

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

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



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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 Logan Brent, Henry County Judge/Executive  
The Honorable Danny Cravens, Former Henry County Sheriff  
The Honorable Keith Perry, Henry County Sheriff  
Members of the Henry County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the former Henry 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.



To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
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Members of the Henry County Fiscal Court

### **Auditor's Responsibility (Continued)**

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

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

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

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

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the former Henry 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 former Henry 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 16, 2019, on our consideration of the former Henry County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Henry 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 Logan Brent, Henry County Judge/Executive

The Honorable Danny Cravens, Former Henry County Sheriff

The Honorable Keith Perry, Henry County Sheriff

Members of the Henry 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 comment:

2017-001 The Former Sheriff Failed To Have A Written Agreement In Place To Ensure Deposits Were Sufficiently Collateralized

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 16, 2019

HENRY COUNTY  
DANNY CRAVENS, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2017 TAXES

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

| <u>Charges</u>                                     | County Taxes   | Special<br>Taxing Districts | School Taxes     | State Taxes      |
|--|----------------|-----------------------------|------------------|------------------|
| Real Estate  | \$ 833,690     | \$ 1,632,567                | \$ 5,389,257     | \$ 869,318       |
| Tangible Personal Property                         | 57,080         | 113,573                     | 275,621          | 149,990          |
| Fire Protection                                    | 747            |                             |                  |                  |
| Increases Through Exonerations                     | 87             | 143                         | 579              | 91               |
| Franchise Taxes                                    | 85,974         | 135,305                     | 415,526          |                  |
| Additional Billings                                | 196            | 379                         | 1,153            | 195              |
| Limestone, Sand,<br>and Mineral Reserves           | 477            | 788                         | 3,032            | 498              |
| Penalties  | 3,501          | 7,428                       | 22,501           | 3,820            |
| Adjusted to Sheriff's Receipt                      | (517)          | 10                          | 4                | (533)            |
| <b>Gross Chargeable to Sheriff</b>                 | <b>981,235</b> | <b>1,890,193</b>            | <b>6,107,673</b> | <b>1,023,379</b> |
| <br><u>Credits</u>                                 |                |                             |                  |                  |
| Exonerations                                       | 3,744          | 6,258                       | 21,605           | 2,996            |
| Discounts  | 14,519         | 28,120                      | 92,381           | 16,562           |
| Delinquents:                                       |                |                             |                  |                  |
| Real Estate  | 11,637         | 26,257                      | 74,651           | 12,130           |
| Tangible Personal Property                         | 52             | 81                          | 242              | 120              |
| Franchise Taxes                                    | 133            | 207                         | 601              |                  |
| <b>Total Credits</b>                               | <b>30,085</b>  | <b>60,923</b>               | <b>189,480</b>   | <b>31,808</b>    |
| Taxes Collected                                    | 951,150        | 1,829,270                   | 5,918,193        | 991,571          |
| Less: Commissions *                                | 40,424         | 71,100                      | 177,546          | 42,142           |
| Taxes Due  | 910,726        | 1,758,170                   | 5,740,647        | 949,429          |
| Taxes Paid   | 910,392        | 1,757,608                   | 5,738,481        | 948,858          |
| Refunds (Current and Prior Year)                   | 345            | 579                         | 2,217            | 581              |
| (Refunds Due Sheriff)<br>as of Completion of Audit | \$ (11)        | \$ (17)                     | \$ (51)          | \$ (10)          |

\*\*

\* and \*\* See next page.

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



HENRY COUNTY  
DANNY CRAVENS, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2017 TAXES  
For The Period April 18, 2017 Through April 16, 2018  
(Continued)

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 4.25% on | \$ | 3,567,563 |
| 3% on    | \$ | 5,918,193 |
| 1% on    | \$ | 204,428   |

\*\* Special Taxing Districts:

|                       |    |             |
|-----------------------|----|-------------|
| Library District      | \$ | (9)         |
| Health District       |    | (3)         |
| Extension District    |    | <u>(5)</u>  |
| (Refunds Due Sheriff) | \$ | <u>(17)</u> |

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

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The former sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. On October 31, 2017 and April 16, 2018, the former sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured on October 31, 2017                      \$5,908,751
- Uncollateralized and Uninsured on April 16, 2018                      \$11,971

HENRY 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 September 27, 2017 through April 16, 2018.

B. Limestone, Sand, and Gravel Reserves

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 13, 2017 through April 16, 2018.

C. 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. Sheriff's 10% Add-On Fee

The former Henry County Sheriff collected \$32,079 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

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

|      |         |
|------|---------|
| 2014 | \$4,069 |
| 2015 | \$403   |

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

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

The Honorable John Logan Brent, Henry County Judge/Executive  
The Honorable Danny Cravens, Former Henry County Sheriff  
The Honorable Keith Perry, Henry County Sheriff  
Members of the Henry County Fiscal Court

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

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Henry 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 16, 2019. The former Henry County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the former Henry 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 2017-001.

**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 16, 2019



## SCHEDULE OF FINDINGS AND RESPONSES

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HENRY COUNTY  
DANNY CRAVENS, FORMER SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

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

STATE LAWS AND REGULATIONS:

2017-001 The Former Sheriff Failed To Have A Written Agreement In Place To Ensure Deposits Were Sufficiently Collateralized

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The former sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The former sheriff failed to have a written security agreement in place to pledge or provide sufficient collateral. On October 31, 2017 and April 16, 2018, the former sheriff's deposits of public funds were uninsured and unsecured in the amount of \$5,908,751 and \$11,971, respectively. The former sheriff was not in compliance with KRS requirements on having a written security agreement in place to pledge or provide sufficient collateral. The former sheriff's deposits would have been at risk on October 31, 2017 and April 16, 2018 should the financial institution have failed.

According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC).

We recommend the sheriff's office require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the sheriff's office enter into a written agreement with the depository institution to secure the sheriff's office interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be "(A) is in writing, (B) was executed by the depository institution and any person claiming an adverse interest thereunder, including the obligor, contemporaneously with the acquisition of the asset by the depository institution, (C) was approved by the board of directors of the depository institution or its loan committee, which approval shall be reflected in the minutes of said board or committee, and (D) has been, continuously, from the time of its execution, an official record of the depository institution."

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