

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

**For The Period
April 17, 2018 Through December 31, 2018**



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CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
FORMER SHERIFF'S SETTLEMENT - 2018 TAXES	4
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>	9
SCHEDULE OF FINDINGS AND RESPONSES	13

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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 Cale Turner, Owsley County Judge/Executive
The Honorable Kelly Shouse, Former Owsley County Sheriff
The Honorable Brent Lynch, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Owsley County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through December 31, 2018 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

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

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



To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
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Auditor's Responsibility (Continued)

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

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 former Owsley 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 former Owsley County Sheriff, for the period April 17, 2018 through December 31, 2018.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2018 through December 31, 2018 of the former Owsley 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 August 22, 2019, on our consideration of the former Owsley 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 former Owsley County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Kelly Shouse, Former Owsley County Sheriff
The Honorable Brent Lynch, Owsley County Sheriff
Members of the Owsley 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 Former Owsley County Sheriff's Office Lacked Adequate Segregation Of Duties

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

August 22, 2019

OWSLEY COUNTY
 KELLY SHOUSE, FORMER SHERIFF
FORMER SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through December 31, 2018

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 137,047	\$ 519,524	\$ 423,906	\$ 103,849
Tangible	5,055	28,589	15,733	8,085
Fire Protection	1,476			
Total Per Sheriff's Official Receipt	143,578	548,113	439,639	111,934
<u>Other Taxes & Charges</u>				
Franchise Taxes	25,715	111,482	79,749	
Gross Chargeable to Sheriff	169,293	659,595	519,388	111,934
<u>Credits</u>				
Exonerations	1,562	5,600	4,832	1,184
Discounts	2,026	7,884	6,208	1,486
Transfer to Incoming Sheriff - Real Estate	26,671	102,677	81,642	20,001
Transfer to Incoming Sheriff - Tangible	8	38	24	30
Franchise Taxes - Delinquent	53	289	159	
Total Credits	30,320	116,488	92,865	22,701
Taxes Collected	138,973	543,107	426,523	89,233
Less: Sheriff's Commissions*	5,906	23,082	17,061	3,792
Taxes Due Districts	133,067	520,025	409,462	85,441
Taxes Paid	132,803	519,126	408,649	85,232
Refunds (Current and Prior Year)	264	899	813	209
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on	\$	771,313
4% on	\$	426,523

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

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

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 former Owsley 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.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(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 former sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2018, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$425,770

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 October 1, 2018 through December 31, 2018.

B. 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 October 1, 2018 through December 31, 2018.

Note 4. Interest Income

The former Owsley County Sheriff earned \$40 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

Note 5. Escrow Account

The former sheriff deposited unrefundable payments in an interest-bearing account. The former sheriff's escrowed beginning balance was \$112. The former sheriff received \$0 and disbursed \$112 to the incoming sheriff resulting in an ending balance as of December 31, 2018 of \$0.

KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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 Cale Turner, Owsley County Judge/Executive
The Honorable Kelly Shouse, Former Owsley County Sheriff
The Honorable Brent Lynch, Owsley County Sheriff
Members of the Owsley 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 former Owsley County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through December 31, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 22, 2019. The former Owsley 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 former Owsley 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 former Owsley County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Owsley 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.

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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Owsley 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*.

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,

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

Mike Harmon
Auditor of Public Accounts

August 22, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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OWSLEY COUNTY
KELLY SHOUSE, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through December 31, 2018

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The Former Owsley County Sheriff's Office Lacked Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-001. The former sheriff's office lacked adequate segregation of duties. The former sheriff's bookkeeper maintained receipt and disbursement ledgers, deposited the collections, collected funds from customers, prepared bank reconciliations, and prepared payments to taxing districts.

According to the former sheriff, due to his limited number of office personnel he could not segregate the duties over receipts, disbursements, and reconciliations. Since only one person performed these functions, there was limited assurance that financial transactions were accurate, complete, and free of errors or misstatements. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk that undetected errors, misstatements, and fraud will occur.

We recommend the sheriff's office either segregate these duties or implement steps to strengthen internal controls, such as:

- The sheriff's office could periodically compare the daily bank deposit to the daily tax collection printout. Any differences should have been reconciled. The sheriff or his designee could document this by initialing the bank deposit and the daily tax collection printout.
- The sheriff's office could compared daily tax collection printouts for each month to his monthly tax collection report for each district. Any differences should be reconciled. The sheriff or his designee could document this by initialing this district's monthly tax collection report for the month being examined.
- The sheriff's office could periodically compare payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The sheriff or his designee could document this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The sheriff's office could periodically compared the bank reconciliation to the checkbook balance. Any differences should be reconciled. The sheriff or his designee could document this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response: The official did not provide a response.