

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

**For The Period
April 17, 2018 Through April 15, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

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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 James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Powell County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - 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 James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell 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 Powell County Sheriff, for the period April 17, 2018 through April 15, 2019.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2018 through April 15, 2019 of the Powell 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 June 24, 2022, on our consideration of the Powell 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 Powell County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

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

- 2018-001 The Powell County Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2018-002 The Powell County Sheriff Did Not Include All Required Information On His Annual Franchise Tax Settlement
- 2018-003 The Powell County Sheriff Did Not Properly Report And Distribute Franchise Tax Collections
- 2018-004 The Powell County Sheriff Did Not Have Adequate Internal Controls In Place To Ensure Guidelines For Penalty And Add-on Fee Waivers Were Followed And Did Not Apply Discounts Properly
- 2018-005 The Powell County Sheriff Has Not Settled Prior Year Accounts

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts

June 24, 2022

POWELL COUNTY
DANNY ROGERS, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

For The Period April 17, 2018 Through April 15, 2019

	County	Special Taxing Districts	School	State
<u>Charges</u>				
Total Per Sheriff's Official Receipt	\$ 424,417	\$ 692,692	\$ 1,759,339	\$ 576,190
<u>Other Taxes & Charges</u>				
Court Ordered Increases	13	22	55	16
Franchise Taxes	341,780	484,008	1,268,707	
Additional Billings	112	167	458	135
Mineral Charges	1,288	2,119	5,383	1,556
Penalties	3,536	5,788	14,701	4,454
Gross Chargeable to Sheriff	771,146	1,184,796	3,048,643	582,351
<u>Credits</u>				
Exonerations	2,565	4,203	10,704	3,096
Discounts	6,488	10,464	26,830	8,204
Delinquent Franchise Taxes	1,698	2,252	6,163	
Delinquent Real Estate	17,513	28,758	73,043	21,117
Delinquent Tangible	209	344	875	214
Total Credits	28,473	46,021	117,615	32,631
Taxes Collected	742,673	1,138,775	2,931,028	549,720
Less: Sheriff's Commissions*	31,563	48,398	117,241	23,363
Taxes Due Districts	711,110	1,090,377	2,813,787	526,357
Taxes Paid	711,065	1,090,345	2,813,704	526,332
Refunds (Current and Prior Year)	20	32	83	25
Taxes Due Districts	\$ 25	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on \$ 2,431,168

4% on \$ 2,931,028

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

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2019

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Preparation of State Settlement

The Kentucky Department of Revenue conducts the settlement relating to taxes collected for the state under the provision of KRS 134.192(2)(a). This is reported as the "State Taxes" column on the financial statement.

Note 2. Deposits

The Powell 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.

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 Powell 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 April 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2019
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2018 through April 15, 2019.

B. Oil Property Taxes

The oil property tax assessments were levied as of January 1, 2018. 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 17, 2019 through May 15, 2019. On the sheriff's settlement, oil property taxes are included with mineral charges.

C. Clay Property Taxes

The clay property tax assessments were levied as of January 1, 2018. 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 17, 2019 through May 15, 2019. On the sheriff's settlement, clay property taxes are included with mineral charges.

D. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2018. 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 17, 2019 through May 15, 2019. On the sheriff's settlement, limestone, sand, and gravel property taxes are included with mineral charges.

E. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 17, 2018 through April 15, 2019.

Note 4. Interest Income

The Powell County Sheriff earned \$189 as interest income on 2018 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Powell County Sheriff collected \$22,000 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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 James Anderson, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell 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 Powell County Sheriff's Settlement - 2018 Taxes for the period April 17, 2018 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated June 24, 2022. The Powell 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 Powell 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 Powell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 to be material weaknesses.



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 Powell County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2018-002, 2018-003, 2018-004, and 2018-005.

Views of Responsible Official and Planned Corrective Action

The Powell 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 Powell 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

June 24, 2022

SCHEDULE OF FINDINGS AND RESPONSES

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POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 17, 2018 Through April 15, 2019

FINANCIAL STATEMENT FINDINGS:

2018-001 The Powell County 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 2017-002. The sheriff's office does not have adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger, and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities. A lack of oversight could result in misappropriation of assets or inaccurate financial reporting to external agencies such as the Department of Revenue.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations, and comparing financial reports to ledgers. If this is not feasible due to budgetary constraints, compensating controls could be implemented and documented by the individual performing the procedure.

Sheriff's Response: Payments are taken by Sheriff and other Clerk and both have been active in making deposit and counting money, adding checks and reviewing bank statements and monthly reports. Bank Statements are reconciled and initialed.

