

**REPORT OF THE AUDIT OF THE  
LEE 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**  
**LEE 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 Lee 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 \$2,661,950 for the districts, retaining commissions of \$111,308 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$2,548,656 to the districts.

**Report Comments:**

2015-001 The Sheriff Did Not Properly Account For Two Franchise Tax Bills  
2015-002 The Sheriff Did Not Segregate Accounting Duties

**Deposits:**

The sheriff's deposits as of November 4, 2015, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$222,606

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

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Steve Mays, Jr., Lee County Judge/Executive  
Honorable Wendell Childers, Jr., Lee County Sheriff  
Members of the Lee County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Lee 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 Steve Mays, Jr., Lee County Judge/Executive  
Honorable Wendell Childers, Jr., Lee County Sheriff  
Members of the Lee 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 Lee 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 Lee 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 Lee 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 May 5, 2017, on our consideration of the Lee 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 Lee 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 Steve Mays, Jr., Lee County Judge/Executive

Honorable Wendell Childers, Jr., Lee County Sheriff

Members of the Lee 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 Properly Account For Two Franchise Tax Bills

2015-002 The Sheriff Did Not Segregate Accounting Duties

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

May 5, 2017

LEE COUNTY  
WENDELL CHILDERS, JR., 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	\$ 816,688	\$ 534,265	\$ 606,220	\$ 219,462
Tangible Personal Property	70,435	61,033	52,418	43,659
Fire Protection	1,945			
Franchise Taxes	162,112	124,404	115,911	
Additional Billings	181	118	134	49
Bank Franchises	17,069			
Penalties	4,385	2,871	3,246	1,199
Adjusted to Sheriff's Receipt	765	(45)	(53)	(32)
Gross Chargeable to Sheriff	<u>1,073,580</u>	<u>722,646</u>	<u>777,876</u>	<u>264,337</u>
 <u>Credits</u>				
Exonerations	5,550	3,553	4,031	1,459
Discounts	13,611	8,928	9,838	3,944
Delinquents:				
Real Estate	41,724	27,188	30,849	11,168
Tangible Personal Property	4,053	3,512	3,009	4,072
Total Credits	<u>64,938</u>	<u>43,181</u>	<u>47,727</u>	<u>20,643</u>
Taxes Collected	1,008,642	679,465	730,149	243,694
Less: Commissions *	<u>42,868</u>	<u>28,877</u>	<u>29,206</u>	<u>10,357</u>
Taxes Due	965,774	650,588	700,943	233,337
Taxes Paid	964,952	650,130	700,427	233,147
Refunds (Current and Prior Year)	<u>822</u>	<u>458</u>	<u>516</u>	<u>190</u>
Due Districts as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on \$ 1,931,801

4% on \$ 730,149

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

LEE 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 Lee 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.

LEE 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 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 November 4, 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      \$218,078

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 September 17, 2015 through April 15, 2016.

B. Franchise 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 April 16, 2015 through April 15, 2016.

Note 4. Interest Income

The Lee County Sheriff earned \$82 as interest income on 2015 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Lee County Sheriff collected \$9,586 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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 Steve Mays, Jr., Lee County Judge/Executive  
Honorable Wendell Childers, Jr., Lee County Sheriff  
Members of the Lee 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 Lee 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 May 5, 2017. The Lee 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 Lee 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 Lee County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lee 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 and significant deficiency.

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 2015-002 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 Lee 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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations as item 2015-001.

### 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 line extending to the right.

Mike Harmon  
Auditor of Public Accounts

May 5, 2017



COMMENTS AND RECOMMENDATIONS



LEE COUNTY  
WENDELL CHILDERS, JR., SHERIFF  
COMMENTS AND RECOMMENDATIONS

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

STATE LAWS AND REGULATIONS:

2015-001 The Sheriff Did Not Properly Account For Two Franchise Tax Bills

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Two franchise tax bills were turned over to the county clerk as delinquent on April 15, 2016. However, these tax bills were paid to the sheriff's office in May 2015 and the sheriff disbursed those funds to the districts in June 2015.

When the tax bills were received, the sheriff's computer software had not been updated for the 2015 tax year. The bookkeeper manually paid out the collections for these two franchise tax bills by creating a spreadsheet. After the sheriff's software was updated, the franchise bills were entered into the system but the date collected was not. The sheriff does not maintain a receipts and disbursements ledger for the tax account, so when the county settlement was prepared, this manual report was not included.

As a result, the sheriff's county settlement submitted to the fiscal court was materially inaccurate because the two franchise bills were listed as delinquent instead of collected and paid to the districts.

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. . . file all tax claims on real and personal property remaining in his or her possession with the county clerk[.]" Only *unpaid* tax claims should be in the sheriff's possession. KRS 134.192(1) requires "[e]ach sheriff [to] annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year." Inherent in this requirement is the annual settlement be an *accurate* accounting of taxes collected and distributed.

We recommend the sheriff take the steps necessary to ensure that only unpaid tax bills are certified to the county clerk as delinquent and that the county settlement submitted to the fiscal court is accurate. This could be accomplished by maintaining tax account receipts and disbursements ledgers, then comparing the ledgers to the yearly totals per tax collection reports and to the county settlement. This review should be evidenced by the initials of the preparer and a separate reviewer on the ledgers, collection reports, and settlement.

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-002 The Sheriff Did Not Segregate Accounting Duties

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The bookkeeper and part-time deputy clerk both collect and deposit tax receipts, record transactions, prepare the monthly reports, issue disbursements to the taxing districts, and authorize those disbursements. The sheriff instituted compensating controls to offset the lack of segregation, such as reviewing and initialing bank reconciliations, agreeing daily tax collections to the bank deposit ticket, and agreeing tax reports to the disbursements prepared. However, one of these controls was not designed properly. The bank statement was reconciled to the checkbook instead of a receipts and disbursements ledger. The sheriff's office also lacked controls over additional tax bills. There was no second level review of additional bills after they were entered into the computer system.

LEE COUNTY  
WENDELL CHILDERS, JR., SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period April 16, 2015 Through April 15, 2016  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

2015-002 The Sheriff Did Not Segregate Accounting Duties (Continued)

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The lack of segregation is due to the sheriff having a limited budget for hiring office personnel. Having one person responsible for the complete accounting cycle resulted in inaccurate financial reporting to the Lee County Fiscal Court and to the taxing districts and allowed a tax bill to be collected for less than the certification.

Proper segregation of accounting duties is essential for preventing asset misappropriation and inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff segregate accounting duties or institute properly designed compensating controls. This could be accomplished by the sheriff reviewing and authorizing all tax disbursements along with another individual who did not prepare the disbursements. The review should be documented by initialing the report used to prepare the disbursements. Additionally, the sheriff, or an individual who does not post deposits and checks to the ledgers could compare the receipts and disbursements ledgers with the monthly and yearly reports to ensure accuracy. This review should be documented by initialing the ledgers and reports. We also recommend the additional tax bills be reviewed by someone other than the person who enters them into the computer system.

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

