

**REPORT OF THE AUDIT OF THE
FORMER LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2017 GAS AND OIL TAXES**

**For The Period
May 16, 2017 Through May 15, 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 Phillip L. Carter, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Former Lawrence County Sheriff
The Honorable Chuck Jackson, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Lawrence County Sheriff's Settlement - 2017 Gas and Oil Taxes for the period May 16, 2017 through May 15, 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.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky

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William M. Landrum III, Secretary

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Members of the Lawrence 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 former Lawrence 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 Lawrence County Sheriff, for the period May 16, 2017 through May 15, 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 May 16, 2017 through May 15, 2018 of the former Lawrence 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 June 12, 2019, on our consideration of the former Lawrence 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 Lawrence 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 Phillip L. Carter, Lawrence County Judge/Executive

The Honorable Garrett Roberts, Former Lawrence County Sheriff

The Honorable Chuck Jackson, Lawrence County Sheriff

Members of the Lawrence 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 Former Sheriff's Office Did Not Make Deposits Timely
- 2017-002 The Former Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2017-003 The Former Sheriff Did Not Transfer Delinquent Gas And Oil Tax Bills To County Clerk In Accordance With KRS 134.122(1)(a)
- 2017-004 The Former Sheriff's Office Lacked Adequate Segregation Of Duties And Internal Controls Over Tax Receipts And Disbursements

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

June 12, 2019

LAWRENCE COUNTY
GARRETT ROBERTS, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2017 GAS AND OIL TAXES

For The Period May 16, 2017 Through May 15, 2018

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Oil Property Taxes	\$ 43,842	\$ 74,529	\$ 143,144	\$ 32,021
Gas Property Taxes	27,290	46,857	88,571	20,194
Penalties	244	412	801	177
Gross Chargeable to Sheriff	<u>71,376</u>	<u>121,798</u>	<u>232,516</u>	<u>52,392</u>
 <u>Credits</u>				
Exonerations	3,518	6,163	11,285	2,674
Discounts	1,004	1,708	3,279	736
Delinquents	7,146	12,369	22,783	5,263
Total Credits	<u>11,668</u>	<u>20,240</u>	<u>37,347</u>	<u>8,673</u>
Taxes Collected	59,708	101,558	195,169	43,719
Less: Commissions *	<u>2,538</u>	<u>4,316</u>	<u>5,855</u>	<u>1,858</u>
Taxes Due	57,170	97,242	189,314	41,861
Taxes Paid	15,914	25,512	59,729	11,428
Refunds (Current and Prior Year)	<u>41,160</u>	<u>71,843</u>	<u>129,715</u>	<u>30,433</u>
Due District or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 96</u>	<u>\$ (113)</u>	<u>\$ (130)</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

LAWRENCE COUNTY
GARRETT ROBERTS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2017 GAS AND OIL TAXES
For The Period May 16, 2017 Through May 15, 2018
(Continued)

* Commissions:

4.25% on	\$	298,596
3% on	\$	101,558

** Special Taxing Districts:

Library District	\$	(391)
Extension District		266
Soil District		<u>12</u>

Due Districts or

(Refund Due Sheriff)	\$	<u>(113)</u>
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LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The former 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 former 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 Lawrence 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 former sheriff's deposits may not be returned. The former Lawrence County 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. As of May 15, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2018
(Continued)

Note 3. Tax Collection Period

The gas and 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 May 16, 2017 through May 15, 2018.

Note 4. Interest Income

The former Lawrence County Sheriff earned \$153 as interest income on 2017 gas and oil taxes. The former sheriff did not distribute interest earned on tax collections to the school or the fee account monthly. As of June 12, 2019, the former sheriff owed \$75 in interest to the school district and \$78 in interest to his fee account.

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

The former Lawrence County Sheriff collected \$160 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of June 12, 2019, the former sheriff owed \$160 in 10% add-on fees to his fee account.

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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 Phillip Carter, Lawrence County Judge/Executive
The Honorable Chuck Jackson, Lawrence County Sheriff
The Honorable Garrett Roberts, Former Lawrence County Sheriff
Members of the Lawrence 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 Lawrence County Sheriff's Settlement - 2017 Gas and Oil Taxes for the period May 16, 2017 through May 15, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated June 12, 2019. The former Lawrence 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 Lawrence 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 Lawrence County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Lawrence 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 2017-004 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 former Lawrence 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003.

