

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2019 TAXES**

**For The Period
April 16, 2019 Through May 15, 2020**



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
SHERIFF’S SETTLEMENT - 2019 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
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 <i>GOVERNMENT AUDITING STANDARDS</i>	11
SCHEDULE OF FINDINGS AND RESPONSES	15

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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 Kevin Neal, Marshall County Judge/Executive
The Honorable Eddie McGuire, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Marshall County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - 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 Kevin Neal, Marshall County Judge/Executive
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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 Marshall 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 Marshall County Sheriff, for the period April 16, 2019 through May 15, 2020.

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, 2019 through May 15, 2020 of the Marshall 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 March 17, 2021, on our consideration of the Marshall 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 Marshall County Sheriff’s internal control over financial reporting and compliance.

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:

- 2019-001 The Marshall County Sheriff Failed To Obtain A Revenue Bond In Accordance With KRS 134.230
- 2019-002 The Marshall County Sheriff’s Settlement Was Significantly Misstated

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

March 17, 2021

MARSHALL COUNTY
EDDIE MCGUIRE, SHERIFF
SHERIFF'S SETTLEMENT - 2019 TAXES

For The Period April 16, 2019 Through May 15, 2020

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 1,883,729	\$ 7,321,670	\$ 9,498,777	\$ 2,444,821
Tangible	230,087	926,521	1,160,226	2,670,429
Total Per Sheriff's Official Receipt	2,113,816	8,248,191	10,659,003	5,115,250
<u>Other Taxes & Charges</u>				
Court Ordered Increases	726	2,695	3,661	942
Franchise Taxes	113,424	468,152	565,297	
Additional Billings	525	1,923	2,648	1,226
Limestone, Sand, and Gravel Reserves	67	272	336	94
Penalties	6,176	24,583	31,153	8,600
Gross Chargeable to Sheriff	2,234,734	8,745,816	11,262,098	5,126,112
<u>Credits</u>				
Exonerations	8,815	36,380	44,445	12,592
Discounts	33,177	131,031	167,538	85,210
Delinquent Real Estate	27,882	101,885	140,593	36,186
Delinquent Tangible	1,203	5,011	6,068	5,347
Total Credits	71,077	274,307	358,644	139,335
Taxes Collected	2,163,657	8,471,509	10,903,454	4,986,777
Less: Sheriff's Commissions*	91,955	316,478	392,524	211,938
Taxes Due Districts	2,071,702	8,155,031	10,510,930	4,774,839
Taxes Paid	2,068,278	8,141,576	10,499,139	4,770,470
Refunds (Current and Prior Year)	3,384	13,771	16,824	4,462
Taxes Due Districts (Refund Due Sheriff)	\$ 40	\$ (316)	\$ (5,033)	\$ (93)
		**		

* and ** See next page.

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

MARSHALL COUNTY
 EDDIE MCGUIRE, SHERIFF
 SHERIFF'S SETTLEMENT - 2019 TAXES
 For The Period April 16, 2019 Through May 15, 2020
 (Continued)

* Commissions:

4.25% on	\$	14,281,590
3.6% on	\$	10,903,454
1% on	\$	1,340,353

** Special Taxing Districts:

Health District	\$	30
Extension District		8
Soil District		2
Hospital District		34
East Marshall Fire District		11
Fairdealing Olive Fire District		24
South Marshall Fire District		370
Library District		(252)
Refuse District		(386)
Gilbertsville Fire District		(5)
Possum-Trot Sharpe Fire District		(13)
Palma-Briensburg Fire District		(109)
City of Hardin		(15)
West Marshall Fire		<u>(15)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u>(316)</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2020

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 prepares 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 Marshall County Sheriff maintains deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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 fiscal court 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. These requirements were met.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(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 Marshall County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of May 15, 2020, 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, 2019. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2020. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2019 through May 15, 2020.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2019. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2020 through May 15, 2020.

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 16, 2019 through May 15, 2020.

Note 4. Interest Income

The Marshall County Sheriff earned \$2,413 as interest income on 2019 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Marshall County Sheriff collected \$54,782 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
May 15, 2020
(Continued)

Note 6. Escrow Account

The sheriff deposited unrefundable payments in an interest-bearing account. The sheriff's escrowed beginning balance was \$782. The sheriff received \$414 and disbursed \$0 resulting in a total ending balance as of May 15, 2020, of \$1,196. The ending balance consists of escrowed of:

2013	\$3
2014	\$40
2015	\$75
2016	\$222
2017	\$442
2018	\$413
Interest	\$1

When statutorily required, the sheriff will turn over the escrowed funds to the Kentucky State Treasurer as unclaimed property.

