

**REPORT OF THE AUDIT OF THE
PERRY 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 Scott Alexander, Perry County Judge/Executive
The Honorable Joseph Engle, Perry County Sheriff
Members of the Perry County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Perry 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 Scott Alexander, Perry County Judge/Executive
The Honorable Joseph Engle, Perry County Sheriff
Members of the Perry 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 Perry 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 Perry 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 Perry 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 August 19, 2020, on our consideration of the Perry 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 Perry County Sheriff’s internal control over financial reporting and compliance.

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 Sheriff’s Office Does Not Have Adequate Segregation Of Duties

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

August 19, 2020

PERRY COUNTY
JOSEPH ENGLE, SHERIFF
SHERIFF'S SETTLEMENT - 2018 TAXES

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

| | <u>County</u> | <u>Districts</u> | <u>School</u> | <u>State</u> |
|--|---------------|------------------|---------------|--------------|
| <u>Transfers From Outgoing Sheriff</u> | | | | |
| Real Estate | \$ 147,525 | \$ 359,349 | \$ 822,382 | \$ 180,843 |
| Tangible | 87,715 | 207,254 | 483,570 | 415,664 |
| Total Transfers From Outgoing Sheriff | 235,240 | 566,603 | 1,305,952 | 596,507 |
| <u>Other Taxes & Charges</u> | | | | |
| Franchise Taxes | 102,755 | 245,486 | 575,314 | |
| Penalties | 9,325 | 22,538 | 52,022 | 25,584 |
| Gross Chargeable to Sheriff | 347,320 | 834,627 | 1,933,288 | 622,091 |
| <u>Credits</u> | | | | |
| Exonerations | 742 | 1,804 | 4,143 | 798 |
| Discounts | 179 | 426 | 1,019 | |
| Delinquent Real Estate | 66,321 | 161,941 | 369,661 | 81,376 |
| Delinquent Tangible | 7,082 | 16,810 | 39,309 | 37,911 |
| Total Credits | 74,324 | 180,981 | 414,132 | 120,085 |
| Taxes Collected | 272,996 | 653,646 | 1,519,156 | 502,006 |
| Less: Sheriff's Commissions* | 11,570 | 27,812 | 58,858 | 21,336 |
| Taxes Due Districts | 261,426 | 625,834 | 1,460,298 | 480,670 |
| Taxes Paid | 231,454 | 555,127 | 1,294,353 | 363,111 |
| Refunds (Current and Prior Year) | 29,972 | 70,707 | 165,945 | 117,559 |
| Taxes Due Districts | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

* Commissions:

| | |
|----------|--------------|
| 4.25% on | \$ 1,428,648 |
| 4% on | \$ 1,328,333 |
| 3% on | \$ 190,823 |

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

PERRY 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 Perry 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 Perry 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 15, 2019, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

PERRY 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. The collection period for these assessments was January 7, 2019 through April 15, 2019.

B. 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 January 1, 2019 through April 15, 2019.

Note 4. Interest Income

The Perry County Sheriff earned \$432 as interest income on 2018 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 Perry County Sheriff collected \$43,236 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
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Scott Alexander, Perry County Judge/Executive
The Honorable Joseph Engle, Perry County Sheriff
Members of the Perry 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 Perry 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 August 19, 2020. The Perry 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 Perry 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 Perry County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Perry 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. We identified a certain deficiency in internal control, which is described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider to be a significant deficiency.



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 Perry 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*.

Views of Responsible Official and Planned Corrective Action

The Perry County Sheriff's views and planned corrective action for the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Perry 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,

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

Mike Harmon
Auditor of Public Accounts

August 19, 2020

SCHEDULE OF FINDINGS AND RESPONSES

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PERRY COUNTY
JOSEPH ENGLE, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

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

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2018-001 The Sheriff's Office Does Not Have Adequate Segregation Of Duties

The sheriff's office does not have adequate segregation of duties and internal controls over tax receipts and disbursements. The bookkeeper and two deputy clerks, and occasionally the sheriff, collected tax receipts. The bookkeeper and deputy clerks reconciled the daily receipts to the daily tax collection report. The bookkeeper posted items to the receipts ledger. There were no initials on the deposit ticket documenting who prepared and reviewed the deposit ticket. The bookkeeper prepared the month-end tax reports, prepared checks for tax distribution based on the month-end tax reports, and posted checks to the disbursements ledger. Dual signatures were not required on checks. The sheriff or bookkeeper signed the tax distribution checks. A deputy clerk was also authorized to sign checks when needed.

This is the sheriff and bookkeeper's first year in office and they did not know that accounting functions should be segregated. Without internal controls in place, there is no way to know that the tax account financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of undetected misappropriation of assets either by error or fraud occurring.

Internal controls and proper segregation of duties protect employees and the sheriff in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers, and prepare bank reconciliations and monthly reports.

We recommend the sheriff's office implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not post to the receipts ledger or prepare bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the sheriff could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when.

Sheriff's Response: The Perry County Sheriff's Office will work with the auditor's office and try to segregate as many office duties as possible. A complete segregation of duties may not be possible with the limited number of office staff; but we will continue to work with the auditors to achieve this goal.

There were two initials on all deposit slips going to the bank. We will design a report with the deposit that states who created the deposit and who reviewed the deposit and will start 8/1/2020 along with the daily deposit sheet already in use as of November 2019.

We will also require that two signatures are on all Bank Reconciliations, Daily Receipt Ledger reports starting on 8/1/2020.

The Sheriff currently looks at all reports. We will also have the Sheriff sign all reports verifying that he has reviewed them starting on 8/1/2020. Starting in November 2019 we required that all checks have two signatures. We have assigned tasks to each office staff to help segregate duties starting on 8/1/2020. As this is my first audit on 2018 Taxes we will learn, grow and work with the state auditors to improve our segregation of duties.