

**REPORT OF THE AUDIT OF THE  
GRAYSON COUNTY  
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period  
April 16, 2015 Through April 15, 2016**



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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**GRAYSON COUNTY**  
**SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period**  
**April 16, 2015 Through April 15, 2016**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Grayson County Sheriff for the period April 16, 2015 through April 15, 2016. 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 2015 taxes of \$10,833,548 for the districts, retaining commissions of \$432,359 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$10,385,827 to the districts. Taxes of \$995 are due to the districts from the sheriff and refunds of \$668 are due to the sheriff from the taxing districts.

**Report Comments:**

- 2015-001 The Grayson County Sheriff's Office Lacks Segregation Of Duties
- 2015-002 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing
- 2015-003 Interest Was Not Properly Distributed

**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 - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - 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

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

### **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 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 Grayson County Sheriff, for the period April 16, 2015 through April 15, 2016.

### **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 16, 2015 through April 15, 2016 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 December 6, 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 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:

- 2015-001 The Grayson County Sheriff's Office Lacks Segregation Of Duties
- 2015-002 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing
- 2015-003 Interest Was Not Properly Distributed

Respectfully submitted,



Mike Harmon

Auditor of Public Accounts

December 6, 2016

GRAYSON COUNTY  
NORMAN CHAFFINS, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 704,367	\$2,605,382	\$ 5,075,586	\$ 1,266,837
Tangible Personal Property	65,758	294,685	404,976	327,947
Fire Protection	2,533			
Franchise Taxes	48,314	188,637	301,456	
Additional Billings	96	390	688	171
Gas Property Taxes	380	1,072	2,735	681
Limestone, Sand and Gravel Reserves	394	1,112	2,839	707
Bank Franchises	99,733			
Penalties	5,802	16,890	41,535	10,669
Adjusted to Sheriff's Receipt	(44)	(73)	(241)	(515)
Gross Chargeable to Sheriff	<u>927,333</u>	<u>3,108,095</u>	<u>5,829,574</u>	<u>1,606,497</u>
 <u>Credits</u>				
Exonerations	3,532	130,543	24,996	6,153
Discounts	14,201	37,147	86,397	25,062
Delinquents:				
Real Estate	15,700	67,428	112,951	28,122
Tangible Personal Property	521	2,098	3,232	761
Gas	1	3	6	2
Additional Bills	41	156	296	74
Franchise Taxes	<u>6,994</u>	<u>28,152</u>	<u>43,382</u>	
Total Credits	<u>40,990</u>	<u>265,527</u>	<u>271,260</u>	<u>60,174</u>
Taxes Collected	886,343	2,842,568	5,558,314	1,546,323
Less: Commissions *	<u>37,670</u>	<u>106,637</u>	<u>222,333</u>	<u>65,719</u>
Taxes Due	848,673	2,735,931	5,335,981	1,480,604
Taxes Paid	847,570	2,732,882	5,328,173	1,477,202
Refunds (Current and Prior Year)	<u>1,157</u>	<u>3,330</u>	<u>8,141</u>	<u>2,407</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (54)</u>	<u>\$ (281)</u>	<u>\$ (333)</u>	<u>\$ 995</u>

\*\*

\* and \*\* See next page.

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

GRAYSON COUNTY  
NORMAN CHAFFINS, SHERIFF  
SHERIFF'S SETTLEMENT - 2015 TAXES  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

\* Commissions:

4.25% on	\$	4,839,154
4% on	\$	5,558,314
1% on	\$	436,080

\*\* Special Taxing Districts:

Library District	\$	(102)
Health District		(20)
Extension District		(50)
Hospital District		(31)
Caney Creek Watershed		<u>(78)</u>
(Refunds Due Sheriff)	\$	<u>(281)</u>

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2016

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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAYSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 2016  
 (Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 12, 2015 through April 19, 2016.

