

**REPORT OF THE AUDIT OF THE
JOHNSON COUNTY
SHERIFF'S SETTLEMENT - 2020 TAXES**

**For The Period
May 16, 2020 Through May 17, 2021**



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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
SHERIFF’S SETTLEMENT - 2020 TAXES	3
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 Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Mark McKenzie, Johnson County Judge/Executive

The Honorable Doug Saylor, Johnson County Sheriff

Members of the Johnson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Johnson County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through May 17, 2021 - 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 Mark McKenzie, Johnson County Judge/Executive
The Honorable Doug Saylor, Johnson County Sheriff
Members of the Johnson 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 Johnson 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 Johnson County Sheriff, for the period May 16, 2020 through May 17, 2021.

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 May 16, 2020 through May 17, 2021 of the Johnson 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 April 29, 2022, on our consideration of the Johnson 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 Johnson County Sheriff's internal control over financial reporting and compliance.

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:

2020-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

April 29, 2022

JOHNSON COUNTY
DOUG SAYLOR, SHERIFF
SHERIFF'S SETTLEMENT - 2020 TAXES

For The Period May 16, 2020 Through May 17, 2021

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 696,755	\$ 1,435,242	\$ 2,846,089	\$ 904,298
Tangible	65,709	161,381	160,245	218,510
Fire Dues		146,510		
Additional School			345,348	
Fire Protection	3,182			
Total Per Sheriff's Official Receipt	765,646	1,743,133	3,351,682	1,122,808
<u>Other Taxes & Charges</u>				
Franchise Taxes	138,293	315,765	704,730	
Additional Billings	386	795	2,181	501
Unmined Coal - 2020 Taxes	1,785	3,676	11,241	2,317
Oil and Gas Property Taxes	3,641	7,501	22,933	4,726
Penalties	3,902	9,291	18,234	5,141
Gross Chargeable to Sheriff	913,653	2,080,161	4,111,001	1,135,493
<u>Credits</u>				
Exonerations	4,682	10,589	19,571	6,063
Discounts	11,210	25,454	52,264	15,794
Delinquent Real Estate	47,464	111,836	231,209	61,412
Delinquent Tangible	6,143	14,933	30,729	25,019
Total Credits	69,499	162,812	333,773	108,288
Taxes Collected	844,154	1,917,349	3,777,228	1,027,205
Less: Sheriff's Commissions*	35,883	77,259	151,075	43,656
Taxes Due Districts	808,271	1,840,090	3,626,153	983,549
Taxes Paid	806,808	1,837,279	3,624,692	981,413
Refunds (Current and Prior Year)	1,652	3,390	1,375	2,144
Taxes Due Districts (Refund Due Sheriff)	\$ (189)	\$ (579)	\$ 86	\$ (8)

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* and ** See next page.

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

JOHNSON COUNTY
DOUG SAYLOR, SHERIFF
SHERIFF'S SETTLEMENT - 2020 TAXES
For The Period May 16, 2020 Through May 17, 2021
(Continued)

* Commissions:

4.25% on	\$	3,658,359
4% on	\$	3,777,228
1% on	\$	130,349

** Special Taxing Districts:

Library District	\$	(251)
Health District		(123)
Extension District		<u>(205)</u>

(Refunds Due Sheriff)	<u>\$</u>	<u>(579)</u>
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JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT

May 17, 2021

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 prepares 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 Johnson County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

JOHNSON COUNTY
NOTES TO FINANCIAL STATEMENT
May 17, 2021
(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 Johnson County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of May 17, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Periods

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2020. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2021. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 9, 2020 through May 17, 2021.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2020. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 23, 2020 through May 15, 2021.

C. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2020. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 25, 2020 through July 15, 2021.

D. 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 May 16, 2020 through May 17, 2021.

Note 4. Interest Income

The Johnson County Sheriff earned \$860 as interest income on 2020 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Johnson County Sheriff collected \$33,417 of 10% add-on fees allowed by KRS 134.119(7). As of April 29, 2022, the sheriff owed \$4,982 in 10% add-on fees to his fee account.

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 Mark McKenzie, Johnson County Judge/Executive
The Honorable Doug Saylor, Johnson County Sheriff
Members of the Johnson 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 Johnson County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through May 17, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 29, 2022. The Johnson 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 Johnson County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 Johnson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Johnson 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 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 2020-001 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 Johnson 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 financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Views of Responsible Official and Planned Corrective Action

The Johnson County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Johnson County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

April 29, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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JOHNSON COUNTY
DOUG SAYLOR, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2020 Through May 17, 2021

INTERNAL CONTROL - MATERIAL WEAKNESS:

2020-001 The Sheriff's Office Does Not have Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The sheriff's office does not have adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper may collect tax payments, prepare the daily checkout sheet, deposits, and monthly tax reports. Upon completion of the monthly tax reports, the bookkeeper prepares and signs checks, and performs bank reconciliations. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

The sheriff indicated that this was caused by a limited number of employees that were available to segregate these job duties. By not segregating these duties, there is a risk that undetected errors or fraud could occur. 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 that if these duties cannot be segregated, the sheriff should implement and document compensating controls to help offset this weakness.

Sheriff's Response: Johnson County Sheriffs office has adapted to and implemented reviews per advice of the auditors which should satisfy segregation of duties.