

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2016 UNMINED COAL TAXES**

**For The Period
August 20, 2016 Through September 18, 2017**



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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 William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy M. Collett, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Leslie County Sheriff's Settlement - 2016 Unmined Coal Taxes for the period August 20, 2016 through September 18, 2017 - 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 William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy M. Collett, Leslie County Sheriff
Members of the Leslie 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 former Leslie 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 former Leslie County Sheriff, for the period August 20, 2016 through September 18, 2017.

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 August 20, 2016 through September 18, 2017 of the former Leslie 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 3, 2019, on our consideration of the former Leslie 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 former Leslie 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 William Lewis, Leslie County Judge/Executive

The Honorable Delano Huff, Former Leslie County Sheriff

The Honorable Billy M. Collett, Leslie County Sheriff

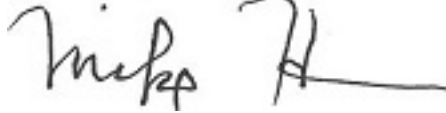
Members of the Leslie County Fiscal Court

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

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:

2016-001 The Former Leslie County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

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 3, 2019

LESLIE COUNTY
 DELANO HUFF, FORMER SHERIFF
SHERIFF'S SETTLEMENT – 2016 UNMINED COAL TAXES

For The Period August 20, 2016 Through September 18, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal Taxes	\$ 68,812	\$ 104,139	\$ 243,235	\$ 44,894
Penalties	463	701	1,638	302
Gross Chargeable to Sheriff	<u>69,275</u>	<u>104,840</u>	<u>244,873</u>	<u>45,196</u>
 <u>Credits</u>				
Exonerations	62	94	219	40
Discounts	1,177	1,780	4,162	767
Delinquents: Real Estate	<u>1,188</u>	<u>1,798</u>	<u>4,200</u>	<u>775</u>
Total Credits	<u>2,427</u>	<u>3,672</u>	<u>8,581</u>	<u>1,582</u>
Taxes Collected	66,848	101,168	236,292	43,614
Less: Commissions *	<u>2,841</u>	<u>4,300</u>	<u>4,726</u>	<u>1,853</u>
Taxes Due	64,007	96,868	231,566	41,761
Taxes Paid	<u>64,007</u>	<u>96,868</u>	<u>232,623</u>	<u>41,761</u>
 (Refund Due Sheriff) as of Completion of Audit	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ (1,057)</u>	 <u>\$ 0</u>

* Commissions:

4.25% on \$ 211,630

2% on \$ 236,292

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

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

September 18, 2017

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 former Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the 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 former sheriff did not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. On November 8, 2016 and September 18, 2017, the former sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the former sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured at November 8, 2016 \$175,572
- Uncollateralized and Uninsured at September 18, 2017 \$167,396

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
September 18, 2017
(Continued)

Note 3. Tax Collection Period

The unmined coal property tax assessments were levied as of January 1, 2016. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2017 through September 18, 2017.

Note 4. Sheriff's 10% Add-On Fee

The former Leslie County Sheriff collected \$1,970 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former 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*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Lewis, Leslie County Judge/Executive
The Honorable Delano Huff, Former Leslie County Sheriff
The Honorable Billy M. Collett, Leslie County Sheriff
Members of the Leslie 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 former Leslie County Sheriff's Settlement – 2016 Unmined Coal Taxes for the period August 20, 2016 through September 18, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated May 3, 2019. The former Leslie 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 former Leslie 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 former Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Leslie County Sheriff's internal control.

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 Schedule of Findings and Responses, 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 Schedule of Findings and Responses as item 2016-001 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 former Leslie 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 flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

May 3, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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LESLIE COUNTY
DELANO HUFF, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period August 20, 2016 Through September 18, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Former Leslie County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

This is a repeat finding and was included in the prior year report as finding, 2015-001. The former Leslie County Sheriff's office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. The bookkeeper opened mail, collected tax payments, prepared the daily checkout sheet and the daily deposit, opened bank statements, and prepared bank reconciliations. In addition, the bookkeeper was also responsible for preparing the monthly tax reports and all disbursements. These incompatible duties created a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

The lack of adequate segregation of duties within the former sheriff's office was the result of limited staff size which prevented the former sheriff from segregating accounting duties to different individuals within the office. The former sheriff stated he could not hire additional employees to allow segregation of duties due to a limited budget.

Lack of segregation of duties could result in undetected misappropriation of assets, errors, or inaccurate financial reporting to local taxing districts.

The segregation of duties over various accounting functions such as opening mail, preparing deposits, and recording payments and disbursements, is essential for providing protection from asset misappropriation or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The sheriff could have implemented oversight when duties could not have been segregated.

We recommend the sheriff's office segregate duties or implement compensating controls. The following are examples of compensating controls the sheriff's office could implement:

- The sheriff, or his designee, could compare the daily checkout sheet to tax reports and bank deposit receipts and document his review.
- The sheriff, or his designee, could reconcile the bank statement or examine the bank reconciliation prepared by the bookkeeper, resolve any discrepancies, and document the review by initialing the bank reconciliation and the bank statement.
- The sheriff could examine checks prepared by the bookkeeper and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

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