

**REPORT OF THE AUDIT OF THE
LIVINGSTON COUNTY
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period
April 16, 2016 Through April 17, 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 Chris Lasher, Livingston County Judge/Executive
The Honorable Bobby Davidson, Livingston County Sheriff
Members of the Livingston County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Livingston County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 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

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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 Livingston 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 Livingston County Sheriff, for the period April 16, 2016 through April 17, 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 April 16, 2016 through April 17, 2017 of the Livingston 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 June 5, 2018, on our consideration of the Livingston 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 Livingston 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

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The Honorable Bobby Davidson, Livingston County Sheriff

Members of the Livingston 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:

- 2016-001 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties
- 2016-002 The Livingston County Sheriff Lacks Internal Controls Over The Tax Collection Process
- 2016-003 The Livingston County Sheriff Has A \$161 Deficit In His 2016 Tax Account
- 2016-004 The Livingston County Sheriff Failed To Make Daily Deposits

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

June 5, 2018

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 529,932	\$ 815,545	\$ 1,981,677	\$ 543,291
Tangible Personal Property	167,932	214,478	456,533	393,703
Fire Protection	1,774			
Franchise Taxes	254,164	209,154	849,210	
Limestone, Sand and Gravel Reserves	21,142	23,421	79,059	21,675
Omitted Limestone, Sand, and Gravel	11	13	46	13
Penalties	2,703	4,134	9,946	2,796
Adjusted to Sheriff's Receipt	(32)	(38)	(107)	(78)
Gross Chargeable to Sheriff	<u>977,626</u>	<u>1,266,707</u>	<u>3,376,364</u>	<u>961,400</u>
 <u>Credits</u>				
Exonerations	1,090	1,573	4,075	1,117
Discounts	11,298	16,329	39,096	15,606
Delinquents:				
Real Estate	5,767	9,844	21,540	5,905
Tangible Personal Property	195	232	531	99
Delinquent Limestone, Sand, and Gravel	5	7	20	5
Delinquent Franchise Taxes	<u>399</u>	<u>368</u>	<u>1,083</u>	
Total Credits	<u>18,754</u>	<u>28,353</u>	<u>66,345</u>	<u>22,732</u>
Taxes Collected	958,872	1,238,354	3,310,019	938,668
Less: Commissions *	<u>40,752</u>	<u>36,250</u>	<u>132,401</u>	<u>39,893</u>
Taxes Due	918,120	1,202,104	3,177,618	898,775
Taxes Paid	917,126	1,199,466	3,173,780	897,838
Refunds (Current and Prior Year)	<u>957</u>	<u>1,339</u>	<u>3,617</u>	<u>981</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 37</u>	<u>\$ 1,299</u>	<u>\$ 221</u>	<u>\$ (44)</u>

**

* and ** See next page.

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

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2016 TAXES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

* Commissions:

4.25% on	\$	2,631,887
4% on	\$	3,310,019
1% on	\$	504,008

** Special Taxing Districts:

Health District	\$	20
Extension District		(22)
Soil Conservation		19
Grand Lakes Fire		(50)
Burna Fire		15
Ledbetter Fire		<u>1,317</u>
Due Districts	\$	<u>1,299</u>

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

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 17, 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 Livingston 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 Livingston 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 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 17, 2017
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2017. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2016 through April 17, 2017.

B. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel 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 November 16, 2016 through April 19, 2017.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. 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 16, 2016 through April 17, 2017.

Note 4. Interest Income

The Livingston County Sheriff earned \$277 as interest income on 2016 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Livingston County Sheriff collected \$16,833 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Chris Lasher, Livingston County Judge/Executive
The Honorable Bobby Davidson, Livingston County Sheriff
Members of the Livingston 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 Livingston County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated June 5, 2018. The Livingston 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 Livingston 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 Livingston County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Livingston 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 and other deficiencies that we consider to be significant deficiencies.

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)

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-002 and 2016-003 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Livingston 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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-004.

Views of Responsible Official and Planned Corrective Action

The Livingston County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The 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

June 5, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2016-001 The Livingston County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included the prior year audit report as finding 2015-001. The Livingston County Sheriff's office has a lack of adequate segregation of duties over tax collections and disbursements. According to the bookkeeper, this is because of a limited number of staff and the diversity of operations. The office staff is required to perform multiple tasks such as the collection of cash from customers, deposit preparation, bookkeeping, bank reconciliations, the preparation of monthly reports, and the preparation of checks for disbursements. A lack of adequate segregation of duties increases the risk of undetected fraud or errors.

