

**REPORT OF THE AUDIT OF THE  
PULASKI COUNTY  
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period  
April 16, 2015 Through April 15, 2016**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT OF THE  
PULASKI COUNTY  
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period  
April 16, 2015 Through April 15, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Pulaski County Sheriff for the period April 16, 2015 through April 15, 2016. 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 2015 taxes of \$25,862,390 for the districts, retaining commissions of \$874,878 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$24,926,863 to the districts. Refunds of \$20,233 are due to the sheriff from the taxing districts.

**Report Comments:**

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts  
2015-002 Franchise Tax Bills Were Not Properly Reviewed For Accuracy Prior To Billing

**Deposits:**

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



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**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 Steve Kelley, Pulaski County Judge/Executive  
Honorable Greg Speck, Pulaski County Sheriff  
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Pulaski County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - 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  
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### **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 Pulaski 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 Pulaski County Sheriff, for the period April 16, 2015 through April 15, 2016.

### **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, 2015 through April 15, 2016 of the Pulaski 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 March 2, 2017 on our consideration of the Pulaski 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 Pulaski County Sheriff's internal control over financial reporting and compliance.

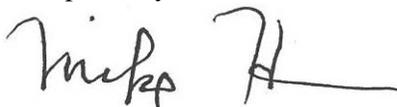
To the People of Kentucky

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Honorable Greg Speck, Pulaski County Sheriff  
Members of the Pulaski County Fiscal Court

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

- 2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts
- 2015-002 Franchise Tax Bills Were Not Properly Reviewed For Accuracy Prior To Billing

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

March 2, 2017

PULASKI COUNTY  
GREG SPECK, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

| <u>Charges</u>   | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|--|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate  | \$ 1,612,442        | \$ 3,493,624                        | \$13,798,537        | \$ 3,857,213       |
| Tangible Personal Property   | 152,676             | 372,354                             | 982,103             | 1,246,535          |
| Fire Protection  | 844                 |                                     |                     |                    |
| Increases Through Exonerations   | 203                 | 442                                 | 2,082               | 533                |
| Franchise Taxes  | 73,433              | 169,267                             | 603,863             |                    |
| Additional Billings  | 695                 | 1,610                               | 6,384               | 1,370              |
| Unmined Coal - 2015 Taxes  | 1                   | 2                                   | 7                   | 2                  |
| Oil Property Taxes   | 1                   | 3                                   | 14                  | 3                  |
| Limestone, Sand and Gravel Reserves                                    | 322                 | 697                                 | 3,300               | 770                |
| Bank Franchises  | 237,791             |                                     |                     |                    |
| Penalties  | 7,789               | 16,952                              | 68,496              | 19,965             |
| Adjusted to Sheriff's Receipt  | (73)                | (586)                               | 2                   | (342)              |
| Gross Chargeable to Sheriff  | <u>2,086,124</u>    | <u>4,054,365</u>                    | <u>15,464,788</u>   | <u>5,126,049</u>   |
| <br><u>Credits</u>   |                     |                                     |                     |                    |
| Exonerations   | 4,832               | 10,486                              | 44,330              | 11,656             |
| Discounts  | 33,539              | 63,148                              | 239,035             | 85,011             |
| Delinquents:   |                     |                                     |                     |                    |
| Real Estate  | 25,172              | 54,511                              | 226,040             | 60,184             |
| Tangible Personal Property   | 813                 | 1,953                               | 3,809               | 4,405              |
| Unmined Coal - 2015 Taxes  | 1                   | 2                                   | 7                   | 2                  |
| Total Credits  | <u>64,357</u>       | <u>130,100</u>                      | <u>513,221</u>      | <u>161,258</u>     |
| Taxes Collected  | 2,021,767           | 3,924,265                           | 14,951,567          | 4,964,791          |
| Less: Commissions *  | <u>85,925</u>       | <u>166,781</u>                      | <u>411,168</u>      | <u>211,004</u>     |
| Taxes Due  | 1,935,842           | 3,757,484                           | 14,540,399          | 4,753,787          |
| Taxes Paid   | 1,943,614           | 3,753,163                           | 14,494,285          | 4,735,801          |
| Refunds (Current and Prior Year)                                       | <u>3,834</u>        | <u>8,559</u>                        | <u>50,179</u>       | <u>18,300</u>      |
| Due Districts or<br>(Refunds Due Sheriff)<br>as of Completion of Audit | <u>\$ (11,606)</u>  | <u>\$ (4,238)</u>                   | <u>\$ (4,065)</u>   | <u>\$ (314)</u>    |

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\*, \*\*, and \*\*\* - See next page.

