

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

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



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
LAWRENCE 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 Lawrence 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 \$7,305,070 for the districts, retaining commissions of \$265,805 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$7,035,481 to the districts. Taxes of \$153 are due to the districts from the sheriff and refunds of \$84 are due to the sheriff from the taxing districts.

Report Comments:

- 2015-001 The Sheriff Did Not Pay The Correct Amount Of Commissions Or Add-On Fees To The 2016 Fee Account
- 2015-002 The Sheriff Did Not Report And Pay Taxes To Districts Timely
- 2015-003 The Sheriff Did Not Deposit Receipts Daily
- 2015-004 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2015-005 The Sheriff Did Not Promptly Transfer Certificates of Delinquency To The County Clerk's Office
- 2015-006 The Sheriff's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Tax Receipts And Disbursements

Deposits:

The sheriff's deposits as of December 2, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$2,939,337

The sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Lawrence 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

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John Osborne, Lawrence County Judge/Executive

The Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence 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 Lawrence 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 Lawrence 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 Lawrence 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 February 8, 2018, on our consideration of the Lawrence 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 Lawrence County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

The Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

The Honorable John Osborne, Lawrence County Judge/Executive

The Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence 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 Sheriff Did Not Pay The Correct Amount Of Commissions Or Add-On Fees To The 2016 Fee Account
- 2015-002 The Sheriff Did Not Report And Pay Taxes To Districts Timely
- 2015-003 The Sheriff Did Not Deposit Receipts Daily
- 2015-004 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly
- 2015-005 The Sheriff Did Not Promptly Transfer Certificates of Delinquency To The County Clerk's Office
- 2015-006 The Sheriff's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Tax Receipts And Disbursements

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 8, 2018

LAWRENCE COUNTY
GARRETT ROBERTS, 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	\$ 728,014	\$ 1,400,351	\$ 2,294,346	\$ 538,289
Tangible Personal Property	93,841	164,194	295,743	197,501
Fire Protection	5,654			
Increases Through Exonerations	439	770	1,382	349
Franchise Taxes	333,602	588,112	1,051,246	
Additional Billings	1,069	1,831	3,250	763
Unmined Coal Taxes	18,640	32,331	58,422	13,745
Penalties	6,473	12,757	20,396	4,959
Adjusted to Sheriff's Receipt	(279)	(124)	(246)	(143)
Gross Chargeable to Sheriff	<u>1,187,453</u>	<u>2,200,222</u>	<u>3,724,539</u>	<u>755,463</u>
 <u>Credits</u>				
Exonerations	7,571	14,459	23,804	5,550
Discounts	12,651	23,679	39,870	10,568
Delinquents:				
Real Estate	51,680	103,281	162,230	38,062
Tangible Personal Property	785	1,374	2,475	2,263
Unmined Coal Taxes	9,411	16,223	29,337	6,921
Franchise Taxes	69	133	211	
Total Credits	<u>82,167</u>	<u>159,149</u>	<u>257,927</u>	<u>63,364</u>
Taxes Collected	1,105,286	2,041,073	3,466,612	692,099
Less: Commissions *	<u>46,975</u>	<u>85,418</u>	<u>103,998</u>	<u>29,414</u>
Taxes Due	1,058,311	1,955,655	3,362,614	662,685
Taxes Paid	1,057,622	1,954,665	3,360,903	662,291
Refunds (Current and Prior Year)	<u>552</u>	<u>1,074</u>	<u>1,695</u>	<u>394</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 137</u>	<u>\$ (84)</u>	<u>\$ 16</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 16, 2015 Through April 15, 2016
(Continued)

* Commissions:

4.25% on	\$ 3,797,603
3% on	\$ 3,466,612
1% on	\$ 40,855

** Special Taxing Districts:

Fire Fee	\$ <u>(84)</u>
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(Refund Due Sheriff)	\$ <u>(84)</u>
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LAWRENCE 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 Lawrence 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.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(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 Lawrence 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. However, as of December 2, 2015, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$2,939,337

Note 3. Tax Collection Period

A. 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 November 18, 2015 through April 15, 2016.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2015. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2016 through May 3, 2017.

C. Franchise Taxes

The franchise tax assessments were levied by the Kentucky 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 April 16, 2015 to April 15, 2016.

Note 4. Interest Income

The Lawrence County Sheriff earned \$1,838 as interest income on 2015 taxes. As of February 8, 2018, the sheriff owed \$846 in interest to the school district and \$992 in interest to his fee account.

