

**REPORT OF THE AUDIT OF THE  
LESLIE COUNTY  
SHERIFF'S SETTLEMENT - 2018 OIL AND GAS TAXES**

**For The Period  
January 1, 2019 Through July 15, 2019**



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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 William Lewis, Leslie County Judge/Executive  
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 Leslie County Sheriff's Settlement - 2018 Oil and Gas Taxes for the period January 1, 2019 through July 15, 2019 - 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  
Finance and Administration Cabinet  
The Honorable William Lewis, Leslie County Judge/Executive  
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 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 Leslie County Sheriff, for the period January 1, 2019 through July 15, 2019.

### **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 January 1, 2019 through July 15, 2019 of the 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 July 1, 2020, on our consideration of the 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 Leslie County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky  
The Honorable Andy Beshear, Governor  
Holly M. Johnson, Secretary  
Finance and Administration Cabinet  
The Honorable William Lewis, Leslie County Judge/Executive  
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 comments:

- 2018-001 The Leslie County Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2018-002 The Leslie County Sheriff's Office Did Not Have Back Up Procedures In Place For Tax Collection Data

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

July 1, 2020

LESLIE COUNTY  
 BILLY M. COLLETT, SHERIFF  
SHERIFF'S SETTLEMENT - 2018 OIL AND GAS TAXES

For The Period January 1, 2019 Through July 15, 2019

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Gas Property Taxes	\$ 24,237	\$ 45,795	\$ 85,672	\$ 15,812
Oil Property Taxes	20,375	38,504	72,023	13,293
Penalties	36	68	127	23
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	44,648	84,367	157,822	29,128
<u>Credits</u>				
Exonerations	124	233	437	81
Discounts	850	1,605	3,008	554
Delinquent Gas	200	377	706	130
Delinquent Oil	137	259	484	89
Total Credits	<hr/>	<hr/>	<hr/>	<hr/>
	1,311	2,474	4,635	854
Taxes Collected	43,337	81,893	153,187	28,274
Less: Sheriff's Commissions*	<hr/>	<hr/>	<hr/>	<hr/>
	1,842	3,480	4,595	1,201
Taxes Due Districts	41,495	78,413	148,592	27,073
Taxes Paid	<hr/>	<hr/>	<hr/>	<hr/>
	41,495	78,413	148,652	27,073
(Refund Due Sheriff)	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 0	\$ 0	\$ (60)	\$ 0

\* Commissions:

4.25% on	\$	153,504
3% on	\$	153,187

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



LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT

July 15, 2019

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 conducts 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 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 Leslie 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 July 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LESLIE COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 15, 2019  
(Continued)

Note 3. Tax Collection Period

The oil and gas property tax assessments were levied as of January 1, 2018. 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 17, 2019 through July 15, 2019.

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

The Leslie County Sheriff collected \$159 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*

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable William Lewis, Leslie County Judge/Executive  
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 Leslie County Sheriff's Settlement - 2018 Oil and Gas Taxes for the period January 1, 2019 through July 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated July 1, 2020. The 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 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 Leslie County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 and another deficiency that we consider to be a 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 Schedule of Findings and Responses as item 2018-001 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)

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2018-002 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Leslie 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 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,



Mike Harmon  
Auditor of Public Accounts

July 1, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

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LESLIE COUNTY  
BILLY M. COLLETT, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2019 Through July 15, 2019

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The Leslie County Sheriff's Office Does Not Have Adequate Segregation Of Duties

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The sheriff's bookkeeper collects payments from customers, prepares receipts, prepares deposits, and reconciles the bank statements. The bookkeeper also prepares disbursement checks and monthly tax reports. These incompatible duties create a lack of segregation of duties over receipts, disbursements, and the reconciliation process.

According to the sheriff's office, this condition is a result of a limited budget, which restricts the number of the employees the sheriff can hire or delegate duties to.

A lack of oversight could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as Department of Revenue.

The segregation of duties over various accounting functions such as preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff ensure that accounting duties are properly segregated in the future. If this is not feasible, the sheriff should implement adequate compensating controls that would limit the severity of this deficiency in internal controls.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-002 The Leslie County Sheriff's Office Did Not Have Back Up Procedures In Place For Tax Collection Data

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In 2019, the Leslie County Sheriff's office lost all data pertaining to 2018 tax collections. The sheriff attempted to recover information, but was unsuccessful. The sheriff did have copies of all collection information and therefore was able to support amounts reported on the sheriff's tax settlement.

The sheriff was under the impression that the vendor for the tax collection software provided backup services, but learned that this was a service that had to be purchased separately. As a result, all electronic information concerning 2018 tax collections was lost and unable to be recovered. Good internal controls require that the sheriff ensure that procedures are in place to protect tax collection data.

We recommend the sheriff consult with a specialist to ensure that this does not happen in the future and also that the sheriff continue to maintain documentation for tax collections and payments.

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