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

June 12, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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LAWRENCE COUNTY
GARRETT ROBERTS, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2017 Through May 15, 2018

STATE LAWS AND REGULATIONS:

2017-001 The Former Sheriff's Office Did Not Make Deposits Timely

Funds are not deposited daily. Our procedures for testing receipts included selecting six days of tax receipts to determine if the funds were deposited on daily basis. During the week sampled in January 2018, deposits were not made daily five out of the six days tested. This is a repeat finding and was included in the prior year audit report as finding 2016-002. It appears the former sheriff often held several daily deposits and then took them to the bank rather than making daily deposits. Furthermore, policies and procedures were not in place to ensure that tax receipts were deposited daily. Receipts not deposited daily are susceptible to misappropriation or theft. Such occurrences could materially affect the financial statements.

Under the authority of KRS 68.210, the Department for Local Government has established requirements for all local government officials handling public funds. These requirements include "daily deposits intact into a federally insured banking institution."

We recommend the sheriff's office implement policies and procedures to ensure that tax receipts are deposited intact, daily.

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

2017-002 The Former Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly

The former sheriff did not distribute interest earned on tax collections to the school or the fee account on a monthly basis. The sheriff earned \$153 in interest on his 2017 gas and oil tax account and none was distributed to the fee account or school. This is a repeat finding and was included in the prior year audit report as finding 2016-003.

Policies and procedures were not in place to ensure that interest earned from tax collection deposits were paid to the school district and fee account timely. Failure to distribute interest earnings monthly results in a noncompliance. Based on the amount of interest earned, the former sheriff owes \$75 to the school district and \$78 to the fee account.

KRS 134.140(2) requires the sheriff to pay monthly, "that part of the investment earnings for the month which are attributable to the investment of school taxes[.]" According to KRS 134.140(4), the balance of investment income should be paid to the sheriff's operating account.

We recommend the sheriff's office comply with KRS 134.140 by remitting the interest due to the school and fee account on a monthly basis.

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

LAWRENCE COUNTY
 GARRETT ROBERTS, FORMER SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period May 16, 2017 Through May 15, 2018
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-003 The Former Sheriff Did Not Transfer Delinquent Gas And Oil Bills To County Clerk In Accordance
 KRS 134.122 (1) (a)

The former sheriff transferred delinquent gas and oil tax bills to the county clerk on April 16, 2018, according to the requirements of KRS 134.122(1)(a) delinquent gas and oil bills should have been filed with the county clerk on May 15, 2018. The former bookkeeper stated this was an oversight. Taxpayers were denied the opportunity to pay their tax bill according to the tax payment schedule to avoid the additional cost of payment in the county clerk's office. In addition, the sheriff could have collected commissions and fees.

KRS 134.122(1)(a) states that "The sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk, except that in a consolidated local government the sheriff shall have fourteen (14) working days from the required filing date to file the delinquent tax claims with the county clerk".

We recommend the sheriff's office only file all tax claims on real and personal property tax remaining in their possession with the county clerk when the requirements of KRS 134.122(1)(a) have been met.

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-004 The Former Sheriff's Office Lacked Adequate Segregation Of Duties And Internal Controls Over
 Tax Receipts And Disbursements

The former sheriff's office lacked adequate segregation of duties and internal controls over tax receipts and disbursements. This is a repeat finding and was included in the prior year audit report as finding 2016-004.

The former bookkeeper, deputy clerk, and occasionally the former sheriff, all collected tax receipts. The former bookkeeper and deputy clerk each prepared a daily checkout sheet and reconciled the daily receipts to the daily collection report. The former bookkeeper posted items to the receipts ledger. There were no initials on the deposit ticket documenting who prepared and reviewed the deposit ticket. The former bookkeeper prepared the month-end tax reports. The former bookkeeper prepared checks for tax distribution based on the month-end tax reports, and posted checks to the disbursements ledger. The former bookkeeper and former sheriff signed the tax distribution checks. The deputy clerk was also authorized to sign checks. All checks required a dual signature. The former bookkeeper prepared the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed. Also, the reconciliation was only a re-statement of bank activity, and was not reconciled to the receipts ledger, disbursements ledger, or monthly financial statements. Reporting errors would have been found on a monthly basis if a true reconciliation had been performed by the former sheriff's office.

Without internal controls in place, there is no way to know that the tax account financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud.

LAWRENCE COUNTY
GARRETT ROBERTS, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period May 16, 2017 Through May 15, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2017-004 The Former Sheriff's Office Lacked Adequate Segregation Of Duties And Internal Controls Over Tax Receipts And Disbursements (Continued)

Internal controls and proper segregation of duties protect employees and the former sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control.

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