

**REPORT OF THE AUDIT OF THE
BOYD COUNTY
SHERIFF'S SETTLEMENT - 2017 TAXES**

**For The Period
April 18, 2017 Through April 16, 2018**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Eric Chaney, Boyd County Judge/Executive
The Honorable Bobby Jack Woods, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Boyd County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - 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 Matthew G. Bevin, Governor
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Boyd 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 Boyd County Sheriff, for the period April 18, 2017 through April 16, 2018.

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 18, 2017 through April 16, 2018 of the Boyd County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2019, on our consideration of the Boyd 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 Boyd County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Eric Chaney, Boyd County Judge/Executive
The Honorable Bobby Jack Woods, Boyd County Sheriff
Members of the Boyd 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.

- 2017-001 The Sheriff Did Not Settle Prior Year Accounts
- 2017-002 The Sheriff Did Not Report And Pay Monthly Taxes To Districts Timely
- 2017-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

March 5, 2019

BOYD COUNTY
BOBBY JACK WOODS, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through April 16, 2018

<u>Charges</u>	Special			
	County Taxes	Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 3,468,564	\$ 7,531,580	\$ 7,623,449	\$ 2,350,916
Tangible Personal Property	425,038	792,137	954,713	1,185,500
Fire Protection	1,027			
Franchise Taxes	381,264	794,582	921,146	
Additional Billings	141	298	129	96
Unmined Coal - 2017 Taxes	1,063	2,475	3,856	734
Oil and Gas Property Taxes	3,053	7,053	11,143	2,069
Bank Franchises	148,070			
Penalties	19,294	39,764	45,731	14,758
Adjusted to Sheriff's Receipt	(88)	(10)	421	12
Gross Chargeable to Sheriff	<u>4,447,426</u>	<u>9,167,879</u>	<u>9,560,588</u>	<u>3,554,085</u>
<u>Credits</u>				
Exonerations	15,307	34,389	38,763	10,833
Discounts	65,730	134,640	145,247	57,171
Delinquents:				
Real Estate	153,189	345,008	363,586	103,808
Tangible Personal Property	6,861	14,824	19,136	20,344
Bank Franchise - Delinquent	34,453			
Total Credits	<u>275,540</u>	<u>528,861</u>	<u>566,732</u>	<u>192,156</u>
Taxes Collected	4,171,886	8,639,018	8,993,856	3,361,929
Less: Commissions *	177,305	323,409	269,816	142,882
Taxes Due	3,994,581	8,315,609	8,724,040	3,219,047
Taxes Paid	3,882,237	8,058,726	8,338,457	3,194,933
Refunds (Current and Prior Year)	112,237	256,864	386,182	24,114
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 107</u>	<u>\$ 19</u>	<u>\$ (599)</u>	<u>\$ 0</u>
		**	***	

*, **, and *** See next page.

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

BOYD COUNTY
BOBBY JACK WOODS, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

* Commissions:

4.25% on	\$ 12,962,452
4% on	\$ 2,019,597
3% on	\$ 8,993,856
1% on	\$ 1,190,784

** Special Taxing Districts:

Cannonsburg Fire	\$ 21
Summit Fire	(18)
Soil Conservation	<u>16</u>

Due Districts or

(Refund Due Sheriff)	<u>\$ 19</u>
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*** School Taxing Districts:

Boyd County School District	\$ 11
Fairview Independent School District	(157)
Russell School District	<u>(453)</u>

Due Districts or

(Refunds Due Sheriff)	<u>\$ (599)</u>
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BOYD COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

Note 2. Deposits

The Boyd County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

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 Boyd County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT
April 16, 2018
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 6, 2017 through April 16, 2018.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2017. 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 13, 2017 through May 15, 2018.

C. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2017. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Boyd County Sheriff earned \$1,540 as interest income on 2017 taxes. As of March 5, 2019, the sheriff owed interest of \$462 to Boyd County School District, \$61 to Fairview School District, and \$10 to Russell School District and \$1,006 in interest to his fee account.

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

The Boyd County Sheriff collected \$95,623 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 Eric Chaney, Boyd County Judge/Executive
The Honorable Bobby Jack Woods, Boyd County Sheriff
Members of the Boyd 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 Boyd County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 5, 2019. The Boyd 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 Boyd 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 Boyd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Boyd County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2017-003 that we consider to be a significant deficiency.



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 Boyd County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2017-001 and 2017-002.

Views of Responsible Official and Planned Corrective Action

The Boyd 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 Boyd 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,



Mike Harmon
Auditor of Public Accounts

March 5, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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BOYD COUNTY
BOBBY JACK WOODS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 18, 2017 Through April 16, 2018

STATE LAWS AND REGULATIONS:

2017-001 The Sheriff Did Not Settle The Prior Year Accounts

The 2016, 2015, and 2014-incoming tax accounts do not appear to have been settled in accordance with prior year audit recommendations. The receivables and liabilities necessary to settle the accounts are as follows:

2016 Tax Audit

The 2016 tax account has a balance of \$4,027.54. Once the sheriff collects the receivables of \$3,352.94 and pays the liabilities of \$4,976.01, fund surplus of \$2,390.19 and uncleared outstanding check of \$14.28, the balance will be zero and the account settled.

