “opt-out” forms for each taxpayer,
- Documenting the forms in an orderly, consistent manner to provide an audit trail,
- Limiting the ability to adjust tax bills for the “opt-out” to designated personnel, and
- Periodic reviewing or spot-checking of “opt-out” credits against the “opt-out” forms.

*Sheriff’s Response: Sheriff Norman Chaffins plans to develop procedures for staff to follow including: receiving signed “opt-out” forms from each taxpayer.*