

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

**For The Period
April 18, 2017 Through December 31, 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 Dean Watts, Nelson County Judge/Executive
The Honorable Ed Mattingly, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Nelson County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through December 31, 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
William M. Landrum III, Secretary
Finance and Administration Cabinet
The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Ed Mattingly, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff
Members of the Nelson 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 former Nelson 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 Nelson County Sheriff, for the period April 18, 2017 through December 31, 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 18, 2017 through December 31, 2017 of the former Nelson 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 December 3, 2018, on our consideration of the former Nelson 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 Nelson 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 Dean Watts, Nelson County Judge/Executive
The Honorable Ed Mattingly, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff
Members of the Nelson 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:

2017-001 The Former Nelson County Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

December 3, 2018

NELSON COUNTY
ED MATTINGLY, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

For The Period April 18, 2017 Through December 31, 2017

<u>Charges</u>	Special			
	County Taxes	Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 3,799,927	\$ 3,321,783	\$ 13,789,493	\$ 3,258,136
Tangible Personal Property	229,470	165,870	509,164	974,359
E911 Fee	490,136			
Fire Protection	569			
Increases Through Exonerations	588	438	2,852	2,516
Omitted Taxes	8,704	5,835		7,425
Franchise Taxes	73,645	48,874	334,388	
Additional Billings	668	613	3,011	528
Limestone, Sand, and Gravel Reserves	777	513	4,151	663
Bank Franchises	180,448			
Adjusted to Sheriff's Receipt	216	144		83
Gross Chargeable to Sheriff	<u>4,785,148</u>	<u>3,544,070</u>	<u>14,643,059</u>	<u>4,243,710</u>
 <u>Credits</u>				
Exonerations	19,248	14,634	86,834	20,616
Discounts	73,422	59,952	245,757	72,524
Transfer To Incoming Sheriff:				
Property Tax	211,322	172,484	635,754	163,442
Total Credits	<u>303,992</u>	<u>247,070</u>	<u>968,345</u>	<u>256,582</u>
Taxes Collected	4,481,156	3,297,000	13,674,714	3,987,128
Less: Commissions *	<u>175,589</u>	<u>115,969</u>	<u>300,844</u>	<u>169,453</u>
Taxes Due	4,305,567	3,181,031	13,373,870	3,817,675
Taxes Paid	4,296,958	3,176,179	13,347,413	3,811,713
Refunds (Current and Prior Year)	<u>8,648</u>	<u>4,852</u>	<u>26,457</u>	<u>5,962</u>
Refund Due Sheriff as of Completion of Audit	<u>\$ (39)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$ 10,564,869
2.2% on	\$ 13,674,714
1% on	\$ 1,200,415

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

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 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 former Nelson 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 Nelson 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 December 31, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2017
(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 19, 2017 through December 31, 2017.

B. Limestone, Sand, and Gravel Reserves

The limestone, sand, and gravel property tax assessments were levied as of January 1, 2017. 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 December 31, 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 May 1, 2017 through December 31, 2017.

Note 4. Interest Income

The former Nelson County Sheriff earned \$677 as interest income on 2017 taxes. As of December 31, 2018, the former sheriff owed \$148 in interest to the school district and \$113 in interest to his fee account.

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 Dean Watts, Nelson County Judge/Executive
The Honorable Ed Mattingly, Former Nelson County Sheriff
The Honorable Ramon Pineiroa, Jr., Nelson County Sheriff
Members of the Nelson 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 Nelson County Sheriff's Settlement - 2017 Taxes for the period April 18, 2017 through December 31, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 3, 2018. The former Nelson 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 Nelson 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 Nelson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Nelson 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 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)

Compliance And Other Matters

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

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

Mike Harmon
Auditor of Public Accounts

December 3, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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NELSON COUNTY
ED MATTINGLY, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 18, 2017 Through December 31, 2017

INTERNAL CONTROL - MATERIAL WEAKNESS:

2017-001 The Former Nelson County Sheriff's Office Lacked Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The former sheriff's bookkeeper collected taxes, prepared deposits and daily checkout sheets, posted to the ledgers, prepared monthly reports, signed disbursement checks and performed the bank reconciliations. There was not sufficient evidence available that would show that the former sheriff or another employee periodically reviewed daily checkout sheets, ledgers, monthly reports or the bank reconciliations to offset the risk caused by the lack of segregation of duties.

The former sheriff did not have enough funds to hire additional personnel to segregate duties. Without segregation of duties, the risk of misstatements in receipts and disbursements significantly increases the risk of undetected errors and theft. Segregation of duties over receipt procedures, disbursement processing, report preparation, and bank reconciliations is essential for providing protection from fraud and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect employees in the normal course of performing their duties, and to prevent inaccurate financial reporting or misappropriation of assets, the former sheriff's office should have implemented strong oversight over these areas, either by an employee independent of those functions or by the sheriff, such as:

- The sheriff could have compared the daily bank deposit to the daily checkout sheet and then compared to the bank deposit receipt. This should be documented by initialing the bank deposit, daily checkout sheet and bank deposit receipt.
- The sheriff could have compared the bank reconciliation to the balance on the bank statement. Any differences should be reconciled. The sheriff should have documented this by initialing the bank reconciliation.
- The sheriff could have compared the monthly receipts and disbursements ledger to the monthly tax reports. This should be documented by initialing the receipts and disbursements ledger.

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