

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

**For The Period  
May 16, 2020 Through April 15, 2021**



**MIKE HARMON  
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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 Jimmie W. Greene II, McCreary County Judge/Executive

The Honorable Randy Waters, McCreary County Sheriff

Members of the McCreary County Fiscal Court

**Independent Auditor's Report**

**Report on the Financial Statement**

We have audited the McCreary County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 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 Jimmie W. Greene II, McCreary County Judge/Executive  
The Honorable Randy Waters, McCreary County Sheriff  
Members of the McCreary 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 McCreary 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 McCreary County Sheriff, for the period May 16, 2020 through April 15, 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 April 15, 2021 of the McCreary 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 February 9, 2022, on our consideration of the McCreary 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 McCreary 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 McCreary County Sheriff's Office Does Not Have Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon  
Auditor of Public Accounts

February 9, 2022

MCCREARY COUNTY  
RANDY WATERS, SHERIFF  
SHERIFF'S SETTLEMENT - 2020 TAXES

For The Period May 16, 2020 Through April 15, 2021

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 351,265	\$ 1,066,645	\$ 1,584,338	\$ 485,645
Tangible	40,885	31,217	79,713	70,335
Total Per Sheriff's Official Receipt	392,150	1,097,862	1,664,051	555,980
<u>Other Taxes &amp; Charges</u>				
Court Ordered Increases	310	880	1,334	451
Franchise Taxes	61,539	80,214	124,550	
Additional Billings	8	24	36	11
Unmined Coal - 2020 Taxes	23	69	104	32
Oil and Gas Property Taxes	433	802	1,960	601
Limestone, Sand, and Gravel Reserves	352	652	1,592	488
Penalties	2,784	8,200	12,420	3,820
Gross Chargeable to Sheriff	457,599	1,188,703	1,806,047	561,383
<u>Credits</u>				
Exonerations	2,874	8,586	12,998	3,984
Discounts	6,143	16,562	25,170	8,391
Delinquent Real Estate	11,885	35,436	53,642	16,443
Delinquent Tangible	153	192	299	158
Delinquent Gas	433	802	1,960	601
Delinquent Oil	228	423	1,032	316
Delinquent Franchise	65	82	127	
Total Credits	21,781	62,083	95,228	29,893
Taxes Collected	435,818	1,126,620	1,710,819	531,490
Less: Sheriff's Commissions*	18,522	33,916	51,325	22,588
Taxes Due Districts	417,296	1,092,704	1,659,494	508,902
Taxes Paid	415,718	1,088,098	1,652,513	506,782
Refunds (Current and Prior Year)	1,578	4,606	6,981	2,120
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ 0	\$ 0	\$ 0

\* Commissions:

4.25% on	\$	1,664,215
3% on	\$	1,710,819
1% on	\$	429,713

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

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 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 McCreary County Sheriff maintained deposits of public funds with federally insured banking institutions as required by 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.



MCCREARY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 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 sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of *DLG County Budget Preparation and State Local Finance Officer Policy Manual*. As of April 15, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2020, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$13,989

Note 3. Tax Collection Period

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 September 28, 2020 through April 15, 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 June 7, 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, 2021 through June 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 July 23, 2021.

Note 4. Interest Income

The McCreary County Sheriff earned \$93 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 McCreary County Sheriff collected \$24,738 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*

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

The Honorable Jimmie W. Greene II, McCreary County Judge/Executive  
The Honorable Randy Waters, McCreary County Sheriff  
Members of the McCreary 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 McCreary County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 9, 2022. The McCreary 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 McCreary 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 McCreary County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary 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 McCreary 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*.

**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

February 9, 2022

## SCHEDULE OF FINDINGS AND RESPONSES

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MCCREARY COUNTY  
RANDY WATERS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2020 Through April 15, 2021

INTERNAL CONTROL - MATERIAL WEAKNESS:

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

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This is a repeat finding and was included in the prior year audit report as finding 2019-001. A lack of adequate segregation of duties existed over all accounting functions. The sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, prepares monthly tax reports, prepares tax disbursements and signs those disbursements.

According to the sheriff, a limited budget placed restrictions on the number of employees that can be hired. A lack of segregation of duties or strong compensating controls could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

A segregation of duties over various accounting functions, such as collection of taxes, preparation of monthly reports and preparation of tax disbursements to the districts or the implementation of compensating controls because the number of staff is limited, 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 involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to the ledgers. However, if an adequate segregation of duties is not feasible, compensating controls should be implemented and documented by the individual performing the procedure.

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