

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2020 TAXES**

**For The Period
May 16, 2020 Through April 15, 2021**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Laurel County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements*, issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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



To the People of Kentucky
The Honorable Andy Beshear, Governor
Holly M. Johnson, Secretary
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The Honorable David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel 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 Laurel County Sheriff, for the period May 16, 2020 through April 15, 2021.

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 May 16, 2020 through April 15, 2021 of the Laurel 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 November 22, 2021, on our consideration of the Laurel 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 Laurel County Sheriff’s internal control over financial reporting and compliance.

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

2020-001 The Laurel County Sheriff Did Not Have A Pledge Agreement

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

November 22, 2021

LAUREL COUNTY
JOHN ROOT, SHERIFF
SHERIFF'S SETTLEMENT - 2020 TAXES

For The Period May 16, 2020 Through April 15, 2021

<u>Charges</u>	<u>County</u>	<u>Special Taxing Districts</u>	<u>School Taxing Districts</u>	<u>State</u>
Real Estate	\$ 1,531,050	\$ 4,387,864	\$ 12,876,771	\$ 3,227,645
Tangible	216,186	912,038	1,838,666	1,357,994
Fire Protection	1,617			
Total Per Sheriff's Official Receipt	<u>1,748,853</u>	<u>5,299,902</u>	<u>14,715,437</u>	<u>4,585,639</u>
 <u>Other Taxes & Charges</u>				
Court Ordered Increases	1,826	5,812	15,333	1,045
Franchise Taxes	78,580	301,294	660,005	
Transient Tax	399,694			
Additional Billings	1,108	3,154	9,159	2,899
Unmined Coal - 2020 Taxes	1	4	12	3
Oil and Gas Property Taxes	150	415	1,249	313
Penalties	7,064	20,518	59,339	16,546
Gross Chargeable to Sheriff	<u>2,237,276</u>	<u>5,631,099</u>	<u>15,460,534</u>	<u>4,606,445</u>
 <u>Credits</u>				
Exonerations	5,541	16,372	46,536	13,065
Discounts	28,643	87,587	241,099	74,999
Delinquent Real Estate	35,383	101,206	297,443	74,686
Delinquent Tangible	2,681	10,725	22,516	12,785
Delinquent Additional	101	282	828	
Delinquent Oil Taxes	80	220	663	
Total Credits	<u>72,429</u>	<u>216,392</u>	<u>609,085</u>	<u>175,535</u>
Taxes Collected	2,164,847	5,414,707	14,851,449	4,430,910
Less: Sheriff's Commissions*	<u>92,006</u>	<u>226,781</u>	<u>299,628</u>	<u>188,314</u>
Taxes Due Districts	2,072,841	5,187,926	14,551,821	4,242,596
Taxes Paid	2,070,451	5,180,639	14,532,145	4,238,153
Refunds (Current and Prior Year)	<u>2,409</u>	<u>7,334</u>	<u>19,783</u>	<u>4,484</u>
Refunds Due Sheriff	<u>\$ (19)</u>	<u>\$ (47)</u>	<u>\$ (107)</u>	<u>\$ (41)</u>
		**	***	

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

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

LAUREL COUNTY
 JOHN ROOT, SHERIFF
 SHERIFF'S SETTLEMENT - 2020 TAXES
 For The Period May 16, 2020 Through April 15, 2021
 (Continued)

* Commissions:

4.25% on	\$	11,907,578
2.5% on	\$	512,133
2.328% on	\$	11,543
2% on	\$	14,327,773
1% on	\$	102,886

** Special Taxing Districts:

Library District	\$	(26)
Health District		(11)
Extension District		<u>(10)</u>

Refunds Due Sheriff	\$	<u>(47)</u>
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*** School Taxing Districts

Common School District	\$	<u>(107)</u>
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Refund Due Sheriff	\$	<u>(107)</u>
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LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2021

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Preparation of State Settlement

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

Note 2. Deposits

The Laurel County Sheriff maintained deposits of public funds with federally insure institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, because the sheriff did not have a written agreement with the bank.

LAUREL COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2021
 (Continued)

Note 2. Deposits (Continued)

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 sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of DLG's County *Budget Preparation and State Local Finance Officer Manual*. On April 15, 2021, the sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,003,654

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2020. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2021. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2020 through April 15, 2021.

B. Oil and Gas Property Taxes

The oil and gas property tax assessments were levied as of January 1, 2020. 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 23, 2020 through April 15, 2021.

C. Unmined Coal Property Taxes

The unmined coal property tax assessments were levied as of January 1, 2020. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 25, 2021 through April 15, 2021.

D. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was June 1, 2020 through April 30, 2021.

E. Transient Tax

In September 1979, the Laurel County Fiscal Court passed an ordinance establishing the London-Laurel County Tourist and Convention Commission and levying a 3 percent transient room tax. In the ordinance, the Laurel County Sheriff was designated as the collector of the tax. For the period May 16, 2020 through April 15, 2021, the sheriff's office collected \$399,694 of transient room tax receipts. In accordance with the ordinance, the sheriff's office disbursed \$382,707 to the Laurel County Fiscal Court, who in turn remitted the tax to the London-Laurel County Tourist and Convention Commission. The sheriff's office retained \$16,987 as his collection fee and used these fees for the operation of the office.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2021
(Continued)

Note 4. Interest Income

The Laurel County Sheriff earned \$778 as interest income on 2020 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Laurel County Sheriff collected \$89,837 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 David Westerfield, Laurel County Judge/Executive
The Honorable John Root, Laurel County Sheriff
Members of the Laurel 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 Laurel County Sheriff's Settlement - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 22, 2021. The Laurel 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 Laurel County Sheriff's internal control over financial reporting (internal control) as a basis for designing 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 Laurel County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laurel 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. 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.



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 Laurel County Sheriff's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2020-001.

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 flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

November 22, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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LAUREL COUNTY
JOHN ROOT, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2020 Through April 15, 2021

STATE LAWS AND REGULATIONS:

2020-001 The Laurel County Sheriff Did Not Have A Pledge Agreement

The sheriff's bank account balances exceeded the \$250,000 FDIC coverage provided by his bank. He did not have a pledge agreement. On April 15, 2021, the sheriff's bank balances were \$1,253,654. The sheriff's deposits were covered by FDIC coverage and pledged securities, but the pledges were not perfected by evidence of a written security agreement with the bank, leaving \$1,003,654 uncollateralized and uninsured.

The sheriff's office had recently changed banks and were unaware that there was no agreement in place. Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned.

According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance (\$250,000), 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 fiscal court 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.

We recommend a pledge agreement be obtained from the bank for the bank accounts. If the bank is unable or unwilling to do this, then uncovered accounts should be moved to another bank that will meet the requirements.

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