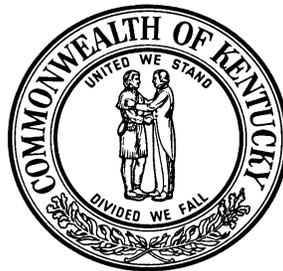


**REPORT OF THE AUDIT OF THE
FORMER ESTILL COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

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



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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 Donnie Watson, Estill County Judge/Executive
The Honorable Gary Freeman, Former Estill County Sheriff
The Honorable Christopher Flynn, Estill County Sheriff
Members of the Estill County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Estill 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.

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 Donnie Watson, Estill County Judge/Executive
The Honorable Gary Freeman, Former Estill County Sheriff
The Honorable Christopher Flynn, Estill County Sheriff
Members of the Estill County Fiscal Court (continued)

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 Estill 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 Estill 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 Estill 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 September 19, 2019, on our consideration of the former Estill 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 Estill 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 Donnie Watson, Estill County Judge/Executive
The Honorable Gary Freeman, Former Estill County Sheriff
The Honorable Christopher Flynn, Estill County Sheriff
Members of the Estill County Fiscal Court (continued)

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 comments:

- 2018-001 The Former Sheriff Did Not Make Daily Deposits
- 2018-002 The Former Sheriff's Office Lacked 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

September 19, 2019

ESTILL COUNTY
GARY FREEMAN, FORMER SHERIFF
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	\$ 350,050	\$ 1,566,498	\$ 2,017,657	\$ 479,834
Tangible	14,097	67,424	69,545	37,842
Total Per Sheriff's Official Receipt	364,147	1,633,922	2,087,202	517,676
<u>Other Taxes & Charges</u>				
Court Ordered Increases	40	179	232	55
Current Year Franchise	31,720	148,540	165,857	
Prior Year Additional Bills	156	684	901	214
Current Year Additional Billings	147	655	844	201
Gross Chargeable to Sheriff	396,210	1,783,980	2,255,036	518,146
<u>Credits</u>				
Exonerations	1,659	7,382	9,558	2,273
Discounts	5,275	23,666	30,227	7,454
Transferred to Incoming Sheriff - Real Estate	54,069	240,946	311,658	81,219
Transferred to Incoming Sheriff - Tangible	2,060	10,827	10,162	
Transferred to Incoming Sheriff - Additional Bills	40	176	230	55
Transferred to Incoming Sheriff - Franchise Taxes	1,749	8,351	8,625	
Total Credits	64,852	291,348	370,460	91,001
Taxes Collected	331,358	1,492,632	1,884,576	427,145
Less: Sheriff's Commissions*	14,083	62,519	70,670	18,154
Taxes Due Districts	317,275	1,430,113	1,813,906	408,991
Taxes Paid	316,813	1,428,029	1,811,341	408,161
Payment made after Settlement		31		
Refunds (Current and Prior Year)	462	2,053	2,565	830
Taxes Due Districts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	1,884,088
4% on	\$	367,047
3.75% on	\$	1,884,576

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

ESTILL 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 Estill 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 former Estill County 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.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2018
(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 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 April 17, 2018 through December 31, 2018.

Note 4. Interest Income

The former Estill County Sheriff earned \$26 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

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 Donnie Watson, Estill County Judge/Executive
The Honorable Gary Freeman, Former Estill County Sheriff
The Honorable Christopher Flynn, Estill County Sheriff
Members of the Estill 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 Estill 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 September 19, 2019. The former Estill 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 Estill 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 Estill County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Estill 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 2018-002 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 Estill 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

Views of Responsible Official and Planned Corrective Action

The former Estill 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 former Estill 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

September 19, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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ESTILL COUNTY
GARY FREEMAN, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

STATE LAWS AND REGULATIONS:

2018-001 The Former Sheriff Did Not Make Daily Deposits

This is a prior year finding and was included in the prior year audit report as finding 2017-002. The former sheriff did not make daily deposits as required. The auditor randomly selected one week during October 2018 to test. During the October dates, it appeared that deposits were not made daily even though collections on hand were significant.

Daily deposits were not made because the former sheriff did not adopt a policy requiring daily deposits. Failure to make daily deposits increases the risk of undetected errors and misappropriation of assets. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* which states, "daily deposits intact into a federally insured banking institution."

We recommend the sheriff's office make daily deposits in order to comply with the Department for Local Government's requirements and to reduce the risk of undetected errors and misappropriation of assets.

Former Sheriff's Response: Will forward to next Sheriff.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2017-003. The former sheriff's office lacked adequate segregation of duties over receipts, disbursements, and reconciliations. The former sheriff's bookkeeper received payments for taxes, recorded receipts in the ledger, prepared bank deposits, and performed monthly bank reconciliations. Additionally, the same employee prepared checks for payments from the tax account, recorded disbursements in the ledger, and prepared monthly reports reflecting amounts to be paid to each taxing district.

The lack of adequate segregation of duties was a result of a limited budget, which restricted the number of employees the former sheriff could hire or delegate these duties to. A lack of adequate segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting.

Good internal controls dictate the same employee should not handle, record, and reconcile receipts. Further, the same employee should not be responsible for preparing, recording, and reconciling disbursements. 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.

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

- The sheriff or his designee should compare the daily bank deposit to the daily checkout sheet, and then compare the daily checkout sheet to the receipts ledger.

ESTILL COUNTY
GARY FREEMAN, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through December 31, 2018
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2018-002 The Former Sheriff's Office Lacked Adequate Segregation Of Duties (Continued)

- The sheriff or his designee should compare the monthly financial reports to the receipts and disbursements ledgers for accuracy.
- The sheriff or his designee should periodically compare the amounts due districts per the monthly reports to the payments to the taxing districts.
- The sheriff or his designee should periodically compare the monthly bank reconciliation to the balance in the checkbook.
- All disbursement checks should be signed by two people, with one being the sheriff or his designee.
- The sheriff or his designee should personally mail or deliver tax payments to the taxing districts.

All of the compensating controls should have been documented by the sheriff's office by initialing and dating the documents used to perform the comparisons.

Former Sheriff's Response: Will forward to next Sheriff.