

**REPORT OF THE AUDIT OF THE  
POWELL COUNTY  
SHERIFF'S SETTLEMENT - 2016 TAXES**

**For The Period  
April 16, 2016 Through April 17, 2017**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
SHERIFF’S SETTLEMENT - 2016 TAXES .....	4
NOTES TO FINANCIAL STATEMENT .....	6
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	11
SCHEDULE OF FINDINGS AND RESPONSES .....	15

THIS PAGE LEFT BLANK INTENTIONALLY



**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 James D. Anderson, Jr., Powell County Judge/Executive  
The Honorable Danny Rogers, Powell County Sheriff  
Members of the Powell County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the Powell County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 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 James D. Anderson, Jr., Powell County Judge/Executive

The Honorable Danny Rogers, Powell County Sheriff

Members of the Powell 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 Powell 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 Powell County Sheriff, for the period April 16, 2016 through April 17, 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 16, 2016 through April 17, 2017 of the Powell 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 14, 2017, on our consideration of the Powell 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 Powell 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 James D. Anderson, Jr., Powell County Judge/Executive

The Honorable Danny Rogers, Powell County Sheriff

Members of the Powell 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:

- 2016-001 The Sheriff's Annual Tax Settlement Did Not Include The Amount Of Franchise Taxes Disbursed
- 2016-002 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2016-003 The Sheriff Did Not Have Proper Controls Over Bank 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

December 14, 2017

POWELL COUNTY  
DANNY ROGERS, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES

For The Period April 16, 2016 Through April 17, 2017

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 389,199	\$ 559,406	\$ 1,580,301	\$ 470,121
Tangible Personal Property	22,566	29,631	81,680	81,202
Fire Protection	1,266			
Franchise Taxes	106,816	141,343	391,652	
Additional Billings	260	374	1,055	314
Oil Property Taxes	264	379	1,071	319
Clay Property Taxes	69	99	278	83
Limestone, Sand, and Gravel Reserves	302	434	1,227	365
Penalties	3,267	4,672	13,187	4,732
Adjusted to Sheriff's Receipt	(20)	(2)	1	(104)
Gross Chargeable to Sheriff	<u>523,989</u>	<u>736,336</u>	<u>2,070,452</u>	<u>557,032</u>
 <u>Credits</u>				
Exonerations	2,207	3,169	8,953	3,550
Discounts	5,966	8,525	24,046	7,575
Delinquents:				
Real Estate	22,694	32,542	91,930	27,348
Tangible Personal Property	136	179	493	542
Total Credits	<u>31,003</u>	<u>44,415</u>	<u>125,422</u>	<u>39,015</u>
Taxes Collected	492,986	691,921	1,945,030	518,017
Less: Commissions *	<u>20,952</u>	<u>29,407</u>	<u>77,801</u>	<u>22,016</u>
Taxes Due	472,034	662,514	1,867,229	496,001
Taxes Paid	464,557	652,597	1,839,644	495,334
Refunds (Current and Prior Year)	<u>7,219</u>	<u>9,609</u>	<u>28,609</u>	<u>367</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 258</u>	<u>\$ 308</u>	<u>\$ (1,024)</u>	<u>\$ 300</u>

\*\*

\* and \*\* See next page.

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



POWELL COUNTY  
DANNY ROGERS, SHERIFF  
SHERIFF'S SETTLEMENT - 2016 TAXES  
For The Period April 16, 2016 Through April 17, 2017  
(Continued)

\* Commissions:

4.25% on	\$	1,702,924
4% on	\$	1,945,030

\*\* Special Taxing Districts:

Library District	\$	94
Health District		129
Extension District		<u>85</u>
Due Districts	\$	<u>308</u>

POWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

April 17, 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 Powell 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 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 17, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 8, 2016, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured                      \$7,024

POWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 17, 2017  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2016. 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 October 21, 2016 through April 17, 2017.

B. Oil Property Taxes

The oil 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 16, 2016 through June 2, 2017.