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

The Lawrence County Sheriff collected \$37,005 of 10% add-on fees allowed by KRS 134.119(7). As of February 8, 2018, the sheriff owed \$14,020 in 10% add-on fees to his fee account.

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

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:

2011	\$6,349
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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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence 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 Lawrence 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 February 8, 2018. The 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 Lawrence 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 Lawrence County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence 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 2015-006 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 Lawrence County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Comments and Recommendations as items 2015-001, 2015-002, 2015-003, 2015-004, and 2015-005.

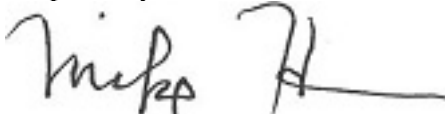
Sheriff's Responses to Findings

The Lawrence County Sheriff's responses to the findings identified in our audit are described in the accompanying Comments and Recommendations. The Lawrence County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 8, 2018

COMMENTS AND RECOMMENDATIONS

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LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS

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

STATE LAWS AND REGULATIONS:

2015-001 The Sheriff Did Not Pay The Correct Amount Of Commissions Or Add-On Fees To The 2016 Fee Account

The sheriff did not pay the correct amount of commissions or add-on fees to the 2016 fee account. In addition, unmined coal taxes collected in May and June 2016 were incorrectly deposited into the 2017 fee account. A transfer from the 2017 fee account to the 2016 fee account will be required to correct the error.

The following table is a compilation of the commissions and add-on fees due to the 2016 fee account:

Tax and Add-On Fee Date	Add-on Fees Amount Due Per Tax Reports	Commission Amount Received From School	Date Deposited To Fee Account
July 2015 - Supplemental Tax	\$	\$ 99	11/09/2017
July 2015 - Franchise Tax		36	11/27/2017
Jan 2016 - Regular Tax		31,178	11/27/2017
Feb 2016 - Regular Tax		2,034	11/27/2017
Jan 2016 - Oil & Gas		1,669	11/27/2017
Feb 2016 - Oil & Gas		1,353	11/27/2017
May 2016 - Unmined Coal Taxes		793	6/28/2017
June 2016 - Unmined Coal Taxes		63	6/28/2017
April 2016 - Add-On Fees - Regular Tax	14,020		Unpaid
April 2016 - Add-On Fees - Gas & Oil Tax	5,369		Unpaid
Total Due 2016 Fee Account	<u>\$ 19,389</u>	<u>\$ 37,225</u>	

The sheriff did not have procedures in place to ensure the commissions had been returned by the school and deposited to the 2016 fee account. The sheriff did not have procedures in place to ensure add-on fees were paid and deposited to the 2016 fee account.

The sheriff's 2016 fee account is owed \$37,225 in commissions. The sheriff's 2016 fee account is owed \$19,389 in add-on fees. The total amount due the 2016 fee account is \$56,614. The school commissions returned by the school were deposited in the 2016 fee account after the end of calendar year 2016. The add-on fees which have not been paid and deposited to the 2016 fee account are a liability of the 2015 tax account and will be paid when the 2015 tax account is settled. Since the commissions have been, and add-on fees will be, deposited into the 2016 fee account after December 31, 2016, the opportunity to use these funds to operate the sheriff's office has passed. The fiscal court will receive \$56,614 from the 2016 fee account as excess fees.

KRS 160.510 requires the sheriff's monthly payment to the school to include the sheriff's commission, which is later returned by the school. Commissions paid to the school were compared with deposits from the school to the fee account, and found that the commissions noted in the table above were not returned.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-001 The Sheriff Did Not Pay The Correct Amount Of Commissions Or Add-On Fees To The 2016 Fee Account (Continued)

KRS 134.119(7) entitles the sheriff to additional (add-on) fees. They are collected during the 10 percent penalty collection months, usually February, March, and April, and should be paid to the fee account for any month they are collected. We compared add-on fees collected per monthly reports to the checks written to the sheriff's fee account, and found that no check was written for regular taxes or gas and oil taxes for April 2016.

We recommend the sheriff establish procedures to ensure the commission paid to the school is returned each month. We recommend the sheriff establish procedures to ensure add-on fees are paid to the fee account for each month they are collected. This will improve the cash flow for the fee account, as payments would be made timely. We recommend excess fees totaling \$56,614 be paid to the fiscal court from the 2016 fee account and transfer the unmined coal tax commissions collected in May and June 2016 in the amount of \$856 to the 2016 fee account from the 2017 fee account.

