

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

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



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Garrett Gruber, Livingston County Judge/Executive
The 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 - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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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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 18, 2017 through April 16, 2018.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 18, 2017 through April 16, 2018 of the 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 May 6, 2019, 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

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable Garrett Gruber, Livingston County Judge/Executive

The 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 Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2017-001 The Livingston County Sheriff Failed To Make Daily Deposits
- 2017-002 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2017-003 The Livingston County Sheriff's Office Lacks Internal Controls Over Tax Collections, Tax Distributions, And The Reporting Of Taxes

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 6, 2019

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

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

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 535,730	\$ 824,066	\$ 1,998,858	\$ 549,236
Tangible Personal Property	191,141	245,858	520,775	418,405
Fire Protection	1,774			
Omitted Taxes	3	5	11	3
Franchise Taxes	71,753	69,894	203,633	
Additional Billings	26	43	97	27
Limestone, Sand, and Gravel Reserves	22,836	25,840	85,202	23,411
Penalties	3,301	5,123	11,966	3,133
Adjusted to Sheriff's Receipt	(33)	(43)	(114)	(74)
Gross Chargeable to Sheriff	<u>826,531</u>	<u>1,170,786</u>	<u>2,820,428</u>	<u>994,141</u>
<u>Credits</u>				
Exonerations	1,071	1,415	3,886	1,281
Discounts	12,017	17,255	41,179	16,378
Delinquents:				
Real Estate	6,823	11,647	25,445	6,991
Tangible Personal Property	181	213	494	80
Limestone, Sand, and Gravel Reserves	3	5	11	3
Additional Billings	26	43	97	27
Franchise Taxes	3,456	4,967	11,531	
Total Credits	<u>23,577</u>	<u>35,545</u>	<u>82,643</u>	<u>24,760</u>
Taxes Collected	802,954	1,135,241	2,737,785	969,381
Less: Commissions *	34,126	31,311	109,511	41,199
Taxes Due	768,828	1,103,930	2,628,274	928,182
Taxes Paid	767,877	1,103,108	2,625,124	927,760
Refunds (Current and Prior Year)	420	512	1,412	463
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 531</u>	<u>\$ 310</u>	<u>\$ 1,738</u>	<u>\$ (41)</u>

**

* and ** See next page.

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

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

* Commissions:

4.25% on	\$	2,386,447
4% on	\$	2,737,785
1% on	\$	521,129

** Special Taxing Districts:

Health District	\$	128
Extension Service		223
Soil Conservation		47
Grand Lakes FD		68
Burna FD		65
Ledbetter FD		(221)
		<hr/>

Due Districts or

(Refunds Due Sheriff)

\$ 310

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Livingston 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 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 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2017 through April 16, 2018.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 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 November 13, 2017 through April 16, 2018.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Livingston County Sheriff earned \$183 as interest income on 2017 taxes. The sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office.

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

The Livingston County Sheriff collected \$16,627 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
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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The 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 - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 6, 2019. 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.

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 and another deficiency that we consider to be a significant deficiency.

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 2017-002 to be a material weakness.

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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*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-003 to be a significant deficiency.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.


Views of Responsible Official and Planned Corrective Action

The Livingston County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Livingston County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

May 6, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

STATE LAWS AND REGULATIONS:

2017-001 The Livingston County Sheriff Failed To Make Daily Deposits

This is a repeat finding and was included in the prior year audit report as finding 2016-004. During tax year 2017, the Livingston County Sheriff did not make daily deposits for tax collections. Instead, the sheriff created deposits but waited to take them to the bank.

According to the sheriff's office, because of a limited staff, sometimes the bookkeeper would be the only person working in the sheriff's office and would not be allowed to leave the office to take deposits to the bank. Also, due to the lack of proximity of the bank, it is not always convenient to take the deposit. Failure to make daily deposits leaves tax collections vulnerable to misappropriation and loss. Additionally, the failure to make daily deposits results in the sheriff not being in compliance with KRS 68.210.

KRS 68.210 requires the state local finance officer to create a system of uniform accounts for all counties and county officials. The DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* outlines requirements for the handling of public funds by all local government officials, including making "[d]aily deposits intact into a federally insured banking institution." We recommend the sheriff deposit tax collections intact on a daily basis in order to ensure compliance with KRS 68.210.

Sheriff's Response: Our bank, where we make deposits, is several miles away and makes it hard for us to make daily deposits, but we are making daily trips to bank now.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-002 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The Livingston County Sheriff's office lacks adequate segregation of duties over tax collections and disbursements. The bookkeeper 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. According to staff of the sheriff's office, this is because of a limited number of staff and the diversity of operations. A lack of adequate segregation of duties increases the risk of undetected fraud or errors.

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.

We recommend the sheriff segregate the duties of tax collections and disbursements when possible or implement and document compensating controls to offset the weakness in internal controls. Examples of compensating controls include, but are not limited to:

- 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.
- The sheriff should require two signatures on checks, with one being the sheriff's signature.

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2017-002 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The sheriff should compare disbursements to the monthly tax reports or other supporting documentation. Any differences should be reconciled. The sheriff should document his oversight by initialing documentation.

Sheriff's Response: Our office does not generate enough revenue to have enough employees to provide adequate segregation of duties, but we plan to have sheriff oversee paperwork closely to help with this issue.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-003 The Livingston County Sheriff's Office Lacks Internal Controls Over Tax Collections, Tax Distributions, And The Reporting Of Taxes

This is a repeat finding and was included in the prior year audit report as finding 2016-002. The Livingston County Sheriff's settlement was misstated due to multiple errors. Taxes paid per the sheriff's settlement did not agree to the cancelled checks for tax distributions, and refunds paid per the settlement did not agree to the cancelled checks written to individuals. Also, penalties collected on mineral bills were not properly distributed to the taxing districts, and commissions earned on mineral bills for the month of February were not calculated correctly on the monthly reports.

Due to a lack of controls over tax collections, tax distributions, and the reporting of taxes, these errors were not detected. Rather than implement a systematic approach for handling these functions, the sheriff relies on two employees without sufficient documented oversight. This lack of internal controls has created the opportunity for additional errors and misstatements to potentially occur.

Strong internal controls over tax collections, distributions, and reporting of taxes are essential to ensuring that taxes collected and distributed are accounted for properly. Strong internal controls help to prevent or detect misstatements due to error, as well as protect against misappropriation of assets.

We recommend that the sheriff implement internal controls over the tax collection, distribution, and reporting process. Implemented internal controls could include comparing cancelled checks to the monthly reports and comparing the monthly reports to the sheriff's settlement to ensure that taxes collected are properly paid to the districts and accurately reflected on the sheriff's settlement.

Sheriff's Response: We do not generate enough revenue to have enough employees to accommodate these collections, but we plan to have sheriff to look over these reports closely.