

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
May 1, 2015 Through April 15, 2016**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
May 1, 2015 Through April 15, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Leslie County Sheriff for the period May 1, 2015 through April 15, 2016. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2015 taxes of \$3,075,578 for the districts, retaining commissions of \$95,328 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$2,976,843 to the districts. Taxes of \$247 are due to the districts from the sheriff and refunds of \$175 are due to the sheriff from the taxing districts.

Report Comments:

- 2015-001 The Leslie County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2015-002 The Leslie County Sheriff's Settlement Was Not Accurate

Deposits:

The sheriff's deposits as of November 30, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$430,269

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Leslie County Sheriff's Settlement - 2015 Taxes for the period May 1, 2015 through April 15, 2016 - 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
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie 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 Leslie 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 Leslie County Sheriff, for the period May 1, 2015 through April 15, 2016.

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 1, 2015 through April 15, 2016 of the Leslie 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 3, 2017, on our consideration of the Leslie 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 Leslie County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2015-001 The Leslie County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations
- 2015-002 The Leslie County Sheriff's Settlement Was Not Accurate

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

May 3, 2017

LESLIE COUNTY
 DELANO HUFF, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period May 01, 2015 Through April 15, 2016

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 367,444	\$ 584,246	\$ 1,293,081	\$ 244,962
Tangible Personal Property	48,854	91,495	194,208	126,158
Fire Protection	3,563			
Franchise Taxes	56,964	106,241	225,760	
Penalties	4,557	7,392	16,453	5,359
Adjusted to Sheriff's Receipt	2,596	1,086	2,307	384
Gross Chargeable to Sheriff	483,978	790,460	1,731,809	376,863
 <u>Credits</u>				
Exonerations	3,397	5,178	11,825	2,240
Discounts	5,278	8,614	18,774	4,659
Delinquents:				
Real Estate	36,226	56,037	126,483	23,970
Tangible Personal Property	526	984	2,089	1,252
Total Credits	45,427	70,813	159,171	32,121
Taxes Collected	438,551	719,647	1,572,638	344,742
Less: Commissions *	18,638	30,585	31,453	14,652
Taxes Due	419,913	689,062	1,541,185	330,090
Taxes Paid	419,340	688,308	1,539,466	329,729
Refunds (Current and Prior Year)	487	768	1,719	361
Due District or (Refunds Due Sheriff) as of Completion of Audit	\$ 86	\$ (14)	\$ 0	\$ 0

**

* and ** See next page.

LESLIE COUNTY
DELANO HUFF, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period May 01, 2015 Through April 15, 2016
(Continued)

* Commissions:

4.25% on \$ 1,502,940

2% on \$ 1,572,638

** Special Taxing Districts:

Health District	\$	143
Extension District		(158)
Soil Conservation		(17)
City of Hyden		<u>18</u>
Refunds Due Sheriff	\$	<u>(14)</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2016

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 Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(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 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 15, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 30, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$430,269

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2015 through April 15, 2016.

B. Franchise Taxes

The franchise tax assessments were levied as of January 1, 2015. 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 1, 2015 through April 15, 2016.

Note 4. Interest Income

The Leslie County Sheriff earned \$68 as interest income on 2015 taxes. As of May 3, 2017, the sheriff owed \$34 in interest to the school district and \$34 in interest to his fee account.

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

The Leslie County Sheriff collected \$33,169 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Delano Huff, Leslie County Sheriff
Members of the Leslie 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 Leslie County Sheriff's Settlement - 2015 Taxes for the period May 1, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 3, 2017. The Leslie 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 Leslie 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 Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying comments and recommendations, 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 comments and recommendations as items 2015-001 and 2015-002 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 Leslie County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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 3, 2017

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
DELANO HUFF, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 01, 2015 Through April 15, 2016

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-001 The Leslie County Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

The Leslie County Sheriff's office lacks adequate segregation of duties over receipts, disbursements, and reconciliations. These control deficiencies are present because the sheriff's bookkeeper's duties include receiving tax payments, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. A proper segregation of duties over accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. If segregation of duties was not feasible due to limited staff, strong oversight over these areas should occur and involve the sheriff or an employee not currently performing any of these functions. We recommend the sheriff segregate duties or implement compensating controls. If the sheriff chooses to implement compensating controls, his oversight should be documented on the appropriate source document. The following are examples of compensating controls the sheriff could implement:

- The sheriff, or his designee, can compare the daily checkout sheet to tax reports and bank deposit receipts and document his review.
- The sheriff, or his designee, can reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff can examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

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

2015-002 The Leslie County Sheriff's Settlement Was Not Accurate

The Leslie County Sheriff's settlement contained numerous computation and reporting errors. The lack of sufficient internal controls over the financial reporting process allowed for multiple undetected errors in the sheriff's county tax settlement. These errors include:

- School commissions were determined based on monthly reports, which incorrectly calculated commissions at four percent. However, the actual school commission rate for the current sheriff's tax collection period was two percent.
- Commissions were calculated at ten percent for the first \$10,000 in collections, and 4.25 percent thereafter. Commissions on districts other than the school district should be calculated at 4.25 percent for all collections.
- School taxes due were not properly calculated.

Effective internal controls over the financial reporting processes are essential to ensure that financial reports are accurate. Controls such as a thorough review of the annual tax settlement that includes tracing amounts to source documentation, recalculation of those amounts, and comparing taxes collected per the settlement to the taxes collected on the monthly reports would have strengthened internal controls over financial reporting, and could have reduced the chances of misstatements going undetected.

LESLIE COUNTY
DELANO HUFF, SHERIFF
COMMENTS AND RECOMMENDATIONS
FOR THE PERIOD MAY 1, 2015 THROUGH APRIL 15, 2016
(CONTINUED)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2015-002 The Leslie County Sheriff's Settlement Was Not Accurate (Continued)

We recommend the sheriff implement internal controls over the review of the annual tax settlement by tracing amounts to source documentation, recalculating commission amounts, and comparing taxes collected per settlement to taxes collected per monthly reports.

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

