

**REPORT OF THE AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
April 16, 2015 Through April 15, 2016**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period
April 16, 2015 Through April 15, 2016

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Todd County Sheriff for the period April 16, 2015 through April 15, 2016. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The sheriff collected 2015 taxes of \$3,941,179 for the districts, retaining commissions of \$142,531 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$3,759,259 to the districts. Taxes of \$30 are due to the districts from the sheriff.

Report Comments:

- 2015-001 The Sheriff Did Not Make Deposits Intact And Timely
- 2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

Deposits:

The sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT 1

SHERIFF'S SETTLEMENT - 2015 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 *GOVERNMENT AUDITING STANDARDS*..... 11

COMMENTS AND RECOMMENDATIONS 15



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Members of the Todd County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Todd County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - 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.

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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 Todd 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 Todd County Sheriff, for the period April 16, 2015 through April 15, 2016.

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, 2015 through April 15, 2016 of the Todd 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 13, 2016 on our consideration of the Todd 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 Todd County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Members of the Todd County Fiscal Court

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

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2015-001 The Sheriff Did Not Make Deposits Intact And Timely
- 2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,

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

Mike Harmon
Auditor of Public Accounts

December 13, 2016

TODD COUNTY
TRACY WHITE, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 435,915	\$ 665,786	\$ 1,756,869	\$ 537,188
Tangible Personal Property	38,141	67,958	153,718	136,888
Fire Protection	1,406			
Increases Through Exonerations	104	52	147	72
Franchise Taxes	46,408	78,293	185,113	
Oil Property Taxes	204	292	821	251
Limestone, Sand and Gravel Reserves	375	537	1,510	462
Bank Franchises	53,625			
Penalties	2,061	3,183	8,290	2,639
Adjusted to Sheriff's Receipt	(315)	(4,319)	(14)	(15)
Gross Chargeable to Sheriff	<u>577,924</u>	<u>811,782</u>	<u>2,106,454</u>	<u>677,485</u>
 <u>Credits</u>				
Exonerations	3,934	6,876	15,855	13,114
Discounts	7,789	10,909	28,553	9,817
Delinquents:				
Real Estate	11,558	17,427	46,419	14,193
Tangible Personal Property	2,545	4,546	10,254	15,359
Franchise Taxes	2,020	3,402	7,896	
Total Credits	<u>27,846</u>	<u>43,160</u>	<u>108,977</u>	<u>52,483</u>
Taxes Collected	550,078	768,622	1,997,477	625,002
Less: Commissions *	<u>23,378</u>	<u>32,666</u>	<u>59,924</u>	<u>26,563</u>
Taxes Due	526,700	735,956	1,937,553	598,439
Taxes Paid	522,451	729,139	1,921,341	586,328
Refunds (Current and Prior Year)	<u>4,249</u>	<u>6,787</u>	<u>16,212</u>	<u>12,111</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 30</u>	<u>\$ 0</u>	<u>\$ 0</u>
		**		

* and ** See next page.

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

TODD COUNTY
TRACY WHITE, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 16, 2015 Through April 15, 2016
(Continued)

* Commissions:

4.25% on \$ 1,943,703

3% on \$ 1,997,477

** Special Taxing District:

East Fork Pond River \$ 30

Due District \$ 30

TODD COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2016

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 Todd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (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.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(Continued)

Note 2. Deposits (Continued)

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 Todd 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, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2015 through April 15, 2016.

B. Franchise Taxes

The real and personal franchise tax assessments were levied as of January 1, 2015. Franchise taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2015 through April 15, 2016.

C. Oil, Limestone, Sand, and Gravel Taxes

The real and personal property tax assessments were levied as of January 1, 2015. 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, 2015 through July 13, 2016.

Note 4. Interest Income

The Todd County Sheriff earned \$480 as interest income on 2015 taxes. The sheriff was in substantial compliance with his statutory responsibilities.

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

The Todd County Sheriff collected \$12,209 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The sheriff's escrowed amounts were as follows:

2011	\$ 23
2012	\$672

KRS 393.090 states that after three years, if the funds have not been claimed, 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.

Note 7. Commitments and Contingencies

The sheriff is involved in a lawsuit that arose from the normal course of doing business. While the outcome of this lawsuit may not be significant, due to the uncertainty of the litigation, a reasonable estimate cannot be made at this time.

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*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Members of the Todd 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 Todd County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated December 13, 2016. The Todd 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 Todd 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 Todd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Todd County Sheriff's internal control over financial reporting.

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 comments and recommendations, 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 comments and recommendations as item 2015-002 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 Todd 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 comments and recommendations as item 2015-001.

Sheriff's Responses to Findings

The Todd County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Todd County 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,

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 13, 2016

COMMENTS AND RECOMMENDATIONS

TODD COUNTY
TRACY WHITE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 15, 2016

STATE LAWS AND REGULATIONS:

2015-001 The Sheriff Did Not Make Deposits Intact And Timely

The Todd County Sheriff is not making daily deposits of tax receipts. Per the bank statements, multiple days' deposits were held in the sheriff's office and taken to the bank in a single trip. During the month of October, the busiest month of tax collections, deposits were only being made approximately one to two times a week. The sheriff was also not making deposits intact. Two deposits included payments for bills not shown collected on that day's deposit. Instead, they were accounted for on the next day's daily checkout sheet.

This was caused by a lack of proper reconciliations of the daily checkout sheets by the former bookkeeper and a lack of oversight on the part of the official to ensure deposits are taken to the bank daily. By not depositing deposits intact and timely, receipts could be stolen or misappropriated before reaching the depository institution.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires "Daily deposits intact into a federally insured banking institution." We recommend the sheriff ensure that deposits are made daily for each day's collections and that the deposits made are intact and agree to the amounts received.

Sheriff's Response: The previous bookkeeper failed to perform this task and on December 19, 2015 the former bookkeeper was terminated for not performing this and other job duties.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

The Todd County Sheriff has not implemented proper segregation of duties over the account processes for collecting receipts and preparing reconciliations. The bookkeeper is responsible for collecting money from customers, preparing the daily checkout sheets, preparing the daily deposits, recording receipts to the ledgers, and preparing monthly reports. The bookkeeper was also the only person responsible for preparing ledger and bank account reconciliations, which were not reviewed or approved by the official or a designee.

A lack of segregation of duties existed over disbursements at the sheriff's office because a limited number of employees were available to properly segregate these job duties. A lack of segregation of duties could result in the undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue or taxing districts.

Segregation of duties or the implementation of compensating controls, when needed because of the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and misappropriation of assets.

TODD COUNTY
TRACY WHITE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (CONTINUED)

2015-002 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations
(Continued)

We recommend the sheriff segregate the duties over receipts and reconciliations in order to adequately protect employees in the normal course of performing their duties and to help prevent misappropriation of assets and inaccurate financial reporting. If the sheriff cannot segregate duties, we recommend the sheriff implement compensating controls over these processes to mitigate the risks.

Sheriff's Response: The Todd County Sheriff's Office does not have sufficient funds to hire additional bookkeeper(s). Compensating controls have been placed to assist in avoiding this situation.