2018-002 The Powell County Sheriff Did Not Include All Required Information On His Annual Franchise Tax Settlement

The sheriff presented his annual franchise tax settlement to the fiscal court on June 11, 2019, but it only included the grand total for taxes collected and commissions, and the amounts paid to each taxing district. The sheriff was unaware that his settlement should include a detailed listing of the amount of franchise taxes collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts.

As a result, the sheriff's annual franchise tax settlement was materially misstated. Material audit adjustments were required to correct the sheriff's annual franchise settlement to include all required category amounts listed above for each taxing district.

Proper controls over the preparation of the sheriff's annual franchise tax settlement would ensure the appropriate itemization of these taxes are included on the sheriff's annual franchise tax settlement. Further, KRS 134.192(5) states, in part, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

We recommend the sheriff implement controls to ensure that all franchise taxes collected and disbursed for each taxing district are included in an itemized statement on his annual franchise tax settlement in the future.

Sheriff's Response: Since 2018 this matter has been resolved.

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-003 The Powell County Sheriff Did Not Properly Report And Distribute Franchise Tax Collections

The Powell County Sheriff received franchise tax collections in October 2018. However, these collections were not reported on the monthly tax report until November and were not paid to the taxing districts until December. Additionally, the sheriff did not turn over three delinquent franchise bills to the county clerk as required. This was caused by a lack of oversight by the sheriff.

Failure to distribute tax collections to the proper districts when required delays monies due the districts which could be used to operate their offices. In addition, failure to turn over delinquent franchise tax bills to the county clerk is a violation of KRS 134.122.

KRS 134.191 requires the sheriff to report, by the tenth day of each month, the amount of taxes, fines, forfeitures, or other monies collected by him for the preceding month. KRS 134.191(3) states, “[a]t the time of making the report, the sheriff shall pay to the county treasurer or other officer designated by the governing body of a county, to the department, and to any other district for which the sheriff collects taxes, all funds belonging to the county, the state, or the district that were collected during the period covered by the report.” KRS 134.122(1)(a) states, in part, “[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]”

We recommend the sheriff properly report and distribute all tax collections received in the proper timeframe by adhering to KRS 134.191 and turn over all remaining franchise bills to the county clerk as delinquent in accordance with the tax collection schedule.

Sheriff's Response: October is a busy time and the Franchise was overlooked and then paid out the next month. As far as turning over delinquent Franchise there are many opinions from different auditors. However we did not turn those over and tried to collect.

Auditor's Reply: As stated, KRS 134.122(1)(a) states, “[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk...”

2018-004 The Powell County Sheriff Did Not Have Adequate Internal Controls In Place To Ensure Guidelines For Penalty And Add-on Fee Waivers Were Followed And Did Not Apply Discounts Properly

The Powell County Sheriff did not have adequate internal controls in place to ensure compliance with the proper guidelines for granting penalty and add-on fee waivers to certain taxpayers. Additionally, the sheriff applied discounts to collections that did not meet the criteria to receive a discount, specifically, six instances were noted in which the discount was misapplied on the last day of collections, including bills in the sheriff's name and the sheriff's bookkeeper's name. Finally, the sheriff failed to maintain proper documentation of waiver forms.

Per the guidance of KRS 134.015, taxpayers may receive a 2% discount for paying tax bills in full by November 1 of the assessment year. Taxes paid in full between November 2 and December 31 of the assessment year are paid at “face value,” meaning the total amount of tax calculated is paid. Taxes paid in full between January 1 and January 31 of the year following the assessment year shall be subject to a penalty of 5% of the taxes due and unpaid. Taxes paid after January 31 of the year following the assessment year shall be subject to a penalty of 10% of the taxes due and unpaid. (KRS 134.015(2)(c),(d))

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Powell County Sheriff Did Not Have Adequate Internal Controls In Place To Ensure Guidelines For Penalty And Add-on Fee Waivers Were Followed And Did Not Apply Discounts Properly
(Continued)

Additionally, KRS 134.119(7) states, “[a]s additional compensation for the collection of delinquent taxes, the sheriff shall be entitled to an amount equal to ten percent (10%) of the total taxes due plus ten percent (10%) of the ten percent (10%) penalty for all delinquent taxes. This fee shall be added to the total amount due and shall be paid by the person paying the tax claim if payment is made to the sheriff, or the certificate of delinquency or personal property certificate of delinquency if payment is made after the tax claim has been filed with the county clerk.”

The sheriff can accept bills that are received in the mail with a proper postmark as if those bills were actually paid on that date (KRS 134.119). Therefore, there will inevitably be bills that are received a few days after the cut-off date of the collection periods that are processed as if those bills were received in a different period. Our test results account for postmarked bills and these have not been reported in the totals.

