

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

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



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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 David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Oldham 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

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The Honorable Steven Sparrow, Oldham County Sheriff

Members of the Oldham 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 Oldham 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 Oldham 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 Oldham 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 March 22, 2019, on our consideration of the Oldham 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 Oldham 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 David Voegelé, Oldham County Judge/Executive

The Honorable Steven Sparrow, Oldham County Sheriff

Members of the Oldham 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 Sheriff Did Not Follow Tax Collection Procedures As Required By State Laws And Regulations For City Of Crestwood Tax Collections

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

March 22, 2019

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES

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

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 5,165,531	\$ 14,071,715	\$ 45,096,823	\$ 7,080,840
Tangible Personal Property	142,202	340,553	936,361	467,134
Increases Through Exonerations	353	869	3,056	473
Franchise Taxes	179,737	385,557	1,250,706	
Additional Billings	5,127	12,018	39,586	9,187
Limestone, Sand, and Mineral Reserves	935	2,296	8,167	1,282
Penalties	7,644	20,976	66,420	10,815
Adjusted to Sheriff's Receipt		73		
Gross Chargeable to Sheriff	<u>5,501,529</u>	<u>14,834,057</u>	<u>47,401,119</u>	<u>7,569,731</u>
 <u>Credits</u>				
Exonerations	16,944	42,209	147,523	23,937
Discounts	95,641	252,985	828,929	136,022
Delinquents:				
Real Estate	29,669	82,837	259,021	40,670
Tangible Personal Property	536	1,216	3,531	1,634
Total Credits	<u>142,790</u>	<u>379,247</u>	<u>1,239,004</u>	<u>202,263</u>
Taxes Collected	5,358,739	14,454,810	46,162,115	7,367,468
Less: Commissions *	<u>227,746</u>	<u>424,168</u>	<u>692,432</u>	<u>313,117</u>
Taxes Due	5,130,993	14,030,642	45,469,683	7,054,351
Taxes Paid	5,126,312	14,019,764	45,429,567	7,047,086
Refunds (Current and Prior Year)	<u>4,681</u>	<u>10,878</u>	<u>40,116</u>	<u>7,300</u>
(Refund Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (35)</u>

* See next page.

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

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
SHERIFF'S SETTLEMENT - 2017 TAXES
For The Period April 18, 2017 Through April 16, 2018
(Continued)

* Commissions:

4.25% on	\$ 18,408,660
4% on	\$ 3,164,666
1.5% on	\$ 46,162,115
1% on	\$ 5,607,691

OLDHAM 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 Oldham 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 Oldham 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.

OLDHAM 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. 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 April 16, 2018.

C. Franchise Taxes

The franchise tax assessments were levied by the Department of Revenue for various tax years. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 18, 2017 through April 16, 2018.

Note 4. Interest Income

The Oldham County Sheriff earned \$1,000 as interest income on 2017 taxes. The sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the sheriff's office.

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

The Oldham County Sheriff collected \$84,540 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

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

The Honorable David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham 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 Oldham 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 March 22, 2019. The Oldham 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 Oldham 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 Oldham County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oldham County Sheriff's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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 Oldham County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

The Oldham County Sheriff's views and planned corrective action for the finding identified in our audit are described in the accompanying Schedule of Findings and Responses. The Oldham County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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

March 22, 2019

SCHEDULE OF FINDINGS AND RESPONSES

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OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

STATE LAWS AND REGULATIONS:

2017-001 The Sheriff Did Not Follow Tax Collection Procedures As Required By State Laws And Regulations For City Of Crestwood Tax Collections

This is a repeat finding and was included in the prior year audit report as finding 2016-001. The sheriff contracts with the City of Crestwood for property tax collections. The sheriff collected \$350,253 in property tax collections on behalf of the City of Crestwood for the 2017 tax collection period - April 18, 2017 through April 16, 2018. The sheriff sends separate city tax bills, receives payments, and prepares a report to the city at the end of the tax collection period. The sheriff deposits taxes collected directly into the city's bank account and receives a commission check after the tax collection period has ended. The sheriff also provides the city a list of delinquent taxpayers at the end of the tax collection period. The sheriff does not include collections, distributions, or commissions for this collection activity on his annual tax settlement or provide monthly reports to the city but does provide a report to the city at the end of the tax collection period. The city sets its own discount rate and penalty rate, which differ from all of the other taxing districts.

Because the sheriff has established alternate collection procedures for the City of Crestwood's taxes, he has failed to comply with the Kentucky state laws and regulations regarding tax collection procedures for municipalities. This practice has caused his annual settlement to be incomplete and tax bills for the city to be handled incorrectly. KRS 91A.070(1)(b) states, "[t]he sheriff shall collect all city ad valorem taxes, including delinquent taxes, in the same manner as county ad valorem taxes as provided in KRS Chapter 134, and the sheriff shall be compensated in an amount calculated to defray additional costs to the sheriff for the services performed, but such amount shall not exceed the rates provided for tax collection by KRS Chapter 134. All procedures provided by KRS Chapter 134 concerning collection of delinquent taxes by counties shall be applicable."

KRS 134.119(3)(b) states, "[a]ll payments received by the sheriff shall be entered immediately by the sheriff on his or her books." According to KRS 134.191, the sheriff should prepare a monthly report by the tenth of the following month for each district for which he collects taxes. This report should show the amount collected, the amount of any fines, forfeitures or other funds collected, and the disposition of the funds collected. At that time, he should also pay each district all funds belonging to that district for that reporting period.

KRS 134.192(1) states, "[e]ach sheriff shall annually settle his or her accounts with the department, the county, and any district for which the sheriff collects taxes on or before September 1 of each year."

KRS 134.192(5) states, "[t]he settlement shall show the amount of ad valorem tax collected for the county, the school district, and all taxing districts, and an itemized statement of the money disbursed to or on behalf of the county, the school district, and all taxing districts."

We recommend the sheriff follow tax collection procedures as established and required by state laws and regulations for all districts and municipalities. We further recommend the sheriff contact the City of Crestwood to discuss the correct tax collection process.

Sheriff's Response: A meeting has been scheduled with the Oldham County Sheriff's Office and the incoming mayor of Crestwood. This meeting is scheduled to address these issues [to] update the contract with the City of Crestwood to correct all deficiencies.