

**REPORT OF THE AUDIT OF THE
HARDIN 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
HARDIN 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 Hardin 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 \$58,339,161 for the districts, retaining commissions of \$1,382,484 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$56,900,766 to the districts. Taxes of \$2,754 are due to the districts from the sheriff and refunds of \$1,687 are due to the sheriff from the taxing districts.

Report Comment:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

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 Harry L. Berry, Hardin County Judge/Executive
Honorable John Ward, Hardin County Sheriff
Members of the Hardin County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Hardin 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 Harry L. Berry, Hardin County Judge/Executive
Honorable John Ward, Hardin County Sheriff
Members of the Hardin 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 Hardin 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 Hardin 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 Hardin 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 13, 2016 on our consideration of the Hardin 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 Hardin 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 Harry L. Berry, Hardin County Judge/Executive

Honorable John Ward, Hardin County Sheriff

Members of the Hardin County Fiscal Court

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

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

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

Respectfully submitted,

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Mike Harmon
Auditor of Public Accounts

December 13, 2016

HARDIN COUNTY
JOHN WARD, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

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

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 6,191,584	\$ 2,945,814	\$36,540,976	\$6,932,468
Tangible Personal Property	450,255	175,817	2,558,713	2,073,860
Fire Protection	1,799			
Increases Through Exonerations	4,881	1,720	29,866	6,581
Franchise Taxes	268,724	96,985	1,554,783	
Additional Billings	190	184	1,098	213
Gas Property Taxes	165	55	951	185
Limestone, Sand and Mineral Reserves	1,691	566	9,761	1,893
Bank Franchises	311,544			
Penalties	23,365	8,719	137,744	36,950
Adjusted to Sheriff's Receipt	78	(7)	24	2
Gross Chargeable to Sheriff	7,254,276	3,229,853	40,833,916	9,052,152
 <u>Credits</u>				
Exonerations	11,225	4,754	66,203	18,955
Discounts	125,319	43,358	700,431	154,779
Delinquents:				
Real Estate	86,617	59,796	517,460	96,912
Tangible Personal Property	6,416	2,522	37,236	19,069
Fire Due Opt Outs		79,895		
Bankruptcy Court Order-Unpaid	11	4	62	12
Total Credits	229,588	190,329	1,321,392	289,727
Taxes Collected	7,024,688	3,039,524	39,512,524	8,762,425
Less: Commissions *	298,549	118,844	592,688	372,403
Taxes Due	6,726,139	2,920,680	38,919,836	8,390,022
Taxes Paid	6,719,398	2,918,472	38,880,983	8,381,913
Refunds (Current and Prior Year)	6,633	2,165	38,043	8,003
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 108	\$ 43	\$ 810	\$ 106
		**	***	

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

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

HARDIN COUNTY
 JOHN WARD, SHERIFF
 SHERIFF'S SETTLEMENT - 2015 TAXES
 For The Period April 16, 2015 Through April 15, 2016
 (Continued)

* Commissions:

4.25% on	\$ 18,236,042
2.50% on	\$ 590,595
1.50% on	\$ 39,512,524

** Special Taxing Districts:

Health District	\$ 8
Extension District	11
Central Hardin Fire	48
Glendale Fire	<u>(24)</u>

Due Districts or (Refund Due Sheriff)	<u>\$ 43</u>
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*** School Districts:

Common School	\$ 785
Elizabethtown Independent	(1,663)
West Point Independent	<u>1,688</u>

Due Districts or (Refund Due Sheriff)	<u>\$ 810</u>
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The accompanying notes are an integral part of this financial statement.

HARDIN 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 Hardin 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 Hardin 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.

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

Note 3. Tax Collection Period

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 29, 2015 through April 15, 2016.

Note 4. Interest Income

The Hardin County Sheriff earned \$16,938 as interest income on 2015 taxes. The sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office.

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

The Hardin County Sheriff collected \$162,517 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 interest-bearing accounts. The sheriff's escrowed amounts were as follows:

2013	\$37
2014	\$2,834
2015	\$495

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. The sheriff sent a written report to the Treasury Department and submitted \$626 to the Kentucky State Treasurer in accordance with 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 Harry L. Berry, Hardin County Judge/Executive
Honorable John Ward, Hardin County Sheriff
Members of the Hardin 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 Hardin 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 13, 2016. The Hardin 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 Hardin 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 Hardin County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin County Sheriff's internal control.

Our consideration of internal control 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 comment and recommendation, 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 comment and recommendation as item 2015-001 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 Hardin 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

December 13, 2016

COMMENT AND RECOMMENDATION

HARDIN COUNTY
JOHN WARD, SHERIFF
COMMENT AND RECOMMENDATION

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts

The bookkeeper did not print master reports for all daily tax collections. The bookkeeper did not compare each employee's daily deposit ticket to the employee's daily printout or master report. Mortgage deposits were made without any supporting documentation. Off-site collections were done without any documentation of collections.

Each employee is responsible for preparing a daily deposit ticket and comparing to the daily checkout sheet. The bookkeeper is responsible for comparing each employee's deposit to that employee's daily printout and also printing a master copy for all daily collections and agreeing to the total amount deposited daily. There was not sufficient evidence available that would show that the bookkeeper compared the employee's daily deposit ticket to the daily checkout sheet or printed a master copy for all daily collections and agreed the total amount deposited daily. There was no evidence that each daily deposit ticket was compared to the daily checkout sheet prior to being delivered to the bank. When the sheriff's office conducted off-site collections, there was no evidence that supported the daily collections.

The lack of oversight could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government.

The sheriff's office should comply with KRS 64.840, which states “. . .all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid: (a) [i]n cash; (b) [b]y a party appearing in person to pay; or (c) [b]y check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt. . .”

To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting and misappropriation of assets, we recommend the sheriff implement strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- The bookkeeper should compare each employee's deposit ticket to their daily printout and compare each deposit ticket to a master report for all daily tax collections prior to the deposit being taken to the bank. The bookkeeper could document this by initialing the supporting documentation and initialing the deposit receipt.
- A printout of mortgage payments should be maintained and compared to the mortgage deposit.
- A list of daily collections should be maintained when the sheriff is conducting off-site collections.

Sheriff's Response: The sheriff did not respond.