<i>Due to Sheriff</i>			<i>Due from Sheriff</i>	
\$722.89	Fairview School		\$20.21	Boyd County Fiscal Court
\$65.04	Library		\$10.68	Russell School
\$32.57	Health		\$5.15	Westwood Fire Department
\$21.52	Extension		\$2,460.21	East Fork Fire Department
\$42.30	Ambulance		\$573.29	Sprint Wireless
\$2,468.62	England Hill VFD		\$253.13	Boyd County School
			\$1,653.34	Sheriff's Fee Account
\$3,352.94	Total Receivables		\$4,976.01	Total Liabilities

2015 Tax Audit

The 2015 tax account has a balance of \$6,576.44. Once the sheriff collects the receivables of \$2,573.51 and pays the liabilities of \$9,149.95, the balance will be zero and the account settled.

<i>Due to Sheriff</i>			<i>Due from Sheriff</i>	
\$46.65	Fiscal Court		\$1,371.67	Cannonsburg Fire
\$1,063.53	Fairview School		\$28.72	Big Sandy Fire
\$1,463.33	England Hill Fire		\$227.69	Boyd County Schools
			\$8.32	Russell School
			\$6,256.65	Sheriff's Fee Account
			\$1,256.90	Kentucky State Treasurer
\$2,573.51	Total Receivables		\$9,149.95	Total Liabilities

2014 Tax Audit (Incoming)

The 2014 incoming tax account has a balance of \$0. Once the sheriff collects the receivable of \$1,972.91 from the Boyd County Fiscal Court and pays the liability of \$1,972.91 to the Kentucky State Treasurer, the balance will be zero and the account settled.

BOYD COUNTY
 BOBBY JACK WOODS, SHERIFF
 SCHEDULE OF FINDINGS AND RESPONSES
 For The Period April 18, 2017 Through April 16, 2018
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2017-001 The Sheriff Did Not Settle Prior Year Accounts (Continued)

As a result of not settling these accounts, districts are not receiving funds due to them. Additionally, the sheriff is not in compliance with KRS 134.192, which requires each sheriff to annually settle tax accounts on or before September 1 of each year. We recommend the sheriff's office comply with KRS 134.192 by settling these accounts as soon as possible.

Sheriff's Response: Accounts are being settled and will be closed upon settlement.

2017-002 The Sheriff Did Not Report And Pay Monthly Taxes To Districts Timely

The sheriff's monthly tax reports and payments for November and December franchise taxes and January and February gas property taxes were late, depriving the taxing districts of timely receipt of their tax collections. For the November and December franchise payments, checks were written on January 31, 2018, and cleared between February 13 and March 27, 2018. For the January and February gas property tax payments, checks were written on May 31, 2018, and cleared the bank between August 7 and September 4, 2018. According to the bookkeeper, this was an oversight on her part. The sheriff is not ensuring his office is complying with the requirement to report and pay taxes collected to districts by the 10th of each month. Taxing districts rely on tax collections to fund a significant portion of their budgeted services. Not receiving these payments timely can lead to cash flow problems for taxing districts. While the sheriff cannot control when districts deposit their checks, he can control when he distributes the checks.

KRS 134.191 requires the sheriff to provide monthly reports by the tenth day of each month. KRS 134.191(3) states, "[a]ny sheriff failing to pay over taxes collected shall be subject to a penalty of one percent (1%) for each thirty (30) day period or fraction thereof that the payment is not made, plus interest... The governing body of a county, the department, or the other taxing district for which the sheriff collects taxes, in its settlement with the sheriff, shall charge him or her with such penalties and interest." KRS 134.191(5) allows the county judge/executive to grant an extension of time, not to exceed fifteen (15) days, for filing the monthly reports. Penalties and interest would be suspended during an extension, but would apply at the expiration of the extension.

We recommend the sheriff ensure monthly tax reports are prepared and paid by the 10th of each month. We also recommend the sheriff consider mailing tax collection payments to the districts. As long as the payments are postmarked by the 10th of the month, the sheriff would be in compliance with KRS 134.191. This would also give the districts a more consistent timeframe in which to expect their payments.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-003 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff's office lacks adequate segregation of duties over receipts. The bookkeeper collected payments from customers, recorded transactions in the ledgers, and reconciled the bank accounts. The sheriff did not structure his office in a way that segregates duties and responsibilities. No one reviewed the work of the bookkeeper and there are no compensating controls in place.

BOYD COUNTY
BOBBY JACK WOODS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2017-003 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts which would increase the risk that undetected misappropriation of assets and inaccurate financial reporting will occur. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the sheriff has implemented some compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit, these controls were frequently not documented, therefore we cannot verify they are consistently occurring. However, compensating controls do decrease the risk present in the absence of proper segregation of duties.

We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, the sheriff should perform the following compensating controls to help offset this weakness:

- Agree monthly tax reports to receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation.

The sheriff should initial these documents as proof of his review.

Sheriff's Response: With only 3 employees in the office segregation of duties is always going to be an issue.