C. Clay Property Taxes

The clay 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 16, 2016 through June 2, 2017.

D. Limestone, Sand, and Gravel Property Taxes

The limestone, sand, and gravel 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 16, 2016 through June 2, 2017.

E. 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 16, 2016 through April 17, 2017.

Note 4. Interest Income

The Powell County Sheriff earned \$140 as interest income on 2016 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Powell County Sheriff collected \$19,448 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

THIS PAGE LEFT BLANK INTENTIONALLY

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*

THIS PAGE LEFT BLANK INTENTIONALLY



**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable James D. Anderson, Jr., Powell County Judge/Executive  
The Honorable Danny Rogers, Powell County Sheriff  
Members of the Powell 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 Powell County Sheriff's Settlement - 2016 Taxes for the period April 16, 2016 through April 17, 2017 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 14, 2017. The Powell 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 Powell 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 Powell County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002, and 2015-003 to be material weaknesses.



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 Powell 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 2016-001.

**Views of Responsible Official and Planned Corrective Action**

The Powell County Sheriff's views and planned corrective action for the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**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

December 14, 2017



SCHEDULE OF FINDINGS AND RESPONSES

THIS PAGE LEFT BLANK INTENTIONALLY

POWELL COUNTY  
DANNY ROGERS, SHERIFF  
SCHEDULE OF FINDINGS AND RESPONSES

For The Period April 16, 2016 Through April 17, 2017

FINANCIAL STATEMENT FINDINGS:

2016-001 The Sheriff's Annual Tax Settlement Did Not Include The Amount Of Franchise Taxes Disbursed

The sheriff presented his annual tax settlement to the fiscal court on August 8, 2017, for regular tax collections along with a receipts ledger for franchise taxes collected. However, for franchise taxes there were no amounts listed as being paid to the taxing districts and for commissions retained by the sheriff's office. The sheriff was unaware that his settlement should include all taxes collected and disbursed for the tax collection period. As a result, the sheriff's annual tax settlement was materially misstated. Material audit adjustments were recommended to correct the sheriff's annual settlement to include amounts paid to the taxing districts. Proper controls over franchise tax disbursements and the preparation of the sheriff's annual tax settlement would ensure franchise tax disbursements are included on the sheriff's annual tax settlement. Furthermore, KRS 134.192(5) states, in part, "[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 implement controls to ensure that all taxes collected and disbursed are included on his annual tax settlement in the future.

*Sheriff's Response: This was an oversight and will be corrected.*

2016-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

This is a repeat finding and was included in the prior year audit report as finding 2015-002. The sheriff's office lacks adequate segregation of duties. The sheriff's bookkeeper collects payments from customers, prepares deposits, writes checks, posts transactions to the receipts ledger, posts checks to the disbursements ledger and prepares monthly and quarterly reports. The sheriff or another employee did not document oversight of any of these activities. A lack of oversight could result in misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue. The segregation of duties over various accounting functions such as opening mail, preparing deposits, recording receipts and disbursements, and preparing monthly reports, or the implementation of compensating controls 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. The sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliations and comparing financial reports to ledgers. If this is not feasible due to budgetary constraints, cross checking procedures should be implemented and documented by the individual performing the procedure.

*Sheriff's Response: Due to lack of funds we don't have enough staff. However we will work on this matter.*

2016-003 The Sheriff Did Not Have Proper Controls Over Bank Reconciliations

This is a repeat finding and was included in the prior year audit report as finding 2015-003. The sheriff does not have procedures in place to ensure that the bank account is reconciled each month and reviewed. This could result in taxes being collected and not paid timely to the taxing districts. Good internal controls dictate that the bank statement be reconciled monthly and reviewed by a person independent of making deposits and writing checks. Bank reconciliations are a tool that can be used to determine that all deposits have been made and that taxes have been properly paid. We recommend that monthly bank reconciliations be prepared and reviewed by the sheriff to determine that all taxes collected have been paid to the taxing districts properly.

*Sheriff's Response: We are working to correct the procedures in reconciling tax bank statements.*