

**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
SHERIFF'S SETTLEMENT - 2021 TAXES**

**For The Period
April 16, 2021 Through August 31, 2022**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Rick Stiltner, Menifee County Judge/Executive

The Honorable Roger Smallwood, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Menifee County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - Regulatory Basis, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statement presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2021 through August 31, 2022 of the Menifee County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

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 section of our report, the financial statement 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 Menifee County Sheriff, for the period April 16, 2021 through August 31, 2022.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and 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*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Menifee County Sheriff and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky
 The Honorable Andy Beshear, Governor
 Holly M. Johnson, Secretary
 Finance and Administration Cabinet
 The Honorable Rick Stiltner, Menifee County Judge/Executive
 The Honorable Roger Smallwood, Menifee County Sheriff
 Members of the Menifee County Fiscal Court

Basis for Opinion (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 Menifee 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 and budget laws, 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 and pervasive.

Responsibilities of Management 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 and budget laws. 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 Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not an absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Menifee County Sheriff's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Menifee County Sheriff's ability to continue as a going concern for a reasonable period of time.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Rick Stiltner, Menifee County Judge/Executive
The Honorable Roger Smallwood, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Auditor's Responsibilities for the Audit of the Financial Statement (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023, on our consideration of the Menifee County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Menifee 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 findings:

- 2021-001 The Sheriff's Annual Settlement Was Materially Misstated
- 2021-002 The Sheriff's Office Does Not Have Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a horizontal line.

Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

April 27, 2023

MENIFEE COUNTY
 ROGER SMALLWOOD, SHERIFF
SHERIFF'S SETTLEMENT - 2021 TAXES

For The Period April 16, 2021 Through August 31, 2022

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Real Estate	\$ 194,758	\$ 781,233	\$ 837,461	\$ 193,136
Tangible	8,382	29,261	32,814	26,466
Fire Protection	1,212			
Total Per Sheriff's Official Receipt	204,352	810,494	870,275	219,602
<u>Other Taxes & Charges</u>				
Court Ordered Increases	50	194	209	48
Franchise Taxes	118,281	412,317	468,023	
Additional Billings	61	245	263	55
Limestone, Sand, and Gravel Reserves	136	542	583	134
Penalties	1,013	4,044	4,339	1,001
Gross Chargeable to Sheriff	323,893	1,227,836	1,343,692	220,840
<u>Credits</u>				
Exonerations	4,596	18,295	19,681	4,950
Discounts	3,076	12,124	13,060	3,183
Delinquent Real Estate	9,191	36,864	39,521	9,252
Delinquent Tangible	27	93	104	15
Total Credits	16,890	67,376	72,366	17,400
Taxes Collected	307,003	1,160,460	1,271,326	203,440
Less: Sheriff's Commissions*	13,048	41,654	50,853	8,646
Taxes Due Districts	293,955	1,118,806	1,220,473	194,794
Taxes Paid	294,034	1,119,052	1,220,804	194,853
Taxes (Refunded) to Sheriff				
After Settlement Date	(130)	(449)	(561)	
Refunds (Current and Prior Year)	51	203	230	48
Taxes Due Districts (Refund Due Sheriff)	\$ 0	\$ 0	\$ 0	\$ (107)

* Commissions:

4.25% on	\$ 1,234,056
4% on	\$ 1,489,063
1% on	\$ 219,110

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

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

August 31, 2022

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 Menifee 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.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
August 31, 2022
(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 Menifee 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 August 31, 2022, 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, 2021. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2022. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2021 through April 18, 2022.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2021. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 1, 2022 through August 15, 2022.

C. 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 16, 2021 through May 31, 2022.

Note 4. Sheriff's 10% Add-On Fee

The Menifee County Sheriff collected \$7854 of 10% add-on fees allowed by KRS 134.119(7). As of April 27, 2023, the sheriff owed \$1,842 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

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

The Honorable Rick Stiltner, Menifee County Judge/Executive
The Honorable Roger Smallwood, Menifee County Sheriff
Members of the Menifee County Fiscal Court

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 Menifee County Sheriff's Settlement - 2021 Taxes for the period April 16, 2021 through August 31, 2022 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated April 27, 2023. The Menifee 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Menifee 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 Menifee County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Menifee 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 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 Schedule of Findings and Responses as item 2021-001 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 Schedule of Findings and Responses as item 2021-002 to be a significant deficiency.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Menifee 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 Menifee 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 Menifee 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,

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Mike Harmon
Auditor of Public Accounts
Frankfort, Ky

April 27, 2023

SCHEDULE OF FINDINGS AND RESPONSES

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MENIFEE COUNTY
ROGER SMALLWOOD, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2021 Through August 31, 2022

INTERNAL CONTROL – MATERIAL WEAKNESS:

2021-001 The Sheriff's Annual Settlement Was Materially Misstated

This is a repeat finding and was included in the prior year audit report as finding 2020-001. The sheriff's annual settlement was materially misstated due to a month of franchise collections not being included. As a result of this omission, the following adjustments had to be made to the annual settlement:

- Franchise Taxes of \$390,147
- Franchise Taxes Paid \$375,169
- Commissions of \$14,978

The sheriff did not implement proper internal controls to ensure the activity for tax collections was accurately reflected in the annual tax settlement. By not having an accurate tax settlement the fiscal court cannot determine whether problems exist in tax collections. Effective internal controls over financial reporting are essential to ensure financial reports are accurate. The settlement shall show the amount of taxes collected and disbursed for the county, school, and each taxing district.

We recommend the sheriff's office prepare an accurate annual settlement.

Sheriff's Response: After the deadline for paying property tax, our office still received Franchise payments, which comes throughout the year. Rather than do these payments on the Tax Program [software name redacted] the previous Office Manager chose to do those manually. Therefore, creating the issue that the Sheriff's Settlement was incorrect. Our office is taking steps to correct this problem by using the Tax Program to make and record franchise payments. This started on April 27, 2023.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

2021-002 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 2020-002. The sheriff's office does not have adequate segregation of duties. The employee responsible for handling tax receipts also records the receipts in the ledger and prepares the bank deposits.

The sheriff indicated that this was caused by a limited number of employees that were available to segregate these job duties. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which increases the risk of 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. If this is not feasible due to budgetary constraints, cross checking procedures could be implemented and documented by the individual performing the procedure.

MENIFEE COUNTY
ROGER SMALLWOOD, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2021 Through August 31, 2022
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2021-002 The Sheriff's Office Does Not Have Adequate Segregation Of Duties (Continued)

We recommend the sheriff segregate duties over accounting functions. If these duties cannot be segregated, the sheriff should implement and document compensating controls to help offset this weakness, such as:

- Recount and make the daily deposits.
- Agree daily tax collections total to the receipts ledger and deposit slip.
- Agree monthly tax reports to receipts ledger and disbursements ledger.

Sheriff's Response: The Menifee Sheriff's office is a small department operating on a budget of approximately \$700,000 per year. We employ two (2) office personnel, (Office Manager & Tax Clerk) which both work part time. Both employees are very conscientious with the monies that come in/out of this office. The duties are divided between this office staff as much as possible. Under their management there has been no findings of mismanagement/misconduct of any nature. Due to tax revenue of this county, we are employing the greatest number of office staff possible.