

**REPORT OF THE AUDIT OF THE  
OHIO COUNTY  
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES**

**For The Period  
August 16, 2016 Through September 20, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



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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 David Johnston, Ohio County Judge/Executive  
The Honorable Tracy Beatty, Ohio County Sheriff  
Members of the Ohio County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Ohio County Sheriff's Settlement - 2016 Unmined Coal Taxes for the period August 16, 2016 through September 20, 2017 - 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 Matthew G. Bevin, Governor  
 William M. Landrum III, Secretary  
 Finance and Administration Cabinet  
 The Honorable David Johnston, Ohio County Judge/Executive  
 The Honorable Tracy Beatty, Ohio County Sheriff  
 Members of the Ohio 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 Ohio 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 Ohio County Sheriff, for the period August 16, 2016 through September 20, 2017.

### **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 August 16, 2016 through September 20, 2017 of the Ohio 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 July 16, 2018, on our consideration of the Ohio 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 Ohio 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 comment:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

July 16, 2018

OHIO COUNTY  
TRACY BEATTY, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES

For The Period August 16, 2016 Through September 20, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal Taxes	\$ 34,986	\$ 70,662	\$ 248,846	\$ 60,117
Penalties	9	19	62	15
Gross Chargeable to Sheriff	<u>34,995</u>	<u>70,681</u>	<u>248,908</u>	<u>60,132</u>
 <u>Credits</u>				
Discounts	675	1,364	4,801	1,160
Delinquents:				
Unmined Coal - 2016 Taxes	1,055	2,131	7,504	1,813
Total Credits	<u>1,730</u>	<u>3,495</u>	<u>12,305</u>	<u>2,973</u>
Taxes Collected	33,265	67,186	236,603	57,159
Less: Commissions *	<u>1,414</u>	<u>2,855</u>	<u>5,324</u>	<u>2,429</u>
Taxes Due	31,851	64,331	231,279	54,730
Taxes Paid	<u>31,851</u>	<u>64,331</u>	<u>231,279</u>	<u>54,730</u>
Due District as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on \$ 157,610  
2.25% on \$ 236,603

OHIO COUNTY  
NOTES TO FINANCIAL STATEMENT

September 20, 2017

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 Ohio 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 Ohio 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 September 20, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



OHIO COUNTY  
NOTES TO FINANCIAL STATEMENT  
September 20, 2017  
(Continued)

Note 3. Tax Collection Period

The unmined coal tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2017 through September 20, 2017.

Note 4. Interest Income

The Ohio County Sheriff earned \$25 as interest income on 2016 unmined coal taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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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 David Johnston, Ohio County Judge/Executive  
The Honorable Tracy Beatty, Ohio County Sheriff  
Members of the Ohio 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 Ohio County Sheriff's Settlement - 2016 Unmined Coal Taxes for the period August 16, 2016 through September 20, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 16, 2018. The Ohio 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 Ohio County Sheriff's internal control over financial reporting (internal control) to determine 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 Ohio County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ohio County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. 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.

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 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 2016-001 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 Ohio 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 Ohio County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Ohio County 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

July 16, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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OHIO COUNTY  
TRACY BEATTY, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period August 16, 2016 Through September 20, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

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This is a repeat finding and was included in the prior year audit report as finding 2015-001. The Ohio County Sheriff's office lacks adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, and the preparation of checks for disbursements. According to the sheriff, the lack of segregation of duties is due to a small budget which limits staff size. Segregation of duties over these tasks and cross-training deputies, when needed because staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties and cross-training deputies protects employees in the normal course of performing their daily responsibilities. Good internal controls dictate that the collection of receipts, disbursing of cash, purchasing authority, recording of transactions, and bank reconciling duties be segregated.

To adequately protect against the misappropriation of assets and inaccurate financial reporting, we recommend the sheriff segregate the duties noted above and cross-train deputies to accommodate the rotation of these functions. Proper segregation of duties includes separating the duties of collecting cash, depositing receipts, posting to receipts and disbursements ledgers, bank reconciliations, and preparing reports. If segregation of these duties is not feasible, the sheriff should designate another person to provide knowledgeable oversight of the employee responsible for the incompatible duties and document the oversight. Knowledgeable oversight would necessitate an understanding of and ability to perform those same duties if the bookkeeper was absent.

*Sheriff's Response: The Ohio County Sheriff's Office works on a small budget which limits our staff size. Sheriff Beatty has implemented internal controls which includes cross training and reviewing all financial statements and reports by at least two staff members. All bank statements, monthly reports and checks are reviewed by Sheriff Beatty and one other clerk before sending out monthly disbursements. The Sheriff has installed a camera system in the tax office for monitoring transactions involving money between the public and the employees during the Sheriff's office collection process.*