

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period
April 16, 2019 Through May 15, 2020**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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 - 2019 TAXES 3

NOTES TO FINANCIAL STATEMENT 5

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* 11

SCHEDULE OF FINDINGS AND RESPONSES 15

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable David Westerfield, Laurel County Judge/Executive

The Honorable John Root, Laurel County Sheriff

Members of the Laurel County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Laurel County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - 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 Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel 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 Laurel County Sheriff, for the period April 16, 2019 through May 15, 2020.

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, 2019 through May 15, 2020 of the Laurel County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2021, on our consideration of the Laurel 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 Laurel County Sheriff’s internal control over financial reporting and compliance.

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:

2019-001 The Laurel County Sheriff’s 2019 Tax Settlement Was Materially Misstated

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 3, 2021

LAUREL COUNTY
JOHN ROOT, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 1,512,392	\$ 4,177,948	\$ 12,365,464	\$ 3,081,748
Tangible	207,671	855,395	1,706,301	1,323,605
Fire Protection	1,629			
Total Per Sheriff's Official Receipt	1,721,692	5,033,343	14,071,765	4,405,353
<u>Other Taxes & Charges</u>				
Court Ordered Increases - Real Estate	745	2,030	6,090	1,516
Court Ordered Increases - Tangible	43	164	349	585
Franchise Taxes	83,588	303,792	683,355	
Additional Billings	1,563	4,213	12,768	3,184
Prior Year Additional Billings	650	1,714	5,276	1,427
Unmined Coal - 2019 Taxes	1	4	13	3
Transient Tax	510,258			
Gas Property Taxes	60	161	490	122
Penalties	8,051	22,640	65,751	16,940
Gross Chargeable to Sheriff	2,326,651	5,368,061	14,845,857	4,429,130
<u>Credits</u>				
Exonerations - Real Estate	7,818	21,717	63,792	15,977
Exonerations - Tangible	71	249	578	8,043
Exonerations - Prior Year Additional Billings	53	140	430	
Discounts	28,128	83,020	230,078	71,150
Delinquent Real Estate	42,207	115,921	344,758	85,871
Delinquent Tangible	4,230	16,319	34,544	21,647
Delinquent Prior Year Additional Bills	68	181	561	
Delinquent Gas	1	3	10	3
Total Credits	82,576	237,550	674,751	202,691
Taxes Collected	2,244,075	5,130,511	14,171,106	4,226,439
Less: Sheriff's Commissions*	95,389	214,799	328,405	179,624
Taxes Due Districts	2,148,686	4,915,712	13,842,701	4,046,815
Taxes Paid	2,141,725	4,892,405	13,792,683	4,035,313
Refunds (Current and Prior Year)	7,218	23,475	58,816	11,493
Taxes Due Districts (Refunds Due Sheriff)	\$ (257)	\$ (168)	\$ (8,798)	\$ 9

*, **, and *** See next page.

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

LAUREL COUNTY
 JOHN ROOT, SHERIFF
 SHERIFF'S SETTLEMENT - 2019 TAXES
 For The Period April 16, 2019 Through May 15, 2020
 (Continued)

* Commissions:

4.25% on	\$	11,499,513
2.5% on	\$	408,074
2.328% on	\$	13,102,337
1.969% on	\$	660,695
1% on	\$	101,512

** Special Taxing Districts:

Library District	\$	(173)
Health District		50
Extension District		20
Bush Fire District		(65)
		<u>(65)</u>

Due Districts (Refunds Due Sheriff) \$ (168)

*** School Taxing Districts:

Common School District	\$	(8,882)
East Bernstadt Independent School District		84
		<u>84</u>

Due Districts (Refund Due Sheriff) \$ (8,798)

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2020

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).

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Laurel County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 fiscal court 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 met.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(Continued)

Note 2. Deposits (Continued)

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 Laurel County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of May 15, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2019. Property taxes were billed to finance governmental services for the tax period ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2019 through May 15, 2020.

B. Gas Property Taxes

The gas property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2020 through June 15, 2020.

C. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2020 through June 15, 2020.

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, 2019 through May 30, 2020.

E. Transient Tax

In September 1979, the Laurel County Fiscal Court passed an ordinance establishing the London-Laurel County Tourist and Convention Commission and levying a 3 percent transient room tax. In the ordinance, the Laurel County Sheriff was designated as the collector of the tax. From May 2019 through May 2020, the sheriff's office collected \$510,258 of transient room tax receipts. In accordance with the ordinance, the sheriff's office disbursed \$488,572 to the Laurel County Fiscal Court, who in turn remitted the tax to the London-Laurel County Tourist and Convention Commission. The sheriff's office retained \$21,686 as his collection fee and used these fees for the operation of the office. The transient tax is reported on a monthly basis and the collection period for these amounts was May 1, 2019 through May 31, 2020.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(Continued)

Note 4. Interest Income

The Laurel County Sheriff earned \$4,537 as interest income on 2019 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Laurel County Sheriff collected \$94,699 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. The sheriff was in substantial compliance with his statutory responsibilities.

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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 David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 3, 2021. The Laurel 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 Laurel 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 Laurel County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laurel 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.

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 2019-001 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement is free from 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

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,

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

February 3, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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LAUREL COUNTY
JOHN ROOT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through May 15, 2020

FINANCIAL STATEMENT FINDING:

2019-001 The Laurel County Sheriff's 2019 Tax Settlement Was Materially Misstated

The Laurel County Sheriff's 2019 tax settlement was materially misstated due to not including \$510,258 of motel tax collected, \$21,686 of sheriff commissions, and \$488,572 of taxes paid to the fiscal court on the final settlement. The sheriff maintains a motel tax bank account separate from regular property taxes. In prior years, motel tax collections were reported with the sheriff's fee account financial statement; however, it was recommended that motel tax collections be reported with the sheriff's 2018 tax settlement and for subsequent years.

During tax year 2019, a new tax bookkeeper was hired and left employment with the office prior to the settlement being complete. These factors led to the oversight of motel tax collections not being included on the sheriff's 2019 tax settlement. The sheriff's tax settlement was not an accurate representation of the actual financial activity of the office for the 2019 tax year.

KRS 134.192(11) states, "[i]n counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his or her settlement: (a) A complete statement of all funds received by his or her office for official services, showing separately the total income received by his or her office for services rendered, exclusive of his or her commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and (b) A complete statement of all expenditures of his or her office, including his or her salary, compensation of deputies and assistants, and reasonable expenses." Good internal controls dictate strong oversight over the preparation of the sheriff's tax settlement to ensure all tax collections are included on the settlement.

We recommend the Laurel County Sheriff strengthen internal controls over the settlement and report preparation process and comply with KRS 134.192(11) and ensure motel tax collections, commissions, and taxes paid are included on future settlements.

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