Segregation of duties over these tasks, or the implementation of compensating controls when limited by staff, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the sheriff implement the following compensating controls to offset this internal control weakness:

- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any difference should be reconciled. The sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should require two signatures on checks, with one being the sheriff's signature.
- The sheriff should compare disbursements to monthly tax reports or other supporting documentation. Any differences should be reconciled. The sheriff should document his oversight by initialing documentation.

Sheriff's Response: We do not generate enough revenue to hire enough employees to provide adequate segregation of duties.

Auditor's Reply: As stated above, the sheriff should implement compensating controls to offset the internal control weakness regarding segregation of duties.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2016-002 The Livingston County Sheriff Lacks Internal Controls Over The Tax Collection Process

The Livingston County Sheriff lacks internal controls over the tax collection process. This lack of controls resulted in the following:

- Multiple errors occurred on the monthly reports such as refunds being added to taxes due to districts, instead of being deducted.
- The sheriff's property settlement was misstated due to the lack of a thorough review.
- Taxes paid per the sheriff's settlement did not agree to the canceled checks for tax distributions.
- Multiple refund checks were calculated incorrectly by the sheriff's office and were written for more than was due to the taxpayer, requiring the taxpayers to refund money to the sheriff's office and requiring some taxpayers be due additional refund money from their previous year's tax payments.

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2016-002 The Livingston County Sheriff Lacks Internal Controls Over The Tax Collection Process
(Continued)

According to the bookkeeper, the miscalculations on refunds were just errors that were not caught until later in the tax year. Rather than implement a systematic approach for handling the collection of taxes, the sheriff relies on two employees without sufficient documented oversight. As a result of the lack of controls, the findings listed above occurred. Additionally, this lack of internal controls has created the opportunity for additional material misstatements.

Strong internal controls over tax collections are essential to ensuring that taxes collected are accounted for properly. Strong internal controls help prevent or detect misstatements due to error, as well as protect against misappropriation of assets. We recommend the sheriff implement internal controls over the tax collection process such as documented management oversight of the daily checkout process, performing monthly reconciliations by comparing daily deposits and checkout sheets to bank statements and the monthly reports, and having another deputy to recalculate any refunds due taxpayers before they are mailed out, to eliminate errors in the future.

Sheriff's Response: We plan on having a third person, the sheriff, look over our work and initialing work to insure internal control.

2016-003 The Livingston County Sheriff Has A \$161 Deficit In His 2016 Tax Account

The sheriff has a deficit of \$161 in his official 2016 tax accounts. This occurred because of a lack of internal controls in place to ensure all tax monies due the tax account were properly billed, collected, and deposited and all payments were properly paid. As a result, the sheriff's tax account did not receive all monies due, which resulted in the sheriff's office not having the funds needed to settle 2016 taxes as detailed in the attached determination of fund balance.

As collector of taxes, the sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing authority. KRS 134.192 requires the sheriff to settle his or her accounts annually, with each taxing district for which he or she collects taxes. Additionally, good internal controls require oversight of all tax accounting functions. We recommend the sheriff deposit personal funds of \$161 into his 2016 tax account in order to settle his 2016 taxes in accordance with the attached determination of fund balance.

Sheriff's Response: He plans on paying it back to tax account.

STATE LAWS AND REGULATIONS:

2016-004 The Livingston County Sheriff Failed To Make Daily Deposits

During the 2016 tax year, the Livingston County Sheriff did not make daily deposits for tax collections. Instead the sheriff created deposits, but waited to take them to the bank. According to the sheriff's office, because of a limited staff, sometimes the bookkeeper would be the only person working in the sheriff's office and would not be allowed to leave the office to take deposits to the bank. Also, due to the lack of proximity of the bank, it is not always convenient to take the deposit. Failure to make daily deposits leaves tax collections vulnerable to misappropriation and loss. Additionally, the failure to make daily deposits results in the Sheriff not being in compliance with KRS 68.210.

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 16, 2016 Through April 17, 2017
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2016-004 The Livingston County Sheriff Failed To Make Daily Deposits (Continued)

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting requirements, which includes performing daily checkout procedures and making daily deposits intact to a federally insured financial institution. We recommend the sheriff deposit tax collections intact on a daily basis.

Sheriff's Response: He makes daily deposit, employees cannot always get to bank before closing time and deposit will show up on next day work. He plans to have deputy or employees to make sure it gets there on time.