

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2017 TAXES**

**For The Period
April 18, 2017 Through April 16, 2018**



**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**

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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 Jimmie W. Greene, II., McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the McCreary County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - 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 Jimmie W. Greene, II., McCreary County Judge/Executive

The Honorable Randy Waters, McCreary County Sheriff

Members of the McCreary 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 McCreary 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 McCreary County Sheriff, for the period April 18, 2017 through April 16, 2018.

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 18, 2017 through April 16, 2018 of the McCreary 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 November 8, 2018, on our consideration of the McCreary 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 McCreary 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 Jimmie W. Greene, II., McCreary County Judge/Executive

The Honorable Randy Waters, McCreary County Sheriff

Members of the McCreary 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:

2017-001 The McCreary County Sheriff's Office Lacks Adequate Segregation Of Duties

2017-002 The Sheriff Did Not Review Franchise Tax Bills Prepared By The County Clerk For Accuracy

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

November 8, 2018

MCCREARY COUNTY
RANDY WATERS, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through April 16, 2018

<u>Charges</u>	Special			
	County Taxes	Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 334,712	\$ 983,332	\$ 1,463,476	\$ 434,414
Tangible Personal Property	31,495	23,853	63,453	46,741
Fire Protection	985			
Increases Through Exonerations		2,034		
Franchise Taxes	120,174	204,365	416,175	
Additional Billings	77	223	337	100
Unmined Coal - 2016 Taxes	42	103	184	54
Unmined Coal - 2017 Taxes	27	79	120	36
Oil Property Taxes	191	349	836	248
Gas Property Taxes	333	607	1,454	431
Penalties	3,275	9,116	14,125	3,963
Adjusted to Sheriff's Receipt	1,030	1,890	5,290	1,323
Gross Chargeable to Sheriff	<u>492,341</u>	<u>1,225,951</u>	<u>1,965,450</u>	<u>487,310</u>
 <u>Credits</u>				
Exonerations	2,081	8,045	9,099	2,701
Discounts	5,539	14,517	22,453	6,785
Delinquents:				
Real Estate	18,881	54,455	82,442	24,472
Tangible Personal Property	39	49	80	76
Franchise Taxes	1,864	4,407	7,772	
Total Credits	<u>28,404</u>	<u>81,473</u>	<u>121,846</u>	<u>34,034</u>
Taxes Collected	463,937	1,144,478	1,843,604	453,276
Less: Commissions *	19,717	34,884	55,361	19,264
Taxes Due	444,220	1,109,594	1,788,243	434,012
Taxes Paid	443,032	1,097,150	1,782,905	431,917
Refunds (Current and Prior Year)	1,617	4,270	7,111	2,095
Due District or (Refund Due Sheriff) as of Completion of Audit	<u>\$ (429)</u>	<u>\$ 8,174</u>	<u>\$ (1,773)</u>	<u>\$ 0</u>

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* and ** See next page.

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

MCCREARY COUNTY
 RANDY WATERS, SHERIFF
 SHERIFF'S SETTLEMENT - 2017 TAXES
 For The Period April 18, 2017 Through April 16, 2018
 (Continued)

* Commissions:

4.25% on	\$	1,638,430
3% on	\$	1,843,604
1% on	\$	423,261

** Special Taxing Districts:

Library	\$	(310)
Health		(84)
Extension District		8,782
North Fire		(22)
Central Fire		(127)
South Fire		<u>(65)</u>

Due District or (Refund Due Sheriff)	\$	<u>8,174</u>
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MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

April 16, 2018

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 McCreary 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 McCreary 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 16, 2018, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 16, 2018
 (Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2017. 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 20, 2017 through April 16, 2018.

B. Oil and Gas Property Taxes

The oil and gas 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 13, 2017 through May 15, 2018.

C. Unmined Coal Property Taxes

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 April 16, 2018.

D. 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 18, 2017 through April 16, 2018.

Note 4. Interest Income

The McCreary County Sheriff earned \$232 as interest income on 2017 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The McCreary County Sheriff collected \$28,105 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The sheriff's escrowed amounts were as follows:

2017	\$171
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KRS 393.090 states that if the funds have not been claimed after three years, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110 and its accompanying regulations.

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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 Jimmie W. Greene, II., McCreary County Judge/Executive
The Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary 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 McCreary County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through April 16, 2018 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 8, 2018. The McCreary 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 McCreary 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 McCreary County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary 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 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 2017-001 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 2017-002 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary 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,



Mike Harmon
Auditor of Public Accounts

November 8, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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MCCREARY COUNTY
RANDY WATERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 18, 2017 Through April 16, 2018

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The McCreary County Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-001. A lack of adequate segregation of duties exists over all accounting functions. The sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, prepares monthly tax reports, prepares tax disbursements, and signs those disbursements.

According to the sheriff, a limited budget placed restrictions on the number of employees which could have been hired. However, when faced with limited staff, strong compensating controls should have been in place to offset the lack of segregation of duties.

Lack of segregation or strong compensating controls could have resulted in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts.

A segregation of duties over various accounting functions, such as collection of taxes, preparation of monthly reports, and preparation of tax disbursements to the districts or the implementation of compensating controls because staff is limited, 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.

To adequately protect against misappropriation of assets and inaccurate financial reporting, we recommend the sheriff separate the duties involving the opening of mail, collecting and depositing of cash, preparation of the monthly tax reports, and preparation of tax disbursements. If this is not feasible due to lack of staff, then strong oversight over these areas should occur and involve an employee that wasn't currently performing any of those functions. Additionally, the sheriff could provide this oversight and show evidence of the oversight by initialing the appropriate source documents. For example, the sheriff could compare the daily checkout sheet to the receipts ledger and bank deposit slip then initial the checkout sheet, deposit slip, and ledger. Also, the sheriff could compare the disbursement checks to the districts to the disbursements ledger and to the monthly report then initial the ledger and monthly report when he signs the checks.

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2017-002 The Sheriff Did Not Review Franchise Tax Bills Prepared By The County Clerk For Accuracy

The McCreary County Sheriff mailed 23 franchise tax bills prepared by the county clerk without reviewing them for accuracy.

This occurred because the sheriff has not developed and implemented controls over the review of franchise tax bills prepared by the county clerk.

The franchise companies underpaid 2016 tax year bills by \$20,112 and 2017 tax year bills by \$48,604. The auditor also noted that one of the 2017 tax year bills was mailed twice resulting in the company submitting a duplicate payment of \$3,026. Additionally a delinquent 2017 tax year bill was subsequently underpaid by \$1,452 during the 2018 tax collection period.

MCCREARY COUNTY
RANDY WATERS, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2017-002 The Sheriff Did Not Review Franchise Tax Bills Prepared By The County Clerk For Accuracy
(Continued)

The development and implementation of good internal controls over reviewing franchise bills prepared by the county clerk is essential to ensuring that franchise companies do not underpay or overpay taxes.

We recommend the sheriff review all franchise tax bills prepared by the county clerk for accuracy and make the necessary corrections before mailing to the franchise company. We also recommend a refund for the duplicate payment of taxes be paid to the franchise company.

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