

**REPORT OF THE AUDIT OF THE
LIVINGSTON COUNTY
SHERIFF'S SETTLEMENT - 2020 TAXES**

**For The Period
May 16, 2020 Through April 15, 2021**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
SHERIFF’S SETTLEMENT - 2020 TAXES	4
NOTES TO FINANCIAL STATEMENT	6
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 <i>GOVERNMENT AUDITING STANDARDS</i>	11
SCHEDULE OF FINDINGS AND RESPONSES	15

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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 Garrett Gruber, 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 - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - 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 Garrett Gruber, Livingston County Judge/Executive
The Honorable Bobby Davidson, Livingston County Sheriff
Members of the Livingston 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 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 May 16, 2020 through April 15, 2021.

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 May 16, 2020 through April 15, 2021 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 October 22, 2021, 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 Andy Beshear, Governor
Holly M. Johnson, Secretary
Finance and Administration Cabinet
The Honorable Garrett Gruber, Livingston County Judge/Executive
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:

- 2020-001 The Livingston County Sheriff's Office Does Not Have Adequate Segregation Of Duties
- 2020-002 The Livingston County Sheriff Did Not Perform Daily Checkout Procedures Or Make Daily Deposits

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

October 22, 2021

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2020 TAXES

For The Period May 16, 2020 Through April 15, 2021

	Special Taxing			
	County	Districts	School	State
<u>Charges</u>				
Real Estate	\$ 578,976	\$ 887,245	\$ 2,194,268	\$ 593,567
Tangible	184,166	227,535	499,563	457,622
Fire Protection	1,748			
Total Per Sheriff's Official Receipt	<u>764,890</u>	<u>1,114,780</u>	<u>2,693,831</u>	<u>1,051,189</u>
<u>Other Taxes & Charges</u>				
Franchise Taxes	68,073	67,986	195,373	
Additional Billings	187	310	710	1,046
Limestone, Sand, and Gravel Reserves	18,853	22,057	71,450	18,474
Penalties	<u>3,106</u>	<u>4,936</u>	<u>11,631</u>	<u>3,213</u>
Gross Chargeable to Sheriff	855,109	1,210,069	2,972,995	1,073,922
<u>Credits</u>				
Exonerations	2,122	3,516	8,040	2,677
Discounts	12,624	17,977	44,011	18,077
Delinquent Real Estate	7,200	12,133	27,193	7,307
Delinquent Tangible		40		6
Delinquent Franchise Taxes	<u>4,108</u>	<u>2,448</u>	<u>11,143</u>	<u>6</u>
Total Credits	26,054	36,114	90,387	28,067
Taxes Collected	829,055	1,173,955	2,882,608	1,045,855
Less: Sheriff's Commissions*	<u>35,235</u>	<u>32,365</u>	<u>79,271</u>	<u>44,449</u>
Taxes Due Districts	793,820	1,141,590	2,803,337	1,001,406
Taxes Paid	793,393	1,140,534	2,801,454	1,000,709
Refunds (Current and Prior Year)	<u>681</u>	<u>1,032</u>	<u>2,581</u>	<u>697</u>
Taxes Due Districts (Refund Due Sheriff)	<u>\$ (254)</u>	<u>\$ 24</u>	<u>\$ (698)</u>	<u>\$ 0</u>

**

* and ** See next page.

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

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SHERIFF'S SETTLEMENT - 2020 TAXES
For The Period May 16, 2020 Through April 15, 2021
(Continued)

* Commissions:

4.25% on \$ 2,509,533

2.75% on \$ 2,882,607

1% on \$ 539,333

** Special Taxing Districts:

Health District \$ (45)

Extension District (115)

Salem Fire District (5)

Grand Lakes Fire District 189

Due District or

(Refunds Due Sheriff) \$ 24

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2021

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 prepares 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 Livingston County Sheriff maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected 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. These requirements were met.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2021
(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 Livingston County Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of April 15, 2021, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2020. Property taxes were billed to finance governmental services for the fiscal year ending June 30, 2021. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2020 through April 15, 2021.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2020. 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 24, 2020 through April 15, 2021.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 16, 2020 through April 15, 2021.

Note 4. Interest Income

The Livingston County Sheriff earned \$239 as interest income on 2020 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Livingston County Sheriff collected \$17,597 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Escrow Account

The sheriff deposited unrefundable payments in a non-interest-bearing account. The sheriff's escrowed beginning balance was \$93. No receipts were received during the period, and disbursements totaled \$60. As of April 15, 2021, the account had an ending balance of \$33.

Note 7. Related Party Transaction

The Livingston County Sheriff has an office employee who is also employed by a taxing district.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Garrett Gruber, 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 - 2020 Taxes for the period May 16, 2020 through April 15, 2021 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated October 22, 2021. 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) as a basis for designing 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 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002 to be material weaknesses.



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 Livingston 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 financial statement. 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 Schedule of Findings and Responses as item 2020-002.


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 Livingston County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

October 22, 2021

SCHEDULE OF FINDINGS AND RESPONSES

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LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period May 16, 2020 Through April 15, 2021

FINANCIAL STATEMENT FINDINGS:

2020-001 The Livingston County Sheriff's Office Does Have Not Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2019-001. The Livingston County Sheriff's office does not have adequate segregation of duties over tax collections and disbursements. The bookkeeper 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 with little to no oversight. According to the staff, this lack of segregation of duties is due to a limited number of staff and the diversity of operations.

A lack of adequate segregation of duties increases the risk of undetected error or inaccurate reporting. 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 segregate duties to the extent possible or implement compensating controls to offset this internal control weakness. The following procedures should be implemented by the sheriff to segregate duties or implement compensating controls:

- The sheriff should require two signatures on checks with one being the sheriff's signature.
- The sheriff should compare disbursements to the monthly tax reports or other supporting documentation. Any difference should be reconciled. The sheriff should document his oversight by initialing documentation.
- The sheriff should review the settlement and ensure that each column foots properly.
- 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 reconciliations and the balance in the checkbook.

Sheriff's Response: Our office does not generate enough revenue to hire enough people to have adequate segregation of duties. Also the sheriff views our daily and monthly work and initials our work.

2020-002 The Livingston County Sheriff Did Not Perform Daily Checkout Procedures Or Make Daily Deposits

The Livingston County Sheriff did not perform daily checkout procedures or make daily deposits during the month of December. Instead, checkout procedures were performed, and deposits were made, once a week. According to staff of the sheriff's office, checkout procedures were performed only once a week due to the office being frequently closed and short-staffed due to the ongoing COVID-19 pandemic.

Failure to perform daily checkout procedures and 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.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires receipts be kept intact and deposited daily. Additionally, strong internal controls dictate that checkout procedures be performed, and deposits be made daily.

LIVINGSTON COUNTY
BOBBY DAVIDSON, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period May 16, 2020 Through April 15, 2021
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Livingston County Sheriff Did Not Perform Daily Checkout Procedures Or Make Daily Deposits (Continued)

We recommend the Livingston County Sheriff ensure that checkout procedures are performed daily and that receipts are kept intact and deposited daily as required by KRS 68.210.

Sheriff's Response: The reason for our deposits being late was because of the courthouse being closed for Covid. We are now making sure our deposits are done daily. We have also installed a drop box outside so it will be easier for our customers in times we have to be closed. It is checked daily.