

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
January 01, 2015 Through April 15, 2015**



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EXECUTIVE SUMMARY
AUDIT OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
January 01, 2015 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Grayson County Sheriff for the period January 01, 2015 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2014 taxes of \$1,063,979 for the districts, retaining commissions of \$43,748 to operate the sheriff's office. The sheriff distributed 2014 taxes of \$1,011,534 to the districts. Taxes of \$37 are due to the districts from the sheriff.

Report Comments:

- 2014-001 The Grayson County Sheriff Has A Lack Of Segregation Of Duties
- 2014-002 The Grayson County Sheriff Did Not Distribute Interest Earnings As Required

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Grayson County Sheriff's Settlement - 2014 Taxes for the period January 01, 2015 through April 15, 2015 - 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.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Grayson County Sheriff on the basis of the 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 financial position of each fund of the Grayson County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

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 January 01, 2015 through April 15, 2015 of the Grayson 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 August 26, 2016 on our consideration of the Grayson 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 the Grayson County Sheriff's 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 Grayson County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Norman Chaffins, Grayson County Sheriff

Members of the Grayson County Fiscal Court

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

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

2014-001 The Grayson County Sheriff Has A Lack Of Segregation Of Duties

2014-002 The Grayson County Sheriff Did Not Distribute Interest Earnings As Required

Respectfully submitted,

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

Mike Harmon

Auditor of Public Accounts

August 26, 2016

GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period January 01, 2015 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred from Outgoing Sheriff	\$ 75,801	\$ 214,506	\$ 533,606	\$ 144,288
Franchise Taxes	20,729	76,329	125,838	
Paid Minimum Bills	1	3	7	2
Additional Billings				391
Oil Property Taxes	24	66	171	44
Gas Property Taxes	244	666	1,729	444
Limestone, Sand and Gravel Reserves	331	905	2,348	603
Penalties	4,769	13,509	33,571	9,180
Gross Chargeable to Sheriff	<u>101,899</u>	<u>305,984</u>	<u>697,270</u>	<u>154,952</u>
 <u>Credits</u>				
Exonerations	160	460	1,133	291
Discounts	185	675	1,125	34
Delinquents:				
Real Estate	14,550	40,638	102,857	26,418
Tangible Personal Property	493	1,844	2,962	1,439
Additional Bills	48	132	342	88
Oil & Gas Taxes	4	11	30	8
Franchise Taxes Uncollected	18	70	111	
Total Credits	<u>15,458</u>	<u>43,830</u>	<u>108,560</u>	<u>28,278</u>
Taxes Collected	86,441	262,154	588,710	126,674
Less: Commissions *	3,674	11,142	23,548	5,384
Taxes Due	82,767	251,012	565,162	121,290
Taxes Paid	82,012	249,039	559,830	120,653
Refunds (Current and Prior Year)	751	1,962	5,310	637
Due Districts as of Completion of Audit	<u>\$ 4</u>	<u>\$ 11</u>	<u>\$ 22</u>	<u>\$ 0</u>

**

* and ** See next page.

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

GRAYSON COUNTY
 NORMAN CHAFFINS, SHERIFF
 SHERIFF'S SETTLEMENT - 2014 TAXES
 For The Period January 01, 2015 Through April 15, 2015
 (Continued)

* Commissions:

4.25% on	\$	475,269
4% on	\$	588,710

** Special Taxing Districts:

Library District	\$	5
Health District		1
Extension District		2
Hospital District		3
		<hr/>
Due Districts	\$	<u>11</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

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 Grayson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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 Grayson 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 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2015
 (Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 7, 2015 through April 15, 2015.

Note 4. Interest Income

The Grayson County Sheriff earned \$27 as interest income on 2014 taxes. As of August 26, 2016, the sheriff owed \$14 in interest to the school district and \$13 in interest to his fee account.

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

The Grayson County Sheriff collected \$51,904 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of August 26, 2016, the sheriff owed \$891 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Grayson County Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The sheriff's escrowed amounts were as follows:

2010	\$ 365
2011	\$ 648
2012	\$1,293
2013	\$1,903

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110.

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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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Norman Chaffins, Grayson County Sheriff
Members of the Grayson 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 Grayson County Sheriff's Settlement - 2014 Taxes for the period January 01, 2015 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated August 26, 2016. The Grayson County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Grayson 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 Grayson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grayson County Sheriff's internal control over financial reporting.

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 comments and recommendations, 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 comments and recommendations as item 2014-001 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 Grayson 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2014-002.

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

August 26, 2016

COMMENTS AND RECOMMENDATIONS

GRAYSON COUNTY
NORMAN CHAFFINS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 01, 2015 Through April 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Grayson County Sheriff Has A Lack Of Segregation Of Duties

The Grayson County Sheriff's bookkeeper performs numerous duties dealing with tax receipts, disbursements, and reconciliations. The bookkeeper is responsible for the collection of cash, preparation of the daily deposits, and daily tax collection journal. She is also responsible for the preparation of monthly reports, distribution of tax payments, and the reconciliation of all bank statements. The sheriff has attempted to implement compensating controls; however, there were instances when compensating controls were not functioning properly or the individuals performing compensating controls failed to properly document their oversight. The lack of segregation of duties existed over tax settlement functions of the sheriff's office because a limited number of employees were available to properly segregate these job duties. A lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies. A segregation of duties over tax settlement receipts and disbursements activities and reconciliations or implementation of compensating controls, when needed because of 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. The sheriff should properly segregate the duties over tax settlement functions in order to help prevent misappropriation of assets and inaccurate financial reporting and to adequately protect employees in the normal course of performing their daily responsibilities. If these duties cannot be separated, strong documented oversight over these areas should be provided.

Sheriff's Response: The official did not respond.

STATE LAWS AND REGULATIONS:

2014-002 The Grayson County Sheriff Did Not Distribute Interest Earnings As Required

The Grayson County Sheriff did not properly distribute the interest earned on all his tax account. The bookkeeper forgot to distribute the interest earned. By not properly disbursing interest each month, the fee account and the board of education have not received all funds that are due to them. This also can create reconciliation issues since all funds received for the month are not distributed. KRS 134.140 details how the sheriff is to distribute tax commissions received in all tax accounts each month between his fee account and the local board of education based on the amount of taxes collected during the month. KRS 160.500 gives the sheriff the authority to keep a four percent commission on the board of education's portion of the interest. The sheriff should properly distribute interest earned on all tax accounts on a monthly basis per KRS 134.140 and KRS 160.500.

Sheriff's Response: The official did not respond.