Sheriff's Response: Completed

2015-002 The Sheriff Did Not Report And Pay Taxes To Districts Timely

This is a repeat finding and was included in the prior year audit report as finding 2014-003. The sheriff's monthly tax reports and payments were often late, depriving the taxing districts of timely receipt of their tax collections.

The following table illustrates when regular tax payments were made:

Month	Total Taxes Due Districts	Date Payments Due Districts	Check Dates	Dates Checks Cleared Bank
July 2015	\$ 6,875	8/10/2015	10/19/2017	10/24/17 - 10/27/17
December 2015	897,582	1/10/2016	1/15/2016	1/20/16 - 2/03/16
January 2016 - County Only	315,754	2/10/2016	2/12/2016	2/17/2016
January 2016	1,657,402	2/10/2016	3/28/2016	3/30/16 - 4/15/16
February 2016	144,521	3/10/2016	3/29/2016	3/29/16 - 4/15/16
March 2016	311,270	4/10/2016	4/25/2016	5/02/16 - 5/16/16
April 2016	152,891	5/10/2016	5/10/2016	6/07/16 - 6/29/16

The following table illustrates when unmined coal tax payments were made:

Month	Total Taxes Due Districts	Date Payments Due Districts	Check Dates	Dates Checks Cleared Bank
May 2016	\$ 54,410	6/10/2016	4/24/2017	5/05/17 - 5/24/17
June 2016	4,334	7/10/2016	4/24/2017	5/05/17 - 5/24/17
July 2016	26	8/10/2016	4/24/2017	5/05/17 - 5/24/17

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-002 The Sheriff Did Not Report And Pay Taxes To Districts Timely (Continued)

The sheriff did not ensure his office complied with the requirement to report and pay taxes collected to districts by the tenth of each month. The sheriff mails payments to the fire district and fire and rescue district, and delivers the payments to the other districts. It appears from the sheriff's records that the delivery date is often later than the day the reports were prepared, making the receipt of payments by the districts further delayed.

Taxing districts rely on tax collections to fund a significant portion of their budgeted services. Not receiving these payments timely can lead to cash flow problems for taxing districts.

As indicated in the tables, some payments were over 257 days late, and the July 2015 tax collections were not paid or reported on the sheriff's tax settlement. On October 19, 2017, the sheriff paid the July 2015 collections to the taxing districts after auditors determined the tax collections had not been paid. The tables also indicate the April 2016 regular tax checks, while written on May 10, 2016, appeared to have not been delivered until later based on the time frame the checks cleared the bank. While the sheriff cannot control when districts deposit their checks, he can control when he distributes the checks.

KRS 134.191 requires the sheriff to provide monthly reports by the tenth day of each month. Any sheriff failing to pay over taxes collected shall be subject to a penalty of 1 percent for each 30 day period or fraction thereof that the payment is not made, plus interest. The governing body of a county or taxing district shall charge the sheriff with penalties and interest. The county judge/executive may grant an extension of time, not to exceed 15 days, for filing the monthly reports. Penalties and interest would be suspended during an extension, but would apply at the expiration of the extension.

We recommend the sheriff ensure monthly tax reports are prepared and paid by the tenth of each month. There should be monthly reports for any month that regular, franchise, gas and oil, and unmined coal taxes are collected.

Sheriff's Response: Computer Program Error

2015-003 The Sheriff Did Not Deposit Receipts Daily

This is a repeat finding and was included in the prior year audit report as finding 2014-001. Funds are not deposited daily. Five days of tax receipts were selected to determine if the funds were deposited daily. As noted in the table below, receipts were not deposited daily four out of the five days tested.

Date Receipts Collected	Amount Collected	Bank Deposit Date
1/6/2016	\$ 74,823	1/7/2016
1/7/2016	86,511	1/20/2016
1/8/2016	1,616,308	1/20/2016
1/11/2016	6,706	1/20/2016
1/13/2016	6,559	1/20/2016

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-003 The Sheriff Did Not Deposit Receipts Daily (Continued)

It appears the sheriff often holds several daily deposits and then takes them to the bank rather than making daily deposits. Furthermore, policies and procedures are not in place to ensure that tax receipts are deposited daily.

Receipts not deposited daily are susceptible to misappropriation or theft. Such occurrences could materially affect the financial statements.

