

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through April 15, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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

EXECUTIVE SUMMARY
AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
April 16, 2014 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Powell County Sheriff for the period April 16, 2014 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2014 taxes of \$3,362,959 for the districts, retaining commissions of \$138,514 to operate the sheriff's office. The sheriff distributed 2014 taxes of \$3,211,728 to the districts. Taxes of \$11,049 are due to the districts from the sheriff and refunds of \$898 are due to the sheriff from the taxing districts.

Report Comments:

- 2014-001 The Sheriff Diverted Tax Collections To Be Used For Operating Disbursements Before Paying The Taxing Districts
- 2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2014-003 The Sheriff Did Not Have Proper Controls Over Bank Reconciliations

Deposits:

The sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT1
SHERIFF’S SETTLEMENT - 2014 TAXES4
NOTES TO FINANCIAL STATEMENT6
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*.....11
COMMENTS AND RECOMMENDATIONS15



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable James Anderson, Powell County Judge/Executive
Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Powell County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - 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
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable James Anderson, Powell County Judge/Executive
Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County Sheriff on the basis of the 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 financial position of each fund of the Powell County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

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, 2014 through April 15, 2015 of the Powell 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 15, 2016 on our consideration of the Powell 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 effectiveness of the Powell County Sheriff's 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 Powell County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable James Anderson, Powell County Judge/Executive
Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2014-001 The Sheriff Diverted Tax Collections To Be Used For Operating Disbursements Before Paying The Taxing Districts
- 2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2014-003 The Sheriff Did Not Have Proper Controls Over Bank Reconciliations

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

July 15, 2016

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 378,205	\$ 498,781	\$ 1,460,394	\$ 456,841
Tangible Personal Property	21,281	27,330	73,255	83,062
Fire Protection	1,267			
Increases Through Exonerations	120	159	464	146
Franchise Taxes	92,900	119,566	320,946	
Additional Billings	5	6	18	6
Oil Property Taxes	937	1,236	3,619	1,132
Gas Property Taxes	45	59	172	54
Limestone, Sand and Gravel Reserves	335	443	1,296	405
Penalties	4,274	5,613	16,364	6,817
Adjusted to Sheriff's Receipt	2	(42)	(228)	(105)
Gross Chargeable to Sheriff	<u>499,371</u>	<u>653,151</u>	<u>1,876,300</u>	<u>548,358</u>
<u>Credits</u>				
Exonerations	2,320	3,057	8,952	2,800
Discounts	6,102	7,959	23,045	7,030
Delinquents:				
Real Estate	20,683	27,227	79,718	24,937
Tangible Personal Property	25	31	84	251
Total Credits	<u>29,130</u>	<u>38,274</u>	<u>111,799</u>	<u>35,018</u>
Taxes Collected	470,241	614,877	1,764,501	513,340
Less: Commissions *	<u>19,985</u>	<u>26,132</u>	<u>70,580</u>	<u>21,817</u>
Taxes Due	450,256	588,745	1,693,921	491,523
Taxes Paid	447,754	585,761	1,686,118	492,095
Refunds (Current and Prior Year)	<u>382</u>	<u>474</u>	<u>1,384</u>	<u>326</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 2,120</u>	<u>\$ 2,510</u>	<u>\$ 6,419</u>	<u>\$ (898)</u>

**

* and ** See next page.

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

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period April 16, 2014 Through April 15, 2015
(Continued)

* Commissions:

4.25% on \$ 1,598,458
4% on \$ 1,764,501

** Special Taxing Districts:

Library District	\$ 1,052
Health District	862
Extension District	<u>596</u>

Due Districts	<u><u>\$ 2,510</u></u>
---------------	------------------------

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

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 the following 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 Powell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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 Powell 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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2014 through April 15, 2015.

Note 4. Interest Income

The Powell County Sheriff earned \$82 as interest income on 2014 taxes. As of July 15, 2016, the sheriff owed \$29 in interest to the school district and \$41 in interest to his fee account.

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

The Powell County Sheriff collected \$24,265 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of July 15, 2016, the sheriff owed \$7,912 in 10% add-on fees to his fee account.

THIS PAGE LEFT BLANK INTENTIONALLY

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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Powell County Judge/Executive
Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 15, 2016. The Powell County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Powell 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 Powell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Sheriff's internal control over financial reporting.

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 comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying comments and recommendations as items 2014-002 and 2014-003 to be material weaknesses.



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 Powell 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 comments and recommendations as item 2014-001.

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 line extending to the right.

Mike Harmon
Auditor of Public Accounts

July 15, 2016

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through April 15, 2015

STATE LAWS AND REGULATIONS:

2014-001 The Sheriff Diverted Tax Collections To Be Used For Operating Disbursements Before Paying The Taxing Districts

The sheriff diverted tax collections to be used for operating disbursements before paying the taxing districts. KRS 64.850 prohibits the withdrawal of public funds for any purpose other than that for which they were received and deposited. Further, KRS 134.191(1) requires the sheriff to provide monthly reports by the tenth day of each month to the taxing districts. KRS 134.191(3) requires the sheriff to pay the taxing districts all funds that were collected during the period covered by the report. Tax collections were diverted as follows:

- The sheriff collected franchise taxes in the amount of \$43,649 in July and October 2014 and then made five transfers totaling \$28,348 to the fee account for operating disbursements. The sheriff repaid the franchise tax account in January and disbursed to the taxing districts in February 2015.
- The sheriff collected a franchise tax bill in October in the amount of \$15,621 that was deposited directly into the fee account and then transferred into the franchise account on January 12, 2015 and disbursed to the taxing districts in February 2015.
- The sheriff transferred \$15,000 and \$10,000 in November and December, respectively, from his tax account to the fee account. This was repaid to the tax account on January 12, 2015.
- The sheriff transferred \$5,000 on June 30, 2014 from his tax account to his fee account. This was repaid to the tax account on February 11, 2015.

By using tax collections for operating disbursements, the county, school, and other taxing districts did not receive their tax revenues timely. These tax districts rely on the timely receipt of tax revenues and their budgets and cash flows were negatively affected. We recommend the sheriff prepare monthly reports for all franchise taxes collected and pay the taxing districts timely in the future.

Sheriff's Response: No response.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2014 Through April 15, 2015
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-002 The Sheriff's Office Lacks Adequate Segregation of Duties

The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities. Lack of oversight could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue. This condition is a result of budgetary constraints that limit the number of employees the sheriff can hire or delegate duties to. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff's Response: No response.

2014-003 The Sheriff Did Not Have Proper Controls Over Bank Reconciliations

The sheriff did not have internal controls in place over bank reconciliations. Good internal controls dictate that the bank statement be reconciled monthly and reviewed by a person independent of making deposits and writing checks. Bank reconciliations are a tool that can be used to determine that all deposits have been made and that taxes have been properly paid. The sheriff does not have procedures in place to ensure that the bank account is reconciled each month and reviewed. This could result in taxes being collected and not paid timely to the taxing districts. We recommend that monthly bank reconciliations be prepared and reviewed by the sheriff to determine that all taxes collected have been paid to the taxing districts properly.

Sheriff's Response: No response.