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

PULASKI COUNTY  
 GREG SPECK, SHERIFF  
 SHERIFF'S SETTLEMENT - 2015 TAXES  
 For The Period April 16, 2015 Through April 15, 2016  
 (Continued)

\* Commissions:

4.25% on \$ 10,910,823

2.75% on \$ 14,951,567

\*\* Special Taxing Districts:

|                    |              |
|--------------------|--------------|
| Library District   | \$ (2,559)   |
| Health District    | (1,006)      |
| Extension District | <u>(673)</u> |

|                       |                   |
|-----------------------|-------------------|
| (Refunds Due Sheriff) | <u>\$ (4,238)</u> |
|-----------------------|-------------------|

\*\*\* School Districts:

|                                   |                |
|-----------------------------------|----------------|
| Pulaski County Board of Education | \$ (2,852)     |
| Science Hill Independent School   | <u>(1,213)</u> |

|                       |                   |
|-----------------------|-------------------|
| (Refunds Due Sheriff) | <u>\$ (4,065)</u> |
|-----------------------|-------------------|

PULASKI COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

Note 2. Deposits

The Pulaski 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.

PULASKI COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2016  
(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 Pulaski 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 21, 2015 through April 15, 2016.

B. Oil, Limestone, Sand and Gravel Taxes

The real estate property tax assessments were levied as of January 1, 2015. Property taxes are billed to financial government services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2015 through May 25, 2016.

C. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2015. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 23, 2016 through August 15, 2016.

Note 4. Interest Income

The Pulaski County Sheriff earned \$778 as interest income on 2015 taxes. The sheriff was in substantial compliance with his statutory responsibility regarding interest.

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

The Pulaski County Sheriff collected \$103,279 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*





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Steve Kelley, Pulaski County Judge/Executive  
Honorable Greg Speck, Pulaski County Sheriff  
Members of the Pulaski 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 Pulaski County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 2, 2017. The Pulaski 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 Pulaski 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 Pulaski County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pulaski 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 a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 comments and recommendations as item 2015-001 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)

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiency described in the accompanying comments and recommendations as item 2015-002 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Pulaski 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

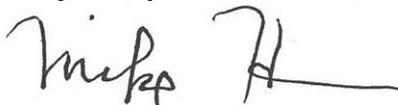
**Sheriff's Responses to Findings**

The Pulaski County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The 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

March 2, 2017

COMMENTS AND RECOMMENDATIONS



PULASKI COUNTY  
GREG SPECK, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 15, 2016

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

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The Pulaski County Sheriff's office lacks adequate segregation of duties over the receipt of tax payments. This control deficiency is present because one employee is collecting payments from customers and is responsible for verifying individual checkout sheets, preparing an office wide checkout sheet, preparing the daily deposit, and preparing the monthly tax reports. No documented oversight of these processes occurs. To adequately protect against misappropriation of assets and inaccurate financial reporting, the sheriff should separate the duties of preparing cash deposits, preparing daily checkout sheets, and preparing monthly tax reports. If this is not feasible due to a limited budget, cross checking procedures could be implemented and documented by the individual performing the procedure. The lack of oversight could result in undetected misappropriation of assets, and inaccurate financial reporting to external agencies such as the taxing districts.

The segregation of duties over various accounting functions, such as preparing cash deposits, preparing daily checkout sheets, preparing monthly tax 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 separate the duties related to receipt processing, or implement effective compensating controls to offset the effects of this weakness. If the sheriff chooses to implement compensating controls, he should document his oversight on the appropriate source document.

*Sheriff's Response: We have designated two individuals from our dispatch office to recount and verify our daily deposits. The two clerks are not involved with daily tax collections.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2015-002 Franchise Tax Bills Were Not Properly Reviewed For Accuracy Prior To Billing

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Assessments for three franchise companies were amended during the 2015 tax year. The tax bills were prepared on the amended assessment amounts, however, no credits were given for the taxes already paid for the original bills. Therefore, these franchise companies are due a refund. A two percent discount was applied to the amended tax bills. These errors occurred due to a lack of review and internal controls over the franchise bill preparation process. As a result of the billing errors, the three franchise companies are due back refunds totaling \$10,410. In addition, taxing districts were paid inaccurate monthly tax distributions.

Good internal controls dictate that strong oversight over franchise bill preparation should have been in place, ensuring all bills prepared were accurate. This would have ensured taxpayers were paid correct amounts and the taxing districts received the proper amount due. Additionally, KRS 134.015(6) states, in part, "[a] tax bill issued against omitted property or an increase in valuation over that claimed by the taxpayer. . . shall be due the day the bill is prepared and shall be considered delinquent on that date." Therefore, amended bills are not eligible for the two percent discount.

The sheriff should contact the taxing districts to collect then disburse the refunds to the three franchise companies. The sheriff, in connection with the county clerk, should have internal controls in place to ensure all franchise bills are reviewed and accurate and that the bills comply with KRS 134.015(6).

PULASKI COUNTY  
GREG SPECK, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2015-002 Franchise Tax Bills Were Not Properly Reviewed For Accuracy Prior To Billing (Continued)

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*Sheriff's Response: The County Clerk's bookkeeper has already been contacted and has agreed to forward emails sent to her by the state regarding franchise bills. Also the tax clerk will make monthly phone calls to follow-up on the emails.*