Under the authority of KRS 68.210, the Department for Local Government has established requirements for all local government officials handling public funds. These requirements include “daily deposits intact into a federally insured banking institution.”

We recommend that the sheriff implement policies and procedures to ensure that tax receipts are deposited intact daily.

Sheriff's Response: Ok

2015-004 The Sheriff Did Not Remit Interest Payments To The School And Fee Account Monthly

This is a repeat finding and was included in the prior year audit report as finding 2014-004. The sheriff did not distribute interest earned on tax collections to the school or the fee account monthly. The sheriff earned \$1,838 of interest on his 2015 tax collections, and made no payments to the school or fee account.

Policies and procedures are not currently in place to ensure that interest earned from tax collection deposits are paid to the school district and fee account timely.

Failure to distribute interest earnings monthly deprives the school district and sheriff's office of funds needed for daily operations. The sheriff owes \$846 to the school district and \$992 to the fee account.

The sheriff should distribute the investment earnings at the same time as monthly tax collections. KRS 134.140(2) requires the sheriff to pay monthly “that part of the investment earnings for the month which are attributable to the investment of school taxes[.]” According to KRS 134.140(4), the balance of investment income should be paid to the sheriff's operating account.

We recommend the sheriff comply with KRS 134.140 by remitting the interest due to the school district and fee account monthly.

Sheriff's Response: Ok

2015-005 The Sheriff Did Not Promptly Transfer Certificates of Delinquency To The County Clerk's Office

This is a repeat finding and was included in the prior year audit report as finding 2014-002. Delinquent unmined coal tax bills were not promptly transferred to the county clerk's office. The sheriff neglected to perform this duty.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2015-005 The Sheriff Did Not Promptly Transfer Certificates of Delinquency To The County Clerk's Office
(Continued)

Unmined coal tax collections began May 1, 2016, became delinquent August 1, 2016, and should have been transferred by October, 15, 2016. However, the delinquent unmined coal transfer was not completed until May 3, 2017. The delay in transferring the delinquent unmined coal certificates to the county clerk meant that the taxpayers were unable to pay the delinquent bills during that time period. The delinquent bills were also incurring interest charges during that time period that the taxpayer would be responsible for paying.

KRS 134.122(1)(a) states, “[t]he sheriff shall, on April 15 or three (3) months and fifteen (15) days from the date the taxes were due under an alternative collection schedule, file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]” KRS 134.122(1)(d), states, “the sheriff shall be liable on his or her bond for the aggregate amount of the tax claims not filed with the clerk.”

We recommend the sheriff turn the delinquent unmined coal tax bills over to the county clerk timely.

Sheriff's Response: Ok

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-006 The Sheriff's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Tax Receipts
And Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2014-005. The sheriff's office lacks adequate segregation of duties and internal controls over tax receipts and disbursements. The bookkeeper, deputy clerk, and occasionally the sheriff, all collect tax receipts. The bookkeeper and deputy clerk each prepare a daily checkout sheet and reconcile the daily receipts to the daily collection report. The bookkeeper posts items to the receipts ledger. There are no initials on the deposit ticket documenting who prepared and reviewed the deposit ticket.

The bookkeeper prepares the month-end tax reports. The bookkeeper prepares checks for tax distribution based on the month-end tax reports, and posts checks to the disbursements ledger. The bookkeeper and sheriff sign the tax distribution checks. The deputy clerk is also authorized to sign checks. All checks require a dual signature.

The bookkeeper prepares the monthly bank reconciliation, although there is nothing documented to determine who prepared the reconciliation or that it was reviewed. Also, the reconciliation is only a restatement of bank activity, and is not reconciled to the receipts ledger, disbursements ledger, or monthly financial statements. Reporting errors would have been found on a monthly basis if a true reconciliation had been performed by the sheriff's office.

Without internal controls in place, risk increases that the tax account financial information is inaccurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2015-006 The Sheriff's Office Lacks Adequate Segregation Of Duties And Internal Controls Over Tax Receipts
And Disbursements (Continued)

Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits, and post to the receipts ledger. The same employee should not prepare monthly reports, sign checks, and post to the disbursements ledger. Also the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide the internal control.

Sheriff's Response: Would be nice to have extra Office personnel if the money was there to elevate this.

Auditor's Reply: In the absence of additional staff, compensating controls may be implemented, including oversight and review by the sheriff, as stated.