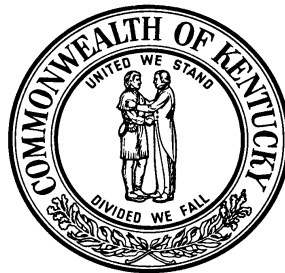


**REPORT OF THE AUDIT OF THE
OLDHAM COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**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 David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Oldham 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 David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham 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 Oldham 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 Oldham 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 Oldham 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 10, 2020, on our consideration of the Oldham 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 Oldham 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 David Voegle, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham 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 comment:

2018-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

July 10, 2020

OLDHAM COUNTY
STEVEN SPARROW, 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	\$ 5,300,940	\$ 14,772,411	\$ 48,013,112	\$ 7,433,502
Tangible	124,963	310,223	834,463	467,334
Total Per Sheriff's Official Receipt	5,425,903	15,082,634	48,847,575	7,900,836
<u>Other Taxes & Charges</u>				
Court Ordered Increases	1,271	107,115	11,508	1,769
Franchise Taxes	161,831	377,919	1,190,632	
Additional Billings	14,987	46,944	127,491	20,271
Limestone, Sand, and Gravel Reserves	880	2,203	7,969	1,259
Penalties	8,055	23,101	72,619	11,644
Gross Chargeable to Sheriff	5,612,927	15,639,916	50,257,794	7,935,779
<u>Credits</u>				
Exonerations	8,682	22,337	77,557	12,105
Discounts	97,190	408,939	875,386	139,341
Delinquent Real Estate	25,279	71,874	228,960	35,448
Delinquent Tangible	380	880	2,536	1,072
Total Credits	131,531	504,030	1,184,439	187,966
Taxes Collected	5,481,396	15,135,886	49,073,355	7,747,813
Less: Sheriff's Commissions*	232,963	443,650	736,101	329,282
Taxes Due Districts	5,248,433	14,692,236	48,337,254	7,418,531
Taxes Paid	5,243,392	14,679,944	48,289,084	7,411,301
Refunds (Current and Prior Year)	5,055	12,356	44,009	7,230
Taxes Due Districts (Refund Due Sheriff)	<u>\$ (14)</u>	<u>\$ (64)</u>	<u>\$ 4,161</u>	<u>\$ 0</u>
		**	***	

*, **, and *** See next page.

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

OLDHAM COUNTY
 STEVEN SPARROW, SHERIFF
 SHERIFF'S SETTLEMENT - 2018 TAXES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

* Commissions:	
4.25% on	\$ 19,138,067
4% on	\$ 3,338,791
1.5% on	\$ 49,073,355
1% on	\$ 5,888,237
** Special Taxing Districts:	
Library District	\$ 3
Health District	14
Ambulance	4
Crestwood	12
Storm Water	<u>(97)</u>
Due Districts or (Refund Due Sheriff)	<u>\$ (64)</u>
*** School Taxing Districts	
School Building	<u>\$ 4,161</u>
Taxes Due District	<u>\$ 4,161</u>

OLDHAM 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 Oldham 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 Oldham 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.

OLDHAM 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 13, 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 April 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 30, 2019.

Note 4. Interest Income

The Oldham County Sheriff earned \$6,284 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 Oldham County Sheriff collected \$89,564 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham 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 Oldham 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 July 10, 2020. The Oldham 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 Oldham 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 Oldham County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oldham County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider to be a significant deficiency.



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 Oldham 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 Oldham 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 Oldham 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,

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Mike Harmon
Auditor of Public Accounts

July 10, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Sheriff Does Not Have Adequate Segregation Of Duties Over Receipts And Reconciliations

The sheriff's office has a lack of adequate segregation of duties over receipts and reconciliations. The bookkeeper and other office staff prepare and review daily closeout procedures, daily deposits, and make deposits to the bank. In addition, the bookkeeper post receipts to the ledger and prepares monthly bank reconciliation. Although all receipt and reconciliation procedures are reviewed, there was no documentation of the review by sheriff or other designee.

A lack of segregation of duties existed because the sheriff's office has a limited budget that does not allow for additional office staff to be hired in able to have proper segregation of duties. Reviews are in place with bookkeeper and office staff on a daily basis. By the same employee primarily performing related functions with no documentation of review, the risk increases that undetected errors or fraud may go occur. The lack of adequate segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the assets and ensure accurate financial reporting. Adequate segregation of duties would prevent the same person from having all the significant roles over various accounting functions.

We recommend the sheriff's office segregate duties over the receipts and reconciliation portions of the tax collection process. To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting or misappropriation of assets, we are recommending that the sheriff implement strong oversight for these areas, either by an employee independent of those functions or by the sheriff or designee, such as:

- The sheriff (or designee) should compare the daily bank deposit to the daily checkout sheet and then compare to the bank deposit receipt. This should be documented by initialing the bank deposit, daily checkout sheet and bank deposit receipt.
- The sheriff (or designee) should compare the monthly tax receipts deposits per bank to the monthly tax reports. This should be documented by initialing the monthly tax report.
- The sheriff (or designee) should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The sheriff (or designee) could document this by initialing the bank reconciliation.

Sheriff's Response: Corrective measures have been implemented by Sheriff Sparrow. In the future, the daily checkout sheet, bank deposit receipt will be reviewed and initialed by a minimum of two employees. Two employees will compare the bank reconciliation to the checkbook balance and initial the reports. Any discrepancy will immediately be reported to the sheriff to ensure any differences are reconciled. The sheriff has directed the chief deputy to monitor this to ensure the proper corrections are being implemented.