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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 Kevin Neal, Marshall County Judge/Executive
The Honorable Eddie McGuire, Marshall County Sheriff
Members of the Marshall 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 Marshall County Sheriff's Settlement - 2019 Taxes for the period April 16, 2019 through May 15, 2020 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 17, 2021. The Marshall 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 Marshall 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 Marshall County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall County Sheriff's internal control.

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 Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be 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 2019-001 to be 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 deficiency described in the accompanying Schedule of Findings and Responses as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshall 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

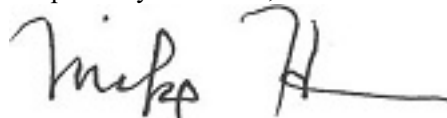
Views of Responsible Official and Planned Corrective Action

The Marshall 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 Marshall 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

March 17, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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MARSHALL COUNTY
EDDIE MCGUIRE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2019 Through May 15, 2020

FINANCIAL STATEMENT FINDINGS:

2019-001 The Marshall County Sheriff Failed To Obtain A Revenue Bond In Accordance With KRS 134.230

The Marshall County sheriff failed to obtain a revenue bond prior to collection of the 2019 taxes, as required by KRS 134.230(1)(a). The sheriff's internal control system failed to catch this compliance issue. Since the revenue bond was not obtained, the amount of tax collections in the sheriff's custody was at risk for potential loss and the sheriff was not in compliance with KRS 134.230.

KRS 134.230(1)(a) states "[t]he sheriff shall execute a bond annually to the Commonwealth with one (1) or more sufficient sureties in the minimum sum of ten thousand dollars (\$10,000), conditioned on the faithful performance of his or her duties and to pay over to the proper person and at the proper time all money collected. The bond shall be executed prior to the sheriff collecting taxes for the year in which the bond is executed. The bond shall be approved by order of the governing body of the county, and shall be filed by the governing body of the county with the county clerk and with the department." This bond is in addition to the sheriff's general performance bond required by KRS 70.020. Additionally, good internal controls require the sheriff to gain an understanding of the legal requirements before collecting taxes.

According to the sheriff, he was unaware of what occurred to have not obtained a revenue bond. Furthermore, the sheriff stated he was under the impression that he had obtained a revenue bond. We recommend the sheriff execute a revenue bond annually, prior to commencing the collection of taxes for that year. The bonds shall be approved by the fiscal court and shall be filed with the county clerk and the Department of Revenue. The sheriff should implement internal controls to determine all legal requirements have been met prior to the collection of taxes. We also recommend the sheriff consult with the county attorney for guidance on this non-compliance. Additionally, this matter will be referred to the Marshall County Commonwealth Attorney's office.

Sheriff's Response: The Marshall County Sheriff's office has a fee pool ordinance in place with the Marshall County Fiscal Court. To my knowledge, appropriate bonds were initiated through the fiscal court before officials took office in January 2019.

The 2018 tax audit, which covers part of Sheriff McGuire's first year collecting taxes, states the Sheriff (McGuire) did not have a sufficient value bond in place during the collection season, however, at no time did it state the Sheriff did not have a bond in place.

As soon as the Sheriff was made aware of this issue, a bond was obtained to meet statute.

Finally, the Sheriff accepts ultimate responsibility if there was not a bond in place. The Sheriff will personally ensure in the future his bonds are in place.

2019-002 The Marshall County Sheriff's Settlement Was Significantly Misstated

The Marshall County sheriff's settlement was significantly misstated due to franchise taxes paid and franchise taxes collected not being accounted for properly. Franchise collections were understated by \$561,287 and taxes paid were understated by \$547,346. The sheriff's tax settlement that was presented and approved by the fiscal court was not a complete and accurate reporting of taxes as of May 15, 2020.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county and any district for which the sheriff collects taxes on or before September 1 of each year." Strong internal controls dictate the sheriff should be reviewing the settlement prior to presenting to Fiscal Court to ensure accuracy.

MARSHALL COUNTY
EDDIE MCGUIRE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2019 Through May 15, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2019-002 The Marshall County Sheriff's Settlement Was Significantly Misstated (Continued)

The franchise settlement was significantly misstated due to the sheriff not accounting for May 2019 through August 2019 franchise collections and payments, due to being unaware these were to be included on the franchise settlement. In addition, three franchise monthly reports required corrections, but the original monthly reports were used on the settlement. These franchise corrections were due to the formulas not calculating correctly. We recommend the sheriff review the tax settlement to ensure settlement is complete and accurate, including franchise taxes collected and taxes paid, prior to being submitted for approval.

Sheriff's Response: The initial tax settlement was not accurate based on myself, the bookkeeper, not placing the months of May through August of Franchise collections on the settlement. The tax collection for Franchise revolves around separate dates which caused for the oversight on my part. I have since made that correction to my sheets and this should no longer be a problem. The Sheriff will also have this logged and will be able to check the dates on the next settlement and make sure they are accurate.