The tax collection schedule for the Powell County Sheriff was as follows:

Discount Period: if paid by November 30, 2018
Face Period: if paid by December 31, 2018
5% Penalty Period: if paid by January 31, 2019
21% Penalty Period: if paid after January 31, 2019

As outlined in the following table, numerous tax bills were noted in which a discount was applied outside the applicable discount period, or a penalty/add-on fee was waived without showing reasonable cause as is required to be documented when waivers are granted. Specifically, there were 44 documented instances of misapplied discounts and waivers totaling \$2,237. Of this, we noted several misapplied discounts and waived penalties/add-on fees for the sheriff and taxpayers that have a personal connection to the sheriff’s office such as other elected officials, sheriff’s office employees, sheriff’s special deputies, and relatives of the sheriff, employees, or special deputies.

Add-on fees waived without proper documentation	\$	758
5% penalties waived without proper documentation		362
10% penalties waived without proper documentation		676
Discounts misapplied in face/penalty period		<u>441</u>
Total undocumented waivers of add-on fees/penalties and misapplied discounts	\$	<u>2,237</u>

POWELL COUNTY
 DANNY ROGERS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 17, 2018 Through April 15, 2019
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-004 The Powell County Sheriff Did Not Have Adequate Internal Controls In Place To Ensure Guidelines For Penalty And Add-on Fee Waivers Were Followed And Did Not Apply Discounts Properly
 (Continued)

According to the sheriff, he was unaware of the statutory, regulatory, and manual guidelines in place for penalty waivers or discounts. By waiving penalties and add-on fees of persons not having shown reasonable cause, the sheriff has denied taxing districts and his office monies that could have been used for governmental services and operating the sheriff's office. Additionally, penalty waivers, add-on fee waivers, and discounts have not been applied consistently to all taxpayers.

It is the responsibility of the sheriff's office to implement internal controls to ensure all property taxes and all applicable penalties are collected in accordance with statutes. The sheriff can consider the 10% penalty and 10% sheriff's fee for a waiver under certain guidelines. KRS 131.175 allows for the waiver of penalties when there is shown reasonable cause.

KRS 131.010(9) defines reasonable cause as "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of moneys due the department pursuant to law or administrative regulation." Further, Section 103 KAR 1:040 clarifies "reasonable cause" and outlines specific circumstances that constitute reasonable cause. If a waiver is granted, the waiver form should be maintained by the sheriff's office at least until that particular collection year has been audited by the State Auditor's Office.

KRS 134.015 outlines the tax collection schedule, and the circumstances under which discounts may be applied to property tax bills.

We recommend the sheriff establish internal control procedures and implement proper oversight to ensure the requirements of KRS 131.175 and KRS 134.015 are followed. This finding is being referred to the Kentucky Office of the Attorney General and the Department of Revenue for further review.

Sheriff's Response: Was unaware that the Waiver Forms need to be filled out during tax collections due to it being so busy this was an oversight. We will prepare forms for the future.

2018-005 The Powell County Sheriff Has Not Settled Prior Year Accounts

Per prior year audits 2014 through 2017, the sheriff had various receivables and liabilities to settle the tax and fee accounts for each year. During our audit period, the sheriff settled all significant receivables and liabilities and closed all old tax and fee accounts. The balances in tax and fee accounts for 2014, 2016, and 2017 were transferred to the 2015 tax account, which resulted in an ending balance of \$11,144 in the 2015 tax account. This entire amount is due the fiscal court as additional excess fees resulting from the balances of fee accounts for 2014, 2016, and 2017 being transferred to the 2015 tax account.

The sheriff did not have adequate controls in place to ensure receivables and liabilities for old accounts were settled correctly and timely. Furthermore, the sheriff did not implement adequate oversight procedures for following up on old accounts to ensure corrective action had been taken as instructed in prior audit periods.

POWELL COUNTY
DANNY ROGERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 17, 2018 Through April 15, 2019
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2018-005 The Powell County Sheriff Has Not Settled Prior Year Accounts (Continued)

The sheriff has a balance in the 2015 tax account that is related to fee account liabilities. The entire balance in the 2015 tax account of \$11,144 (plus any accrued interest), is due the fiscal court as additional excess fees for 2014, 2016, and 2017. In addition to being a violation of statute, failure to settle and close accounts for extended periods of time increases the risk of theft, loss, or misappropriation of funds.

KRS 134.192(1) states, “[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year.”

We recommend the sheriff pay the balance in the 2015 tax account to the county treasurer, settle any amount due as determined in fee audits, and close the account as soon as possible.

Sheriff's Response: Checks have been prepared and signed and will be distributed and once they clear the bank the account will be closed.