Note 4. Interest Income

The Grayson County Sheriff earned \$235 as interest income on 2015 taxes. As of December 6, 2016, the sheriff owed \$26 in interest to the school district and \$33 in interest to his fee account.

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

The Grayson County Sheriff collected \$65,642 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The 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 and its accompanying regulations.

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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 - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 6, 2016. The Grayson 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 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 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 comments and recommendations as items 2015-001 and 2015-002 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 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 2015-003.

### **Sheriff's Response to Findings**

The Grayson County Sheriff's response to the findings identified in our audit is included in the accompanying Comments and Recommendations. The Grayson County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

### **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

December 6, 2016

COMMENTS AND RECOMMENDATIONS



GRAYSON COUNTY  
NORMAN CHAFFINS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 15, 2016

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2015-001 The Grayson County Sheriff's Office Lacks Segregation Of Duties

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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 the 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, but the individuals performing the 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 misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue.

A segregation of duties over tax settlement receipts and disbursements activities and reconciliations or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The sheriff should properly segregate the duties over tax settlement functions in order to help prevent misappropriation of assets, 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: No Response.*

2015-002 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing

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According to fiscal court ordinance, taxpayers can choose not to pay fire dues subscriber fees (fire dues) by completing a form to "opt-out" of Grayson County Fire Department Membership Charges/Subscriber Fees and providing the completed form to the sheriff when they pay their tax bill each year. The form should be completed and maintained on file by the sheriff to support the fire dues that are exonerated or removed from tax bills. For the 2015 tax collection period, the sheriff included \$119,960 on his settlement as fire dues that were exonerated. There should have been a properly completed form on file for each \$40 fire due, or approximately 2,999 forms. The bookkeeper told the auditor that if the bill is mailed in and the amount paid is short by \$40, they assumed the taxpayer was "opting out" and they would complete a form and write "mailed" in place of the taxpayer's signature. She also told the auditor that they had difficulty obtaining "opt-out" forms for all tax bills with fire dues exonerations during their busy periods; therefore, making it highly likely that they didn't have a form to support every fire dues exoneration. At the end of the 2015 property tax collections, the sheriff's office gave all the "opt-out" forms to the corresponding fire departments and did not keep copies of the forms on file in the sheriff's office. Because of this this, the auditor could not obtain sufficient audit evidence to determine that the \$119,960 in fire dues were legitimately exonerated. This lack of internal controls leaves \$119,960 at increased risk of fraud or material error.

GRAYSON COUNTY  
NORMAN CHAFFINS, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2015-002 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing (Continued)

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The sheriff has not implemented policies and procedures or internal controls over the exoneration process leaving a significant amount of money susceptible to fraud or material errors. Good internal controls require clear policies and procedures to address the process and documentation of exonerating any part of a tax bill. The process of exonerating a bill should be documented and should be limited to only certain personnel.

We recommend the sheriff implement sufficient internal controls to ensure accurate processing of fire dues exonerations. The sheriff should develop standardized policies and procedures for staff to follow, including:

- Maintaining properly completed “opt-out” forms for each taxpayer;
- Documenting the forms in an orderly, consistent manner to provide an audit trail;
- Limiting the ability to exonerate to only certain personnel; and
- Periodic reviewing or spot-checking exonerations against the “opt-out” forms.

*Sheriff's Response: 2015 was the first year of collecting the fire dues for this office. Since then, policies and procedures have been implemented to address the issue of opt-out forms not being readily available for the auditor(s). An ordinance is currently being introduced to fiscal court where opt out forms will be included in the tax bill.*

STATE LAWS AND REGULATIONS:

2015-003 Interest Was Not Properly Distributed

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The Grayson County Sheriff did not properly distribute the interest earned on all of his tax accounts. The bookkeeper only distributed the interest earned for November and December from the property tax account. She forgot about subsequent months and the interest earned on the franchise tax account. 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. Also, 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 pursuant to KRS 134.140 and KRS 160.500.

*Sheriff's Response: No Response.*

