

**REPORT OF THE AUDIT OF THE
FORMER METCALFE COUNTY
SHERIFF'S SETTLEMENT - 2018 TAXES**

**For The Period
January 1, 2019 Through April 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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Metcalfe County Sheriff's Settlement - 2018 Taxes for the period January 1, 2019 through April 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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
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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 former Metcalfe County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited, and paid of the former Metcalfe County Sheriff, for the period January 1, 2019 through April 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 April 15, 2019 of the former Metcalfe 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 February 6, 2020, on our consideration of the former Metcalfe County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the former Metcalfe 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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

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

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comment:

2018-001 The Former Metcalfe County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

February 6, 2020

METCALFE COUNTY
RICKY BROOKS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

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

	Special Taxing			
	County	Districts	School	State
<u>Transfers From Outgoing Sheriff</u>				
Real Estate	\$ 32,706	\$ 135,709	\$ 191,653	\$ 43,627
Tangible	308	1,123	1,653	1,137
Franchise Taxes	57	193	313	
Total Transfers From Outgoing Sheriff	<u>33,071</u>	<u>137,025</u>	<u>193,619</u>	<u>44,764</u>
<u>Other Taxes & Charges</u>				
Franchise Taxes	53,275	187,860	296,920	
Oil Property Taxes	343	1,152	2,022	460
Penalties	1,493	6,091	8,748	2,041
Gross Chargeable to Sheriff	<u>88,182</u>	<u>332,128</u>	<u>501,309</u>	<u>47,265</u>
<u>Credits</u>				
Exonerations	33	110	193	44
Discounts	68	246	366	8
Delinquent Real Estate	8,151	36,697	47,804	10,881
Delinquent Tangible	127	481	665	473
Franchise Taxes - Delinquent	57	193	313	
Franchise Taxes - Uncollected	71	253	386	
Total Credits	<u>8,507</u>	<u>37,980</u>	<u>49,727</u>	<u>11,406</u>
Taxes Collected	79,675	294,148	451,582	35,859
Less: Sheriff's Commissions*	<u>3,386</u>	<u>12,326</u>	<u>18,063</u>	<u>1,523</u>
Taxes Due Districts	76,289	281,822	433,519	34,336
Taxes Paid	75,958	280,507	431,547	34,110
Refunds (Current and Prior Year)	<u>169</u>	<u>775</u>	<u>994</u>	<u>226</u>
Taxes Due Districts	<u>\$ 162</u>	<u>\$ 540</u>	<u>\$ 978</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

METCALFE COUNTY
RICKY BROOKS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES
For The Period January 1, 2019 Through April 15, 2019
(Continued)

* Commissions:

4.25% on \$ 337,467

4% on \$ 523,797

** Special Taxing Districts:

Library District	\$	202
Ambulance District		109
Extension District		164
Soil Conservation District		28
Fire Dues		<u>37</u>
Due Districts	\$	<u>540</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

April 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 former Metcalfe County Sheriff maintained deposits of public funds with depository institutions insured by the FDIC as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The former Metcalfe County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2019
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2018. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2019. Liens are effective when the tax bills become delinquent. Tax bills unpaid as of December 31, 2018 were transferred from the outgoing Sheriff Rondal Shirley on January 2, 2019. The collection period for these assessments was January 2, 2019 through April 15, 2019.

B. Oil Property Taxes

The oil 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.

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. Tax bills unpaid as of December 31, 2018 were transferred from the outgoing Sheriff Rondal Shirley on January 2, 2019. The collection period for these assessments was January 2, 2019 through August 3, 2019.

Note 4. Interest Income

The former Metcalfe County Sheriff earned \$29 as interest income on 2018 taxes. The former sheriff was in substantial compliance with his statutory responsibilities.

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

The former Metcalfe County Sheriff collected \$15,323 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of February 6, 2020, the former sheriff's tax account owed \$169 in 10% add-on fees to the fiscal court.

Note 6. Escrow Account

The former sheriff deposited unrefundable payments in an interest-bearing account. The outgoing sheriff Rondal Shirley transferred escrowed amounts of \$266 to the former sheriff on January 1, 2019. The former sheriff did not receive or disburse any funds resulting in an ending balance as of August 3, 2019 of \$266. The ending balance consists of escrowed amounts of: 2013-\$168 and 2015-\$98. This balance was transferred to incoming sheriff Lonnie Hodges on August 7, 2019.

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.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2019
(Continued)

Note 7. Term of Office

The former sheriff Rondal Shirley retired on December 31, 2018. The Metcalfe County Judge/Executive appointed Ricky Brooks as the new sheriff on January 1, 2019. The former sheriff Ricky Brooks passed away on August 3, 2019. The Metcalfe County Judge/Executive appointed Lonnie Hodges as sheriff on August 7, 2019. Lonnie Hodges was elected sheriff during the general election on November 5, 2019, with his term beginning on November 15, 2019.

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 Harold Stilts, Metcalfe County Judge/Executive
The Honorable Lonnie Hodges, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Metcalfe County Sheriff's Settlement - 2018 Taxes for the period January 1, 2019 through April 15, 2019 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 6, 2020. The former Metcalfe County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Metcalfe County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Metcalfe County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Metcalfe County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 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)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Metcalfe 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,

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Mike Harmon
Auditor of Public Accounts

February 6, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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METCALFE COUNTY
RICKY BROOKS, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

INTERNAL CONTROL - MATERIAL WEAKNESS:

2018-001 The Former Metcalfe County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations

The former Metcalfe County Sheriff's office lacked adequate segregation of duties over receipts and reconciliations. The former sheriff's bookkeeper opened incoming mail, collected tax payments, prepared deposits, prepared daily tax collection journals, prepared bank reconciliations, prepared and signed checks, and prepared monthly tax reports. Incompatible duties created a lack of segregation of duties over receipts and reconciliations. Documented compensating controls were not sufficient to offset this control deficiency over receipts. The former chief deputy signed the county tax settlements prepared by other employees. However, no review of the bank reconciliations, monthly deposit reports, daily checkouts, or daily deposits were documented.

According to the former chief deputy, a lack of segregation of duties existed because a limited number of employees were available to properly segregate job duties. A lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies such as the taxing districts. Segregation of duties over receipts and the reconciliation or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets.

We recommend the sheriff's office separate duties over the receipts and reconciliation functions. If these duties cannot be separated due to limited staff or limited budget, then strong oversight over those areas should occur and involve the sheriff or an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of review.

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