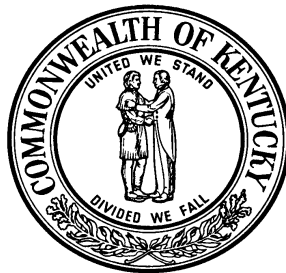


**REPORT OF THE AUDIT OF THE  
LIVINGSTON COUNTY  
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period  
April 16, 2015 Through April 15, 2016**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**LIVINGSTON COUNTY**  
**SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period**  
**April 16, 2015 Through April 15, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Livingston County Sheriff for the period April 16, 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 \$5,866,946 for the districts, retaining commissions of \$225,994 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$5,618,882 to the districts. Taxes of \$1,954 are due to the districts from the sheriff and refunds of \$5 are due to the sheriff from the taxing districts.

**Report Comment:**

2015-001 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The sheriff's deposits were insured and collateralized by bank securities or bonds.



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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 Chris Lasher, Livingston County Judge/Executive  
Honorable Bobby Davidson, Livingston County Sheriff  
Members of the Livingston County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Livingston County Sheriff's Settlement - 2015 Taxes for the period April 16, 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 Chris Lasher, Livingston County Judge/Executive  
Honorable Bobby Davidson, Livingston County Sheriff  
Members of the Livingston 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 Livingston 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 Livingston County Sheriff, for the period April 16, 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 April 16, 2015 through April 15, 2016 of the Livingston 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 April 28, 2017, on our consideration of the Livingston 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 Livingston 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 Chris Lasher, Livingston County Judge/Executive

Honorable Bobby Davidson, Livingston County Sheriff

Members of the Livingston County Fiscal Court

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

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

2015-001 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties

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

April 28, 2017

LIVINGSTON COUNTY  
BOBBY DAVIDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 523,607	\$ 808,826	\$ 1,980,028	\$ 536,808
Tangible Personal Property	175,946	206,133	476,213	411,387
Fire Protection	1,775			
Increases Through Exonerations	44	36	166	45
Omitted Taxes	17	17	66	18
Franchise Taxes	143,148	125,437	468,168	
Additional Billings	61	105	232	63
Limestone, Sand and Gravel Reserves	24,019	28,708	90,838	24,625
Penalties	3,216	5,110	12,020	3,196
Adjusted to Sheriff's Receipt	(39)	(21)	(121)	(71)
Gross Chargeable to Sheriff	<u>871,794</u>	<u>1,174,351</u>	<u>3,027,610</u>	<u>976,071</u>
<u>Credits</u>				
Exonerations	1,015	1,569	3,837	1,040
Discounts	11,346	16,109	39,500	15,918
Delinquents:				
Real Estate	9,150	15,320	34,580	9,375
Tangible Personal Property	348	413	942	565
Franchise Taxes	4,048	5,133	12,672	
Total Credits	<u>25,907</u>	<u>38,544</u>	<u>91,531</u>	<u>26,898</u>
Taxes Collected	845,887	1,135,807	2,936,079	949,173
Less: Commissions *	35,950	32,261	117,443	40,340
Taxes Due	809,937	1,103,546	2,818,636	908,833
Taxes Paid	806,978	1,098,357	2,807,622	905,925
Refunds (Current and Prior Year)	2,825	3,731	10,670	2,895
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 134</u>	<u>\$ 1,458</u>	<u>\$ 344</u>	<u>\$ 13</u>

\*\*

\* and \*\* See next page.

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

LIVINGSTON COUNTY  
BOBBY DAVIDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

\* Commissions:

4.25% on	\$	2,438,235
4% on	\$	2,936,079
1% on	\$	492,632

\*\* Special Taxing Districts:

Health District	\$	23
Extension District		53
Conservation District		(5)
Grand Lakes		1,097
Ledbetter		278
Burna		12
		<hr/>

Due Districts or  
(Refunds Due Sheriff)

\$ 1,458

LIVINGSTON 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 Livingston 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.

LIVINGSTON 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 Livingston County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2016, 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, 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 September 22, 2015 through April 15, 2016.

B. Limestone, Sand, and Gravel Taxes

The tangible property tax assessments on limestone, sand, and gravel properties 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 November 13, 2015 through April 15, 2016.

C. Franchise Taxes

The real and tangible franchise tax assessments were levied as of January 1, 2015. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2015 through April 15, 2016.

Note 4. Interest Income

The Livingston County Sheriff earned \$166 as interest income on 2015 taxes. The sheriff distributed the appropriate amount of interest to the school district as required by statute, and the remainder was used to operate the sheriff's fee account.

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

The Livingston County Sheriff collected \$18,693 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 Chris Lasher, Livingston County Judge/Executive  
Honorable Bobby Davidson, Livingston County Sheriff  
Members of the Livingston 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 Livingston County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 28, 2017. The Livingston 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 Livingston 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 Livingston County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Livingston County Sheriff's internal control over financial reporting.

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 comment and recommendation, 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 comment and recommendation as item 2015-001 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 Livingston 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*.

### **Sheriff's Response to Finding**

The Livingston County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

### **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

April 28, 2017

COMMENT AND RECOMMENDATION



LIVINGSTON COUNTY  
BOBBY DAVIDSON, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2015 Through April 15, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties

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The Livingston County Sheriff's office lacks adequate segregation of duties over tax collections and disbursements. Due to limited staff and the diversity of operations, the office staff is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, the preparation of monthly reports, and the preparation of checks for disbursements.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. A lack of segregation of duties or lack of strong oversight increases the risk of undetected fraud or error.

We recommend the sheriff implement the following compensating controls to offset this internal control weakness:

- The sheriff should frequently compare daily bank deposits, daily checkout sheets, and daily tax reports. Any differences should be reconciled. The sheriff should document his oversight by initialing the bank deposit, daily checkout sheets, and daily tax report.
- The sheriff should compare disbursements to monthly tax reports or other supporting documentation. Any differences should be reconciled. The sheriff should document his oversight by initialing documentation and signing checks.
- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any difference should be reconciled. The sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: We are going to implement this process.*

