

**REPORT OF THE AUDIT OF THE
LIVINGSTON COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period
April 17, 2018 Through April 15, 2019**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable 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 - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Garrett Gruber, Livingston County Judge/Executive

The 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 17, 2018 through April 15, 2019.

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 17, 2018 through April 15, 2019 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 November 25, 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 Andy Beshear, Governor
Holly M. Johnson, 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:

- 2018-001 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2018-002 The Livingston County Sheriff Did Not Have Adequate Controls To Ensure The County Tax Settlement Was Accurate
- 2018-003 The Livingston County Sheriff's Office Did Not Make Deposits Intact

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

November 25, 2019

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 543,369	\$ 1,045,565	\$ 2,648,270	\$ 557,062
Tangible	203,103			427,657
Fire Dues		52,925		
Fire Protection	1,773			
Total Per Sheriff's Official Receipt	<u>748,245</u>	<u>1,098,490</u>	<u>2,648,270</u>	<u>984,719</u>
<u>Other Taxes & Charges</u>				
Court Ordered Increases	51	189	46	46
Franchise Taxes	291,229	243,370	973,364	
Additional Billings	251	401	963	257
Limestone, Sand, and Gravel	23,899	26,856	91,981	24,501
Penalties	<u>2,646</u>	<u>4,269</u>	<u>9,964</u>	<u>2,915</u>
Gross Chargeable to Sheriff	1,066,321	1,373,575	3,724,588	1,012,438
<u>Credits</u>				
Exonerations	1,052	1,800	3,958	1,001
Discounts	12,612	18,059	44,478	16,701
Delinquent Real Estate	8,581	14,028	32,867	8,675
Delinquent Tangible		101		42
Franchise Taxes - Delinquent	<u>4,619</u>	<u>2,752</u>	<u>12,667</u>	
Total Credits	26,864	36,740	93,970	26,419
Taxes Collected	1,039,457	1,336,835	3,630,618	986,019
Less: Sheriff's Commissions*	<u>44,177</u>	<u>39,255</u>	<u>145,225</u>	<u>41,906</u>
Taxes Due Districts	995,280	1,297,580	3,485,393	944,113
Taxes Paid	994,573	1,295,002	3,483,019	942,250
Refunds (Current and Prior Year)	<u>706</u>	<u>1,107</u>	<u>2,534</u>	<u>1,868</u>
Taxes Due Districts (Refunds Due Sheriff)	<u>\$ 1</u>	<u>\$ 1,471</u>	<u>\$ (160)</u>	<u>\$ (5)</u>

**

* and ** See next page.

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

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

* Commissions:

4.25% on	\$	2,822,002
4% on	\$	3,630,617
1% on	\$	540,310

** Special Taxing Districts:

Health District	\$	57
Extension District		200
Soil District		1,143
Grand Lakes FD		58
Burna FD		793
Salem FD		103
Ledbetter FD		(883)
		<hr/>

Due Districts or (Refund Due Sheriff)	\$	<u>1,471</u>
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LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Preparation of State Settlement

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

Note 2. Deposits

The 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 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2019
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 17, 2018 through April 15, 2019.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2018. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 17, 2019 through May 15, 2019.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 17, 2018 through April 15, 2019.

Note 4. Interest Income

The Livingston County Sheriff earned \$217 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Livingston County Sheriff collected \$16,280 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Related Party Transaction

The Livingston County Sheriff has an office employee who is also employed at a taxing district as an office employee.

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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 Garrett Gruber, Livingston County Judge/Executive
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 - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 25, 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 other deficiencies that we consider to be significant deficiencies.

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 2018-001 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)

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-002 and 2018-003 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Livingston County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

November 25, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 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 2017-002. 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 with little to no oversight. A lack of adequate segregation of duties increases the risk of undetected errors or inaccurate reporting.

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. According to the staff of the sheriff's office, this is because of a limited number of staff and the diversity of operations.

We recommend the sheriff should segregate duties to the extent possible or implement compensating controls to offset this internal control weakness. The following procedures could be implemented by the sheriff to segregate duties or implement compensating controls:

- 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.
- 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: The sheriff and bookkeepers are implementing procedures to have more internal controls.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-002 The Livingston County Sheriff Did Not Have Adequate Controls To Ensure The County Tax Settlement Was Accurate

This is a repeat finding and was included in the prior year audit report as finding 2017-002. The Livingston county sheriff's tax settlement had significant errors. Taxes paid per the sheriff's settlement did not agree to the cancelled checks for tax distributions. The sheriff did not accurately total the settlement for Ledbetter Fire Department. The sheriff recorded exoneration decreases as delinquent real estate and the special taxing districts had \$7,018 of exoneration errors. The county district included a \$5,000 error in limestone, sand, and gravel recording. Commissions were not calculated accurately for limestone, sand, and gravel due to failing to include penalties and using the wrong calculations. The sheriff's franchise settlement showed refunds due to the sheriff of \$20,037. This is due to the sheriff recording delinquent franchises without charging franchise collections. This lack of internal controls creates the opportunity for additional errors and material misstatements to potentially occur.

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2018-002 The Livingston County Sheriff Did Have Adequate Controls To Ensure The County Tax Settlement Was Accurate (Continued)

Strong internal controls over 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 errors, as well as protect against misappropriation of assets. Due to a lack of controls over 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.

We recommend the sheriff implement internal controls over the tax 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. Further the sheriff or another employee should take source documentation such as delinquent tax listing, exoneration listing, additional billings, and official receipts for limestone, sand, and gravel to ensure that the settlement is accurate.

Sheriff's Response: This was due to bookkeeper error and not understanding full concept of the settlement, and the scope of the process.

2018-003 The Livingston County Sheriff's Office Did Not Make Deposits Intact

The Livingston County sheriff did not make deposits intact. The bookkeeper would prepare the daily checkout sheet daily. When a customer overpaid with a check and did not accept a refund, the bookkeeper will take the difference out of cash and place it in a bank bag in the sheriff's office. During the two weeks tested there was \$91 of overpaid checks, however there was only \$15 in the bank bag on October 9, 2019. Failure to make deposits intact causes tax collections to be vulnerable to misappropriation and loss. Additionally the sheriff is not 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 Department for Local Government'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."

Per inquiry with the bookkeeper, she thought this was the best practice to ensure that the bank deposit agreed with the daily checkout sheet. We recommend that the sheriff discontinues the practice of shorting cash for overpaid tax collection checks and to deposit all tax collections intact daily.

Sheriff's Response: The Sheriff and the Staff will only accept exact amounts on taxes collected from the property owner cards, and will mail back any